Pacific Economic Cooperation Council

STATE OF THE REGION

2012 – 2013

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The Pacific Economic Cooperation Council (PECC) is a non-profit international organization committed to the promotion of cooperation and dialogue in the Asia-Pacific. Founded in 1980, PECC is a tripartite network of 26 member committees comprising individuals and institutions dedicated to this shared mission. As the only non-governmental official observer of APEC (Asia-Pacific Economic Cooperation), PECC provides independent business and research input to influence the regional policy-making process.

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MESSAGE FROM THE CO-CHAIRS OF PECC

While attention in 2011 was very much focused on the prognosis for the United States and Europe, this year, concerns have spread to major emerging markets. In previous reports we had talked about multi-speed recoveries from the crisis and emerging markets driving growth. While emerging markets are continuing to contribute most of the region's growth, the share is set to decline. This is due not only because of the tentative recoveries taking place in developed economies but also due to moderations in growth in key emerging economies.

These changes to economic growth patterns in the region are well reflected in this year's survey of opinion-leaders. The top three risks to growth cited by our panellists are: slowdowns in China, the United States and the European Union. The relative optimism over growth in China and India seen in previous years has dissipated with a majority of respondents expecting slower growth over the 12 months. One economy that made it into the list of 10 top growths is Myanmar – until very recently excluded from much international commerce. We include a special feature on reforms in Myanmar in this report.

As far as risks to growth are concerned, beyond the headlines of slower growth and banking/financial crises, two issues stand out: rising income inequality and growing protectionism. In 2009, APEC leaders made a direct connection between inclusive growth and future support for trade liberalization. That both are listed as top 10 risks to growth show that there is a long way to go to deliver concrete results. Even though APEC leaders have committed to resist implementing protectionist measures at their last three meetings, there continues to be an increase in their adoption. As we said in our statement to APEC trade ministers, some 20 percent of all protectionist measures adopted since the crisis have been by APEC members. While this is low compared to APEC's share of global trade, it is not a standstill. Some may dispute whether some measures are truly protectionist and in violation of global trade rules; nonetheless, there is a need for continued vigilance and pressure to prevent backsliding into the tit-for-tat policies that were so ruinous to the global economy in previous times of economic hardship.

As APEC leaders prepare to gather in Russia it is worth pausing to consider the footprint of the region. This year, APEC meetings have been held in St. Petersburg, closer to the Atlantic than the Pacific by some margin. There are now two leaders' level processes that deal with broadly the same footprint: the APEC process, and the East Asia Summit (EAS) process. While there are differences in membership, they share 14 members in common. As far as Asia-Pacific or transpacific cooperation is concerned, it has always been more about an idea than a specific set of territories. That idea found its 'official' articulation in 1994 with the APEC Leaders' Declaration of Common Resolve which included the Bogor Goals.

Myanmar has begun to take steps to open up its economy, and indeed, with all ASEAN members set on the achievement of an ASEAN Economic Community by 2015, there are a few more economies in the Asian side of the Pacific that potentially meet APEC's criteria of pursuing externally oriented, market-driven economic policies. For the EAS, signing onto the Treaty of Amity and Cooperation sets a more formal bar to membership. If one was to read these documents together, they contain an important set of norms of how affairs in the region should be conducted and a general direction for the region to move together.

While the Asia-Pacific has grown at a remarkable pace over the past thirty-two years, there remain serious risks to peace and prosperity of the region. Growing protectionism and inequality are but two of the risks we face; there are many other issues the region needs to confront if it is to achieve this vision. One aspect of this is to help those economies who are currently not part of the broader groupings manage their integration into the regional economy. We hope that PECC, by bringing together those committed to the region's common vision, will continue to contribute to the development of the Asia-Pacific.

There are many people we wish to thank who have made this report possible, firstly the contributors, Bobby Mariano, Petri Petri, Vo Tri Thanh, Yuen Pau Woo, Bo Chen, ThaungTun, Liu Minquan, Hossain Shanawez, the members of the report's editorial committee, the over 500 people who took the time to respond to the survey, the coordinator of the report, Eduardo Pedrosa and all of his staff at the PECC International Secretariat.

Jusuf Wanandi
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Co-Chair

MESSAGE FROM THE COORDINATOR

In recent years it has become tempting to describe the economic outlook in terms of uncertainty and volatility. This year is no exception. Since the crisis broke the level of uncertainty about the future has increased to the extent that forecasts need to be adjusted almost as soon as they are released. However, they are important to the extent that they guide policy-makers in terms of the general direction of the economy and the adjustments that need to take place.

The State of the Region report in 2009 included a summary of the work of a PECC task force on the region's response to the economic crisis. This included some baseline estimates of what 'rebalanced growth' would look like in the region. Three years on, some of these adjustments do seem to be taking place, notably improved external sector in the United States and reduced reliance on exports to drive growth in surplus economies. As the region and the world continue to face the risk of a double-dip recession it seems premature to try to undertake a comprehensive progress report. Nonetheless, the underlying concepts in the new growth strategy underpin much of our thinking in this report.

This year's report is focused on the pathways to achieving deeper regional economic integration – one of recommended engines for growth in the post-crisis environment. This year's survey included questions on different priorities for regional trade agreements as well as the likely success and suitability of various initiatives for achieving the goal of Free Trade Area of the Asia-Pacific. Chapter 3 takes a close look at two of the pathways for achieving greater regional economic integration. Chapter 4 looks at the actual state of economic integration as well as regional convergence.

One aspect of the report that has been evolving is PECC's annual survey of opinion leaders. This is something unique to the report that provides a benchmark for policy-makers to gauge the impact of their work and a sense of priority on the many issues that the region is confronting. I would like to thank the PECC member committees who make tremendous efforts each year to tap into their networks to seek the views of their members on developments in the region. I would also like to thank and acknowledge the contribution of other regional groups and associations who have volunteered to help us widen our reach to a broader set of stakeholders this year, especially: Asia Inc Forum, the Asia-Pacific Research and Training Network on Trade (ARTNeT Secretariat), Confederation of Asia-Pacific Chambers of Commerce and Industry (CACCI), the National Business Center for APEC (Moscow), National Center for APEC (Seattle), Russian International Affairs Council and the ESCAP Secretariat.

There are many people we wish to thank who have made this report possible. The contributors to the report, Bobby Mariano, Petri Petri, Vo Tri Thanh, Bo Chen, Thaung Tun, Liu Minquan, and Hossain Shanawez. The report would not be possible without the guidance and support of the editorial committee. The staff at the PECC International Secretariat, the survey team, especially Betty Ip, Nor Jibani and Bonnie Chiu, and Jessica Yom who looks after the production of the report. I would also like to acknowledge my predecessor as coordinator, Yuen Pau Woo who had been the coordinator of Pacific Economic Outlook from 2005 and oversaw the transformation of the outlook into the State of the Region report.

While we make efforts to ensure that the views of PECC members are taken into account, as with all PECC reports, we consider the State of the Region as a submission to the Council. The opinions and facts contained in this report are the sole responsibility of contributors and editorial committee, and do not necessarily reflect those of the member committees of PECC, nor the institutions that they represent.

Eduardo Pedrosa

Secretary General & Report Coordinator

EXPLANATION OF TERMS USED IN THE REPORT

ABAC	APEC Business Advisory Council
ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
AEC	ASEAN Economic Community
APEC	Asia-Pacific Economic Cooperation
APT	ASEAN Plus Three (See ASEAN+3)
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEAN+3	Association of Southeast Asian Nations plus China, Japan and Korea
ASEAN+6	Association of Southeast Asian Nations plus China, Japan, Korea, India, Australia and New Zealand
ASEAN4	Indonesia, Malaysia, Philippines, and Thailand
BIT	Bilateral Investment Treaties
CEPEA	Comprehensive Economic Partnership for East Asia
CESD	Centre of Economic and Social Development
CJK	China, Japan and Korea
COMTRADE	United Nations Commodity Trade Statistics Database
CPIS	IMF Coordinated Portfolio Investment Survey
DDA	Doha Development Agenda
EAFTA	East Asian Free Trade Area
EAS	East Asian Summit
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FDI	Foreign Direct Investment
FTAAP	Free Trade Area of the Asia Pacific
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPR	Intellectual Property Rights
ISEAS	Institute of Southeast Asian Studies
KIEP	Korea Institute for International Economic Policy
NAFTA	North American Free Trade Agreement
NGO	Non-governmental Organizations
North America	Canada, Mexico and the USA
Northeast Asia	China, Hong Kong (China), Japan, Korea, Mongolia, Russia and Chinese Taipei
Oceania	Australia, New Zealand and Papua New Guinea
Pacific South America	Chile, Colombia, Ecuador and Peru
PAFTAD	Pacific Trade and Development Forum
PECC	Pacific Economic Cooperation Council
RCEP	Regional Comprehensive Economic Partnership
S&ED	China-U.S. Strategic and Economic Dialogue
SOE	State-Owned Enterprise
Southeast Asia	Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam
TPP	Trans-Pacific Partnership
TRIPS	Trade-related Aspects of Intellectual Property Rights
UN	United Nations
WEO	World Economic Outlook
WITS	World Integrated Trade Solutions
WTO	World Trade Organization

EXECUTIVE SUMMARY

Growth in the Asia-Pacific this year is expected to increase slightly to 3.7 percent from last year's 3.5 percent. Looking ahead to 2013, growth will be much the same at 3.9 percent. However, these forecasts, based on the IMF's World Economic Outlook are based on some assumptions: that financial conditions on the Eurozone will ease; expansionary policies in emerging markets will gain traction; and the United States will find a solution to the fiscal dilemma it faces at the end of the year. In short, the downside risks to the forecast are enormous and uncertainty remains abundant.

Problems in the Eurozone weigh heavily on the outlook for the region. Europe imports around a fifth of all of the region's exports and European investors hold around a third of the region's financial assets. Exports from the region to Europe have already been slowing in the first of this year, although the fall off in demand does not look as deep as it was in the 2009.

How developed economies respond to events is of critical interest to policy-makers in emerging markets. A new round of quantitative easing poses a number of challenges the region's central bankers and monetary authorities. While the hope is that quantitative easing would boost growth in developed economies, there are some specific policy risks for emerging markets: hot money flows into the region may lead to asset bubbles and inflation.

Concerns over Emerging Markets

While the growth rate for the region has remained largely stable, the drivers of growth have shifted. From 2009 through to 2011, emerging economies have been responsible for most of the region's growth contributing around two-thirds of the Asia-Pacific total growth. As a group, emerging Asia-Pacific economies growth in recent years has been around 8 percent, largely driven by China, from 2012 onwards, they are expected to grow at above 6 percent.

This moderation in growth for emerging economies is reflected in this year's State of the Region survey. Around 50 percent of regional opinion-leaders are expecting growth in China and India, the world's two biggest emerging economies to slow over the next 12 months. Indeed, in terms of risks to growth, regional opinion-leaders were more worried the impact of slowdown in China than they were for slowdowns in Europe and the United, albeit by a slight margin. Other risks that should be noted are concerns over rising protectionism and income inequality. At the height of the crisis, APEC and G20 leaders committed to refraining from protectionism and avoiding a 1930s descent into beggar-thy-neighbor policies. Protectionist measures are on the rise and now cover around 3 percent of global trade, according to the WTO.

Pathways to a Free Trade Area of the Asia-Pacific

The economies of the Asia-Pacific continue to experiment with various pathways to achieve the goal of a Free Trade Asia of the Asia-Pacific. On the whole, opinion leaders were most positive about the success of the ASEAN Economic Community and least about the prospects for the WTO Doha Development Round. There is a great deal of uncertainty about the broader ASEAN Plus track (whether plus 3, plus 6, or plus X – EAFTA, CEPEA and RCEP) and the Trans-Pacific Partnership

Even though the TPP is well advanced - now into its 13th round of negotiations - only a plurality of respondents thought it was likely to succeed (34 percent); subtracting those respondents who think it is not likely to succeed, there is a net positive of less than 4 percent. While the EAFTA, which is yet to begin formal negotiations, has a slightly larger plurality of close to 38 percent who think it will succeed.

Explanations of the Contrasting Pathways

Much has been made of this difference, but it seems to be a pragmatic accommodation of current economic and political realities. The economic logic of the Free Trade Area of the Asia-Pacific is that global income gains from its achievement could approach $2 trillion per year. One seeming challenge is how to ensure that the pathways ultimately lead to the same destination. Understanding the differences between the approaches is critical. To a large extent, the proposed templates reflect the contrasting sectoral advantages of emerging Asian economies and the U.S. and other developed economies. The Asian track is focused on reducing impediments to goods trade, mainly in manufacturing industries, while the TPP track is also focused on rules for services trade, investment and intellectual property rights.

This analysis of the agreements is supported by PECC's survey. Developed economy respondents assigned a higher priority to intellectual property, services market access, and investment access than their colleagues in emerging market economies. In turn, emerging market respondents assigned a higher priority to goods market access (for manufacturing and agriculture), to cooperation, and the movement of persons.

Interestingly, both groups of respondents saw "new issues" as important. For example, the transparency of regulations was rated as a high priority by 43 percent of developed-economy respondents (the highest among all issues) and by 40 percent of emerging-market respondents. Investment access, services market access and regulatory coherence were also seen as important by both groups. New issues generally had higher priority than "old issues" such as market access in goods and product standards. They also had higher priority than labor, cooperation, and the movement of persons. In other words, while developed and emerging-market respondents differed somewhat on specific issues, they agreed generally on the importance of the behind-the-border issues.

Income Inequality an Impediment to Integration

The index shows that over the past 20 years, incomes in the region have been diverging rather than converging, although the divergence has flattened out somewhat during the economic crisis period. If the region is to succeed in its goal of economic integration, then addressing this critical issue should be of highest importance.

Priorities for Regional Cooperation

The top 5 priorities selected by survey respondents for APEC leaders to discuss were:

- Regional economic integration (including the TPP and the ASEAN Plus agreements among others)
- The region's response to the Eurozone crisis and lessons from the crisis for Asia-Pacific regional integration
- The APEC growth strategy
- Regulatory impediments to business
- Regional cooperation to foster innovative growth

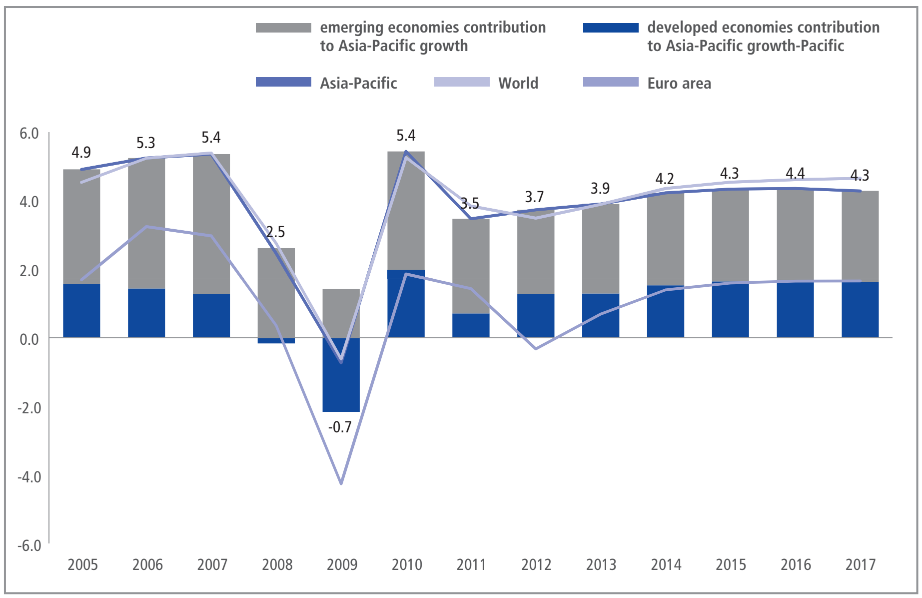
For the first time since PECC started the survey in 2006, the WTO DDA did not feature in the list of priorities for APEC leaders to discuss. This lack of prioritization of the DDA was most pronounced amongst business respondents who ranked it 21st out of a list of 27 issues.

CHAPTER 1

EUROZONE & US ECONOMIC WOES: IMPACT ON THE ASIA-PACIFIC*

On the heels of the earthquake and tsunami in Japan and flooding in Thailand, the global economy has suffered a succession of setbacks in 2011-2012: unrest in some oil-producing countries; sovereign debt crisis in Greece spreading to other Eurozone countries; sovereign ratings downgrade in the US and some parts of Europe; debt ceiling conflict and continuing anemic growth in the US; and a slow-down in China's economic engine.

Figure 1: GDP Growth



Source: IMF World Economic Outlook, April and July 2012

In 2011 economic growth in the Asia-Pacific region as a whole slowed from 5.4 percent in 2010 to 3.5 percent. The forecast for 2012 is for a slight increase to 3.7 percent. However, this small increase may seem to many more like a slowdown given that the forecast for 2012 had been for acceleration to around 4.1 percent. While emerging markets continue to contribute most of the region's growth – 2.5 percentage points to the region's total (See Figure 1), it is a declining share.

As developed economies weaken in 2012 and 2013 and as policy stimulus are unwound, growth in Asia is expected to decelerate in varying degrees but will remain strong as a whole. The growth projections of the IMF (WEO Update July 2012) reflect a downgrade relative to earlier forecasts, as a result of the slower growth in the US and the Eurozone. In these projections, the IMF emphasizes that "these forecasts … are predicated on two important assumptions: that there will be sufficient policy action to allow financial conditions in the euro area periphery to ease gradually and that recent policy easing in emerging market economies will gain traction. ... In the U.S., avoiding the fiscal cliff, promptly raising the debt ceiling, and developing a medium-term fiscal plan are of the essence." (IMF WEO Update, July 16, 2012)

Based on the July 2012 updates, the IMF projections show growth rates of 3.5 percent in 2012 and 3.9 percent in 2013 for the world economy while emerging Asia-Pacific economies as a group are expected to expand by 6.1 percent in 2012 and 6.5 percent in 2013 (See Table 1). Both China and India are expected to post slower expansion in 2012 and 2013 (relative to 2010 and 2011) albeit still at fairly decent rates: 8.0 percent and 8.5 percent for China; 6.1 percent and 6.5 percent for India. In China, net exports, industrial production, and fixed asset investment have declined while government spending on health, education and big infrastructure projects serve to boost the economy. India faces the combined challenges of persisting high inflation and poor demand, both domestic and foreign. Japan and Thailand are expected to recover from poor growth in 2011 due to the impact of the natural disasters that hit these two highly integrated economies last year. A longer discussion on the impact of natural disasters on regional supply chains is in Box 1-1. ASEAN will also be affected by the weak global environment, but, bolstered by domestic demand and reconstruction activities, is expected to grow by 5.1 percent in 2012 and 5.9 percent in 2013 – but with variations across economies in growth patterns and exposures to risks from the Eurozone, the United States, and China developments.

*Roberto S. Mariano, Professor Emeritus of Economics, University of Pennsylvania

Box 1-1: Disasters and Supply Chains in the Region^

Recent decades have witnessed an unprecedented increase in production fragmentations and expansion of production networks and supply chains in East and Southeast Asia, made possible by underlying forces of technological advance and trade barrier ease, and driven by pursuit of economies of scale and agglomeration, and greater efficiency and lower costs.

The successful functioning of such finely constructed and balanced production networks and supply chains also rests, however, on the premise of there being no major disruptions to the system. Recent experiences indicate that this is, however, not the case.

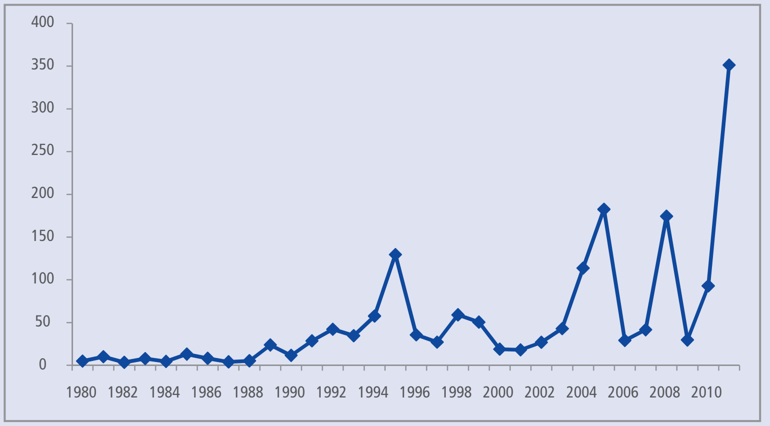
The Great East Japan Earthquake (and the tsunami and nuclear accident that it precipitated) and Thai floods in 2011 both caused enormous disruptions to these networks and supply chains, and extensive damages to the economies concerned. Yet these are by no means "rare" events. Recall the 2008 Sichuan Earthquake in China, the Cyclone Nargis in Myanmar in the same year, and the 2004 Indian Ocean Tsunami still earlier.

The estimated global economic loss in 2011 due to natural disasters is $363 billion, making it the worst year in the recorded history. Of this, the Asia-Pacific region accounted for $351 billion. Two catastrophic events in the region were responsible for the extent of the losses: the earthquake and tsunami that struck Japan in March 2011, which accounted for $212 billion; and floods in Thailand during June to December 2011, which resulted in a loss of $40 billion.

However, the economic—and human—impacts of these disasters could be even larger than these estimates. Through production networks, the impacts of a major disaster in one corner of the region can now be felt across the length and breadth of the networks.

In the Japanese disaster, the most affected Tohoku region represents a significant portion of Japan's production base, contributing close to 10 percent of general machinery and electrical machinery production and accounting for 6.2 percent of total production capacity, as of 2008. Disruptions caused by the disaster to other economies in the region were mainly related to the degree of dependence of these economies on Japan for parts and materials. Some estimates of such dependence for selected economies in the region are shown in Table A. As can be seen, the ASEAN-4, Korea and Chinese Taipei were among the most dependent economies for parts and materials from Japan.

Figure A: Economic Costs of Natural Disasters to the Asia-Pacific



Source: EM-DAT, The OFDA/CRED International Disaster Database, www.emdat.be - Université Catholique de Louvain, Brussels, Belgium

Table A: Rate of dependence on Japan for parts and materials

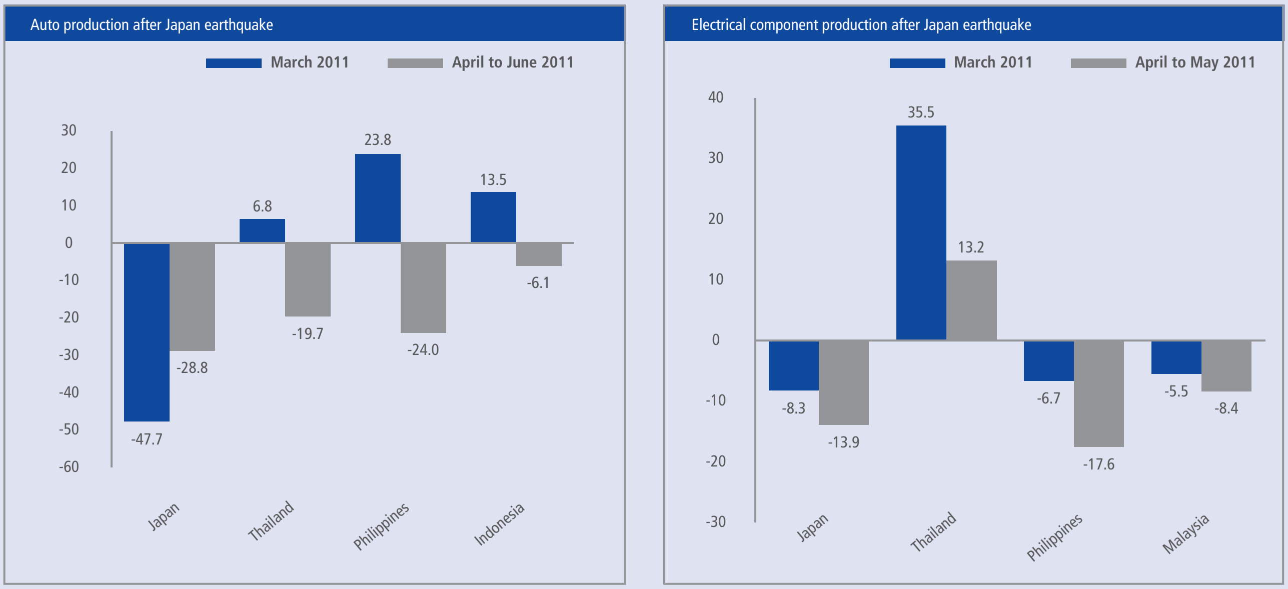
Economies	Rate of dependence in 2010 (%)	
	Import	Export
ASEAN-4	22	18
Korea	25	6
Chinese Taipei	29	7
China	15	8
US	11	5
EU	8	1

Note: ASEAN-4= Thailand, Malaysia, Indonesia, and the Philippines
Source: KIEP, 2011

As yet there has not been any systematic study of the implications of the production networks for amplifying the effects of an otherwise local disaster to economies across the region. But the limited evidence that there is does indicate the enormous scale. Thus due to the disruptions in parts and materials following the Tohoku earthquake, not only did overall automotive and electrical production in Japan contract by 47.7% and 8.3%, respectively, in March 2011, contractions were also very much evident in several other economies in the region. For automotive sector, production contractions soon spread to the Philippines (-24%), Thailand (-19.7%) and Indonesia (-6.1%) during April to June 2011. For the production of electrical components, the highest contraction was likewise recorded by the Philippines (-17.6%), followed by Malaysia (-8.4%), during April to May 2011.

^Minquan Liu, Senior Research Fellow, and Shanawez Hossain, Research Associate, both Asian Development Bank Institute (ADBI)

Figure B: Impact of Japanese Earthquake on Regional Production Networks



Source: UN ESCAP 2012

Similarly, the disruptions caused by the Thai floods forced the production of the automotive and electrical sector in Thailand to contract by 45.8% and 15%, respectively, during the period from October 2011 to January 2012 (ESCAP, 2012). During January to December 2011, significant declines in exports from Thailand were also recorded in the electronics and electrical appliances industries, which were 47.4% and 21.9%, respectively. The Thai government also revised the GDP growth forecast from 2.6% to 1.0%, as the overall output contracted in the last quarter of 2011, due to the floods.

However, it is important to note that while causing serious economic damages to the Thai economy, one would also expect the supply chain disruptions caused by the Thai floods to result in major production losses in other economies. On average, approximately 19% of manufacturing firms in Thailand take part in global production networks through the use of imported parts and components (Chongvilaivan 2012b). For example, due to the Thai floods, manufacturing production index fell by 2.4% in Japan, led by a contraction in electrical component production of 3.7% during the period October 2011 to January 2012 (ESCAP, 2012b).

The same is true for the electronics and high-tech sectors, where some major Japanese and global firms were also hit hard and faced negative impact in their production.

Thailand is the world's second largest hard disk drive (HDD) producer after China. The flooding closed two HDD plants of Western Digital Corp. in Thailand, and many other producers such as Seagate, Toshiba and Hitachi were affected by the floods. As a result, the global HDD industry suffered its worst downturn in three years and the world price of HDDs increased significantly.

In view of the increased frequency of natural disaster-related disruptions to the region's supply chains and production networks, and greater consequences of such disruptions, both of which positively correlate with increased production fragmentation in the region, it is important for both the governments and private sector in the region to adopt effective remedial measures. Among the measures currently being widely discussed and debated aimed directly to increase the resilience of the region's supply chains and production networks to natural disasters are redundancy and flexibility. The former recommends an appropriate relaxation of the just-in-time approach in inputs managements, while the latter agues for multi-sourcing. Both are likely to have strong cost implications. But this may be the price worth paying in the long run. These specific measures presume given shocks. A more general, and one that would strike at the deeper causes of the fragilities in question, may be an improvement in general disaster risk management programs in the region, which aims to reduce the very scale of possible shocks to the populations and economies concerned for given hazards.

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Table 1: Weighted Average GDP Growth (%)

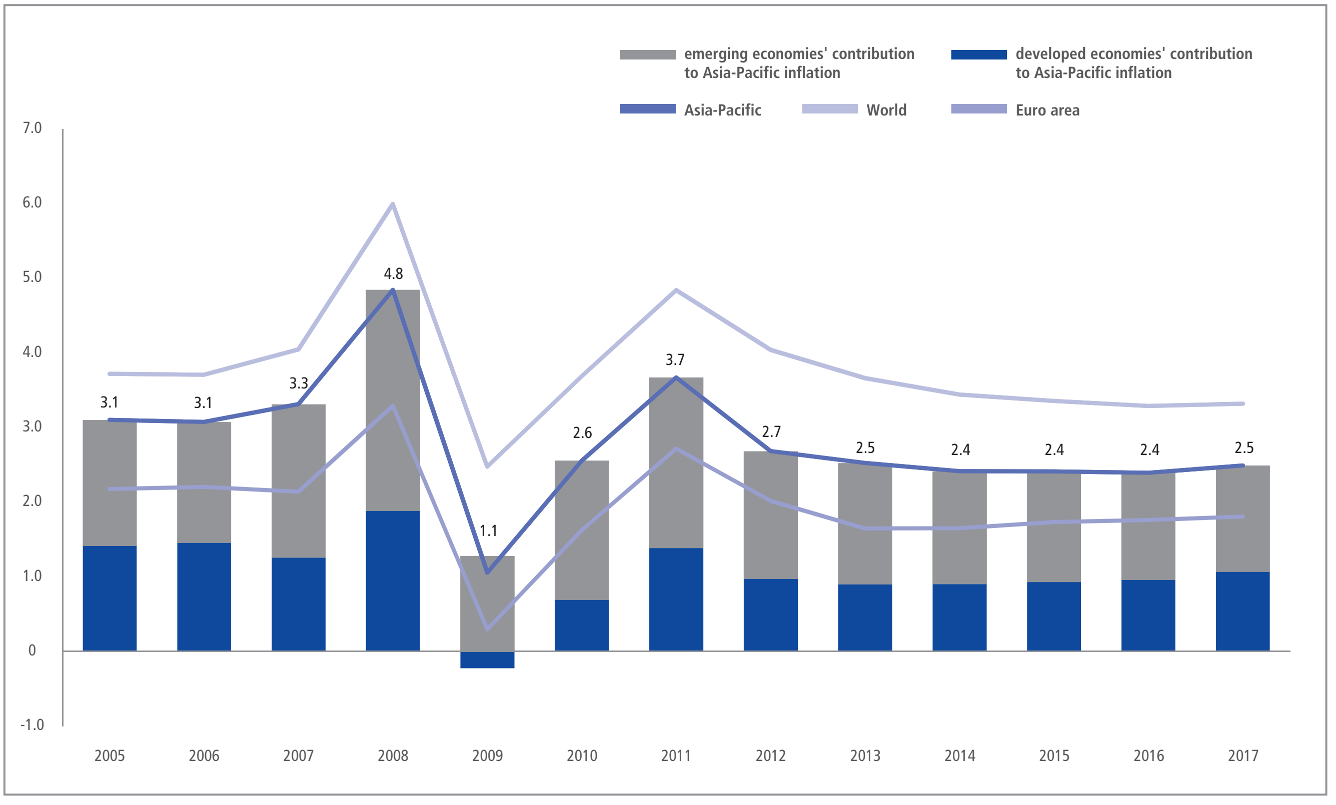
	2011	2012	2013
Oceania	2.0	3.0	3.5
North America	1.9	2.1	2.4
Northeast Asia	4.6	5.1	5.1
Pacific South America	6.3	4.7	4.8
Southeast Asia	4.7	5.1	5.9
Developed	1.2	2.2	2.2
Emerging	6.8	6.1	6.5

Source: IMF WEO, calculations by PECC Secretariat

Less Concern over Headline Inflation

Concerns over headline inflation had continued to be high at this point in time last year. However, these concerns have dissipated as worries switch back to growth. However, food prices are once again on the rise, mostly as a result of poor harvests expected in the United States. Policy responses to the poor harvests will once again be watched closely.

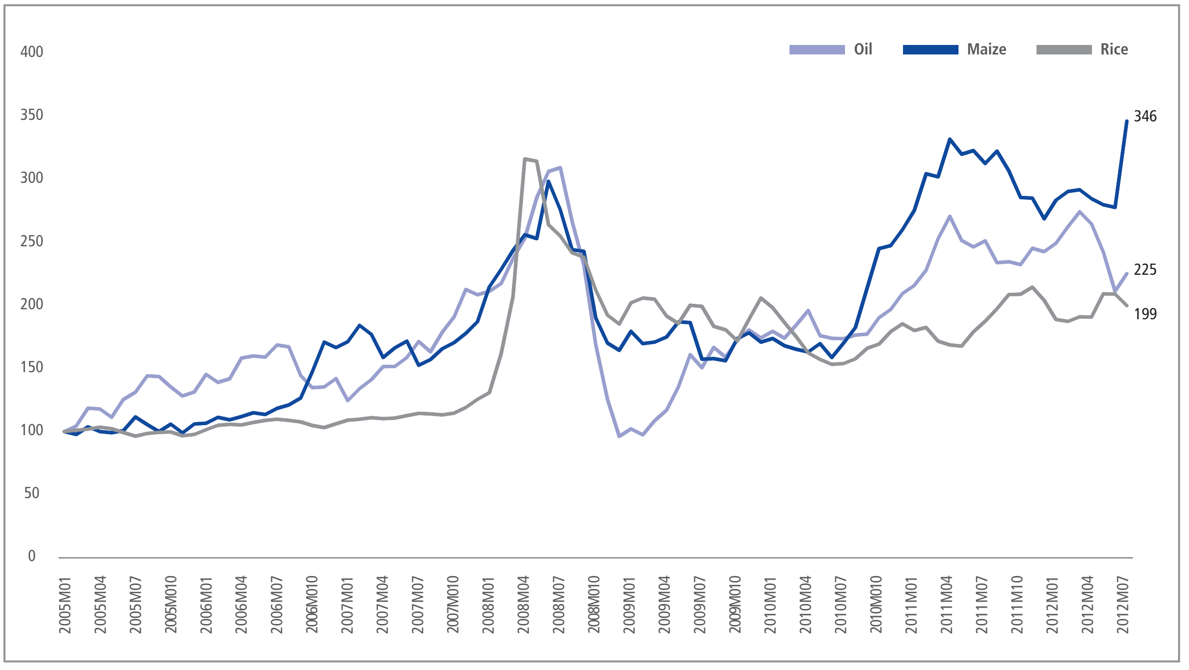
Figure 2: Inflation



Source: IMF World Economic Outlook Database, April 2012

Unlike in 2008, the food price rises are unrelated to energy prices (See Figure 3). Critically for the Asian part of the region, the price spikes in maize are not yet being transmitted to rice.

Figure 3: Commodity Prices (indexed at January 2005)

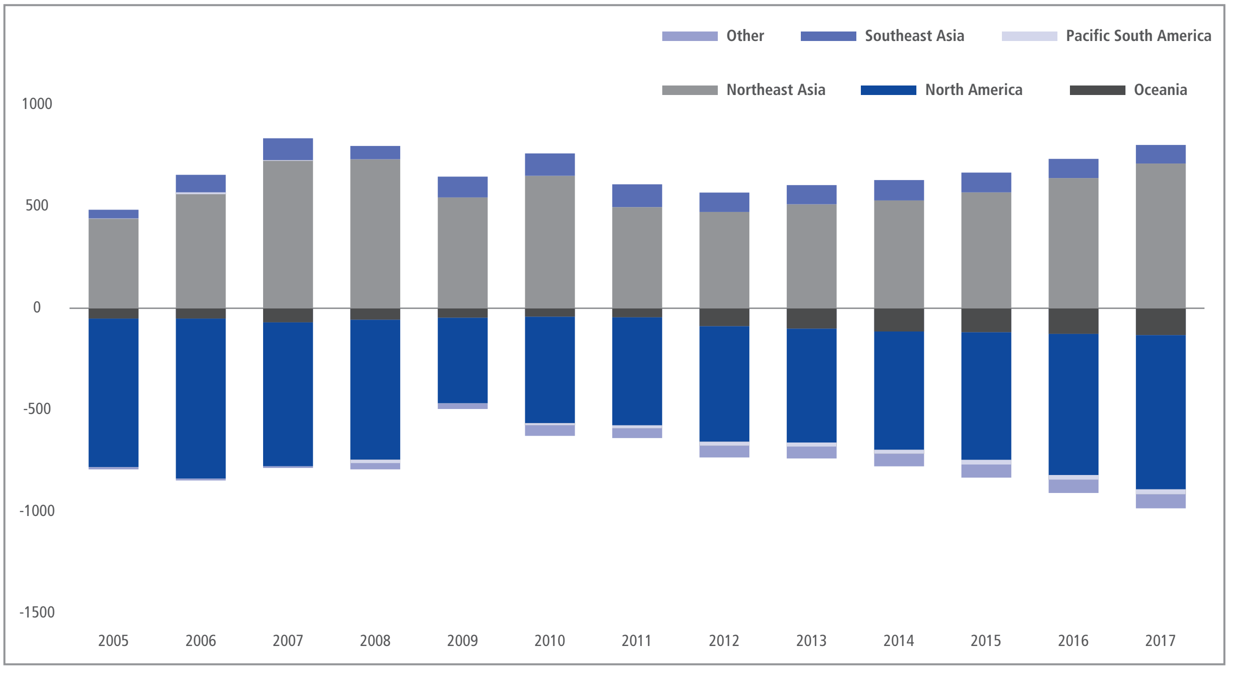


Source: World Bank Pink Sheet (updated on 3 August 2012)

Current Account Imbalances

Current account imbalances in the region decreased significantly during the crisis from 2008-2009. Of concern would be if the imbalances began to reemerge, however, at least over the next few years the situation seems stable, especially as a percentage of GDP. In percentage terms the imbalances, particularly for the United States, peaked at close to 6.0 percent of GDP in 2006, for Northeast Asian economies they reached a peak in 2007 but have been reduced sharply during the crisis period. China's current account surplus looks to settle within a range of 2.3 to 4.3 percent, well off their highs of 10 percent of GDP in 2007-2008.

Figure 4: Current Account Balances (US$ billions)



Source: IMF World Economic Outlook Database, April 2012

The Eurozone Debt Crisis and the Asia-Pacific

As the Eurozone crisis continues to unfold, Asia-Pacific economies face the consequent issues of trade declines and highly volatile capital flows. Shocks from the crisis would spill over to Asia-Pacific economies through the following major transmission channels:

- Merchandise trade
- Financial flows
  - ◊ FDI
  - ◊ Portfolio investments
  - ◊ Official development assistance
- Trade in services
- Business process outsourcing
- Tourism

The severity of the impact would vary across economies depending on the degree global linkages, especially with the Eurozone and the United States, and each economy's internal economic health and ability to implement policy measures to withstand the shocks.

Exposure through Trade Channel

Figure 5: Export Growth (percent)

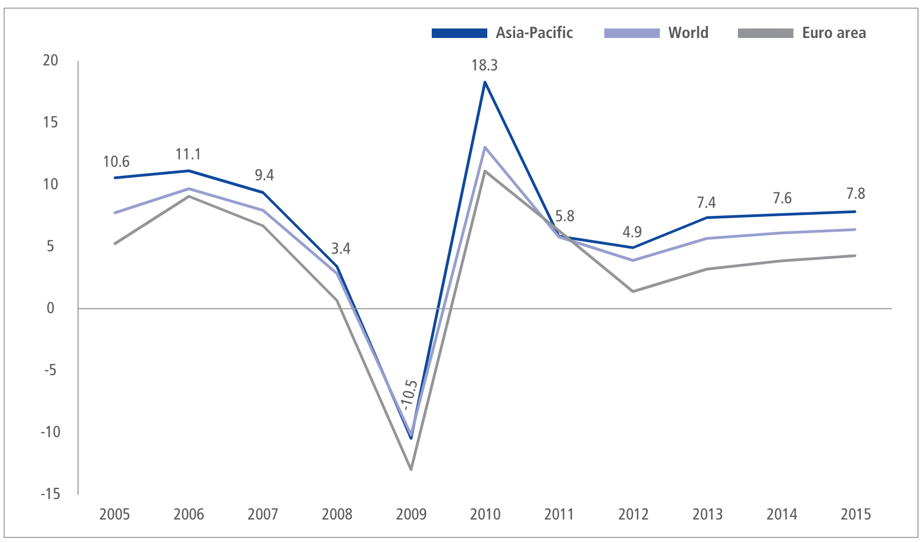
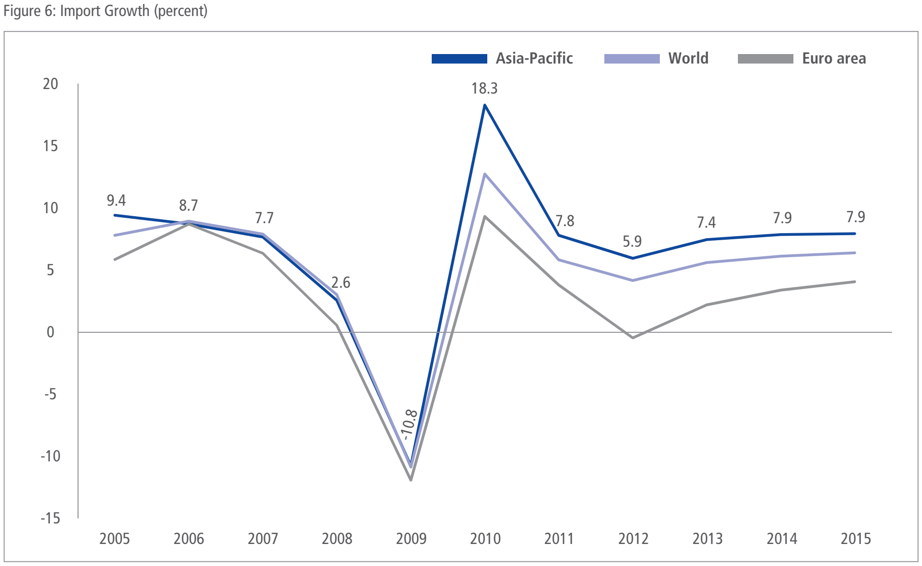


Figure 6: Import Growth (percent)



Source: IMF WEO (April 2011) and WTO Statistics

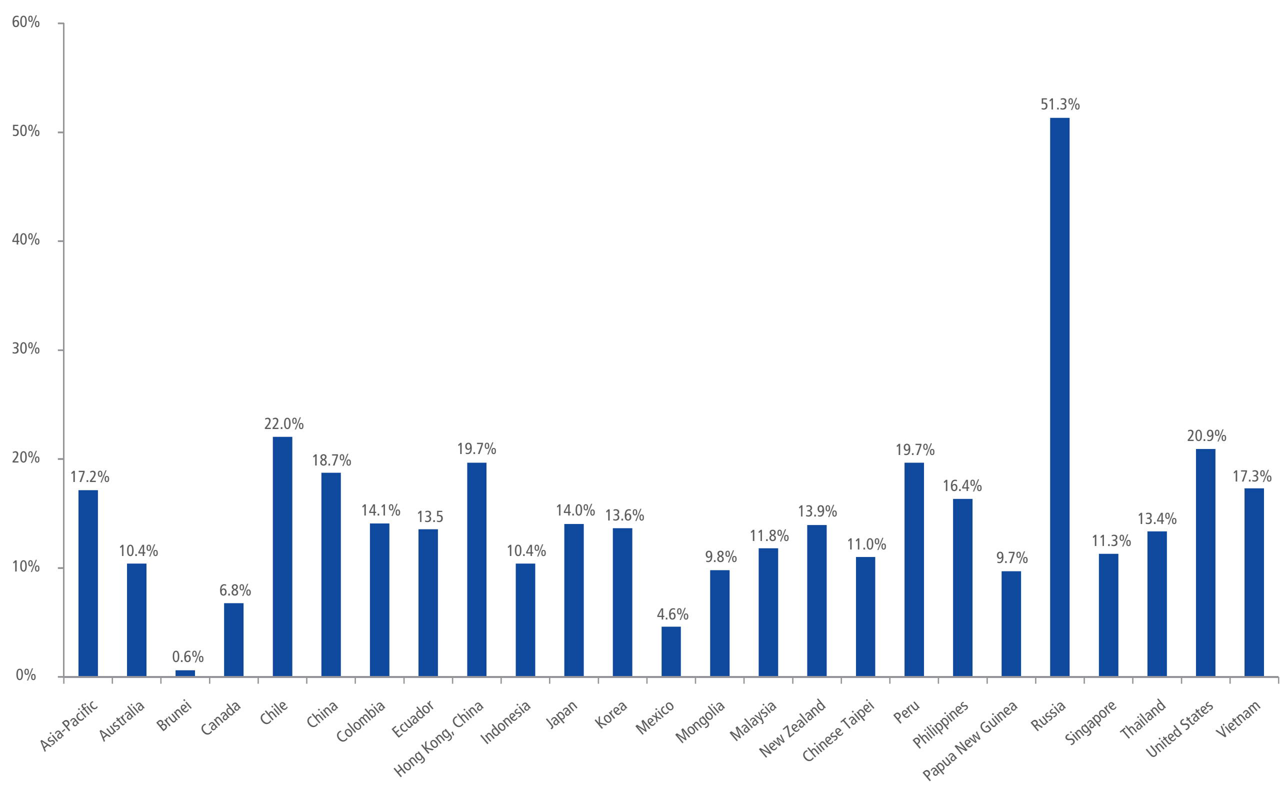
Global export growth is expected to slow to 3.9 percent from last year's 5.8 percent, while imports will likewise slow to 4.2 percent from 5.8 percent. The Euro area's imports are expected to contract by 0.5 percent, the only major area of the world expected to go into negative territory, unlike in 2009 when global trade contracted sharply.

The Asia-Pacific region is set to follow the global trend with a substantial slowdown in export growth from 5.8 percent in 2011 to 4.9 percent in 2012 before bouncing back to a 7.4 percent in 2013. Imports will follow the same pattern, with import growth to slow from 7.8 percent in 2011 to 5.9 percent this year and a rebound to 7.4 percent in 2013.

Exports to the European Union

The big uncertainty in the picture is what will happen if the situation in the Eurozone gets worse. One clear channel of contagion is the export sector. To gauge the possible impact on the region's exports we take a longer time frame of 10 years of exports, recent numbers are skewed as they include the crisis period during which exports to the EU from the region dropped sharply.

Figure 7: Asia-Pacific Economies' Exports to the European Union (annual average 2002-2011)



Source: World Integrated Trade Solution, World Bank

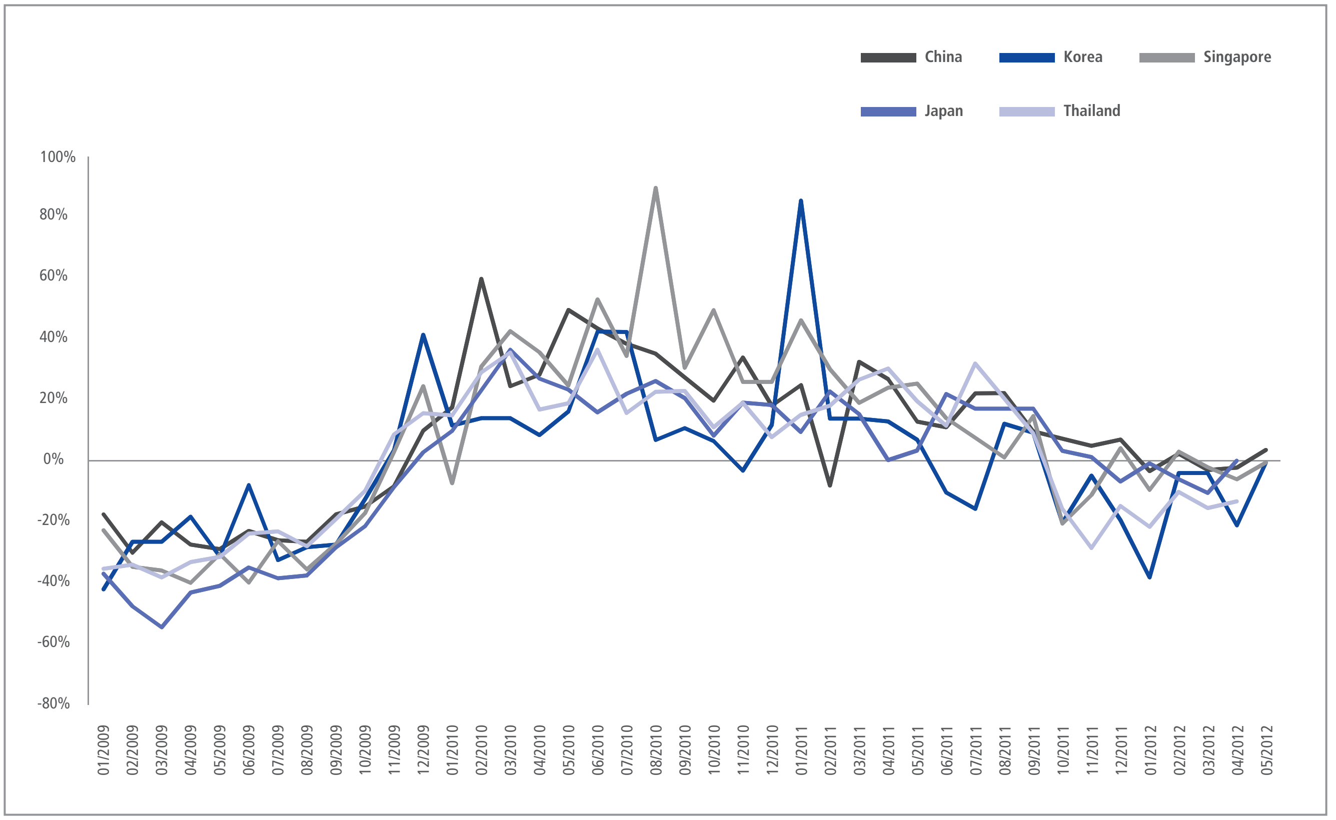
Over the past 10 years, the European Union has accounted for, on average, almost a fifth of the region's total exports. However, some economies are more exposed than others. This year's APEC host, Russia, is much more deeply connected to the European market than the rest of the Asia-Pacific. However, the EU is a main trading partner for many regional economies, especially, Chile, China, Hong Kong, India (not in the Figure), Peru, the United States and Vietnam.

In 2009 when the world went into recession, exports from the Asia-Pacific region saw a significant drop in exports to the European Union. As the Eurozone crisis deepens, the impact on the region, depending on how events play out may mirror what we saw in 2009.

In 2009, exports of the region to the EU dropped by 27 percent, this drop affected different sectors and different economies to varying degrees.

Higher frequency data from the World Trade Organization (WTO) for a few selected economies indicates that while things are indeed getting worse, at their current trajectory they are unlikely to match the troughs of 2009. Monthly export data for China, Korea, Singapore, Japan and Thailand for the first 4-5 months of the year show that year-on-year exports to the EU are declining but not to the same extent that they did in 2009.

Figure 8: Change in Selected Asia-Pacific Economies' Exports to the EU (y-o-y, monthly)



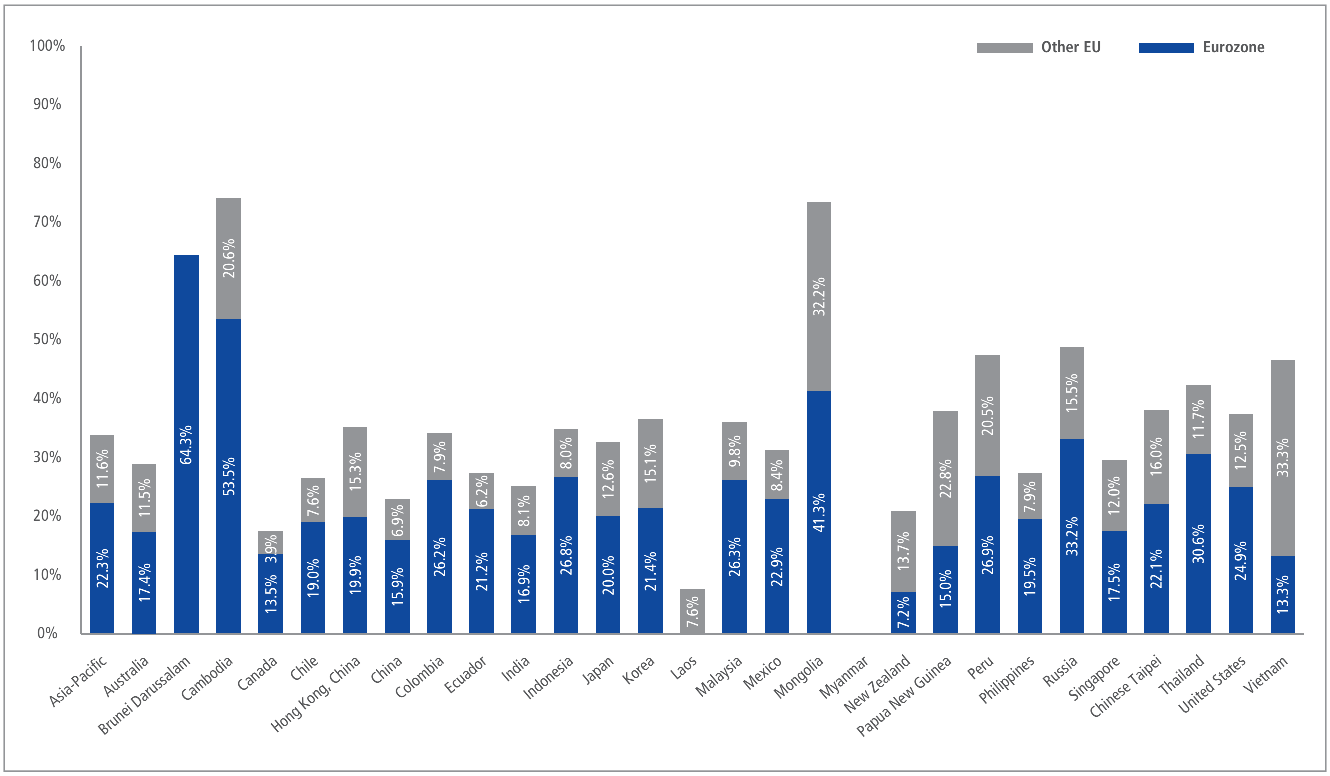
Source: IMF Coordinated Portfolio Investment Survey (CPIS)

As with exposure through export linkages, exposure of economies in the region through the financial channel also significantly varies. Data paucity is a problem but the IMF Coordinated Portfolio Investment Survey provides a geographic breakdown of:

- Portfolio investment
- Equity securities
- Debt securities
- Long-term debt securities
- Short-term debt securities

Some care should be taken as there are many gaps in the data. For our purposes, where data has not been available, the total investment has been assumed to be zero. However, this may not be the case. On the whole, roughly 30 percent of financial assets in the Asia-Pacific are held by partners either in the Eurozone or from the EU as a whole.

Figure 9: European Holdings of Assets in Asia-Pacific Economies



Source: IMF Coordinated Portfolio Investment Survey (CPIS)

A prolonged Eurozone crisis and a U.S. slowdown also would have serious implications on financial flows and financial markets in Asia-Pacific. Through trade, investment, and financial linkages, strong capital flows already have surged into emerging market economies, because of the weak growth prospects in the US and the Euro area, allowing central banks in the region to build up their international reserves. But there is a downside risk – such strong inflows can spawn destabilizing imbalances in the credit and asset markets. And there are additional costs involved. Central banks suffer financial losses from holding more currency assets than foreign currency liabilities when the domestic currency appreciates. Central Banks also incur costs in their sterilization efforts to mop up the liquidity associated with a foreign exchange transaction. Further, continuing or worsening conditions in the Eurozone and the U.S. may cause risk appetite to shift and capital reversal could set in in emerging markets, with ensuing tight global credit and liquidity and increased financing costs.

In this context, how deleveraging and quantitative easing in advanced economies affect emerging economies has been a topic of intense discussion. One view is that a quantitative easing program would have positive contributions to emerging markets as long as the emerging market economies let their local currency appreciate. The quantitative easing program will help restore confidence in global financial markets, drive global trade and investment, and restore the global economy on a growth trajectory. However, there may be negative consequences as monetary easing creates interest rate differentials and directs capital flows towards attractive emerging economies. For example, following the first phase of quantitative easing in November 2008 and the second in 2010 in the U.S., there was a significant increase in US capital outflows in 2010 and 2011 to emerging Asia, where growth prospects and interest rates were higher. In a global environment with strong appetite for higher yields, such flows could lead to currency appreciation pressures, and catalyze asset price bubbles and higher inflation. Thus government financial/economic planners need to craft the appropriate stabilizing policy measures that would maximize the benefits of the capital inflows and, at the same time, mitigate against abrupt reverse outflows as well as inflationary pressures. Such policies could be formulated keeping in mind the quantitative easing programs in advanced economies can affect emerging markets through at least three channels: portfolio rebalancing, exchange rate, and trade.

As to the first channel, if quantitative easing lowers long-term bond yields in advanced economies, investors could turn to emerging market assets of similar maturities for higher risk-adjusted returns. This would push up asset prices, lower long-term interest rates in emerging markets economies, thus easing financial conditions in emerging markets. Thus, a sizeable quantitative easing could boost global liquidity and positive interest rate differentials favoring emerging markets may persist and fuel further capital inflows and higher consumer and asset prices. In the exchange rate channel, quantitative easing may cause appreciation pressures on emerging economies' currencies. Emerging economies' central banks may choose to accumulate reserves to prevent a sharp appreciation, but such sterilization efforts can be costly. Otherwise, capital inflows could result in excess liquidity, inflation pressures, and financial market imbalances. As to the trade channel, quantitative easing can make trade credits more accessible at lower cost, potentially increasing spending in developed economies and boosting demand for emerging market exports. But at the same time, this may also cause an appreciation of emerging market currencies.

Policy Tools and Programs for Managing Capital Flows in Asia

Many of the emerging economies in Asia are in a reasonably strong position with enough policy space to manage a decent growth in the face of the recession in Europe and the slowdown in the U.S. and China. Nevertheless, there are downside risks arising from possible further deterioration before recovery as well as from surging capital inflows.

Growth and interest rate differentials favoring emerging markets and accommodative policies in the advanced economies can encourage large capital flows to emerging markets, requiring adequate measures on the part of emerging economy policymakers to address pressures for currency appreciation, excess liquidity, and domestic inflation. Growth of domestic liquidity and credit activity must be ample enough and in line with the economy's growth trajectory. But excessive liquidity and unnecessary credit growth could lead to higher inflation, asset price misalignments, and financial instability.

The policy measures and programs would involve a combination of regulatory reforms, structural improvements and a pragmatic and responsive approach to monetary and macroeconomic policy. With an eye towards developing an effective toolkit for managing capital flows, programs need to be instituted, if not yet in place, towards improved monitoring and understanding of the nature of foreign exchange inflows, exchange rate flexibility, and management of reserve accumulation and associated liquidity. At the regulatory and structural levels, further financial sector reforms can be instituted to deepen financial markets and enhance the foreign exchange regulatory framework, and additional macroprudential measures may be needed to ensure the health of the banking system. In many emerging markets in Asia, there also is an urgent need for further personnel capacity building in relevant government agencies in the technical and practical aspects of macro-monetary policymaking and stabilization programs. Finally, in this current environment of globalized finance, it is encouraging to note that more direct regional cooperation has now been institutionalized among economies in Southeast and East Asia towards coordinating efforts to deepen financial markets and head off financial/economic crises in the region.

For detailed data, please refer to Annex A.

CHAPTER 2

OPINION LEADERS' SURVEY*

A sense of economic gloom continues to pervade the Asia-Pacific. Sixty-two percent of respondents to our annual survey expect the growth of the world economy to be somewhat weaker to much weaker over the next 12 months. This level of pessimism is similar to sentiments in last year's survey which indicates a perception that the recovery that started in 2010 is stalling (See Figure 1).

The negative sentiments about the global economy are fairly evenly spread across the Asia-Pacific, but are currently strongest in Southeast Asia. Slightly more than two thirds of respondents from Southeast Asia expect the word economy to be weaker over the next 12 months and (See Figure 2). North American respondents were a little less pessimistic than those from other sub-regions.

Figure 1: Expectations for Growth of the World Economy over the Next 12 Months

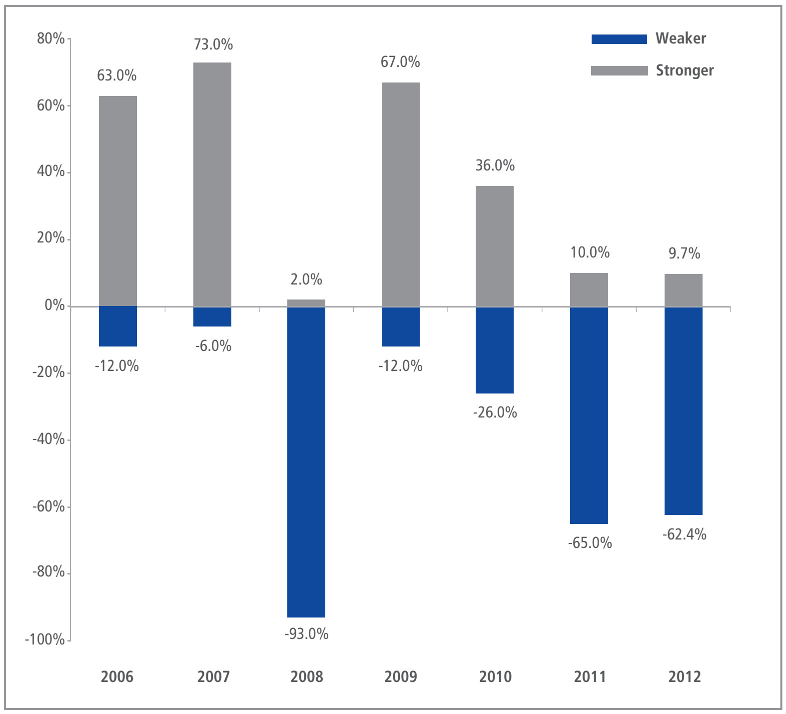


Figure 2: Expectations for World Economic Growth by Sub-Region

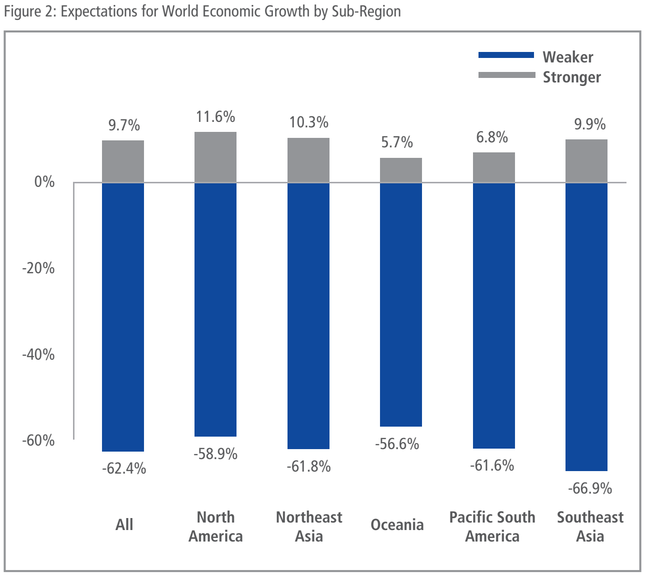
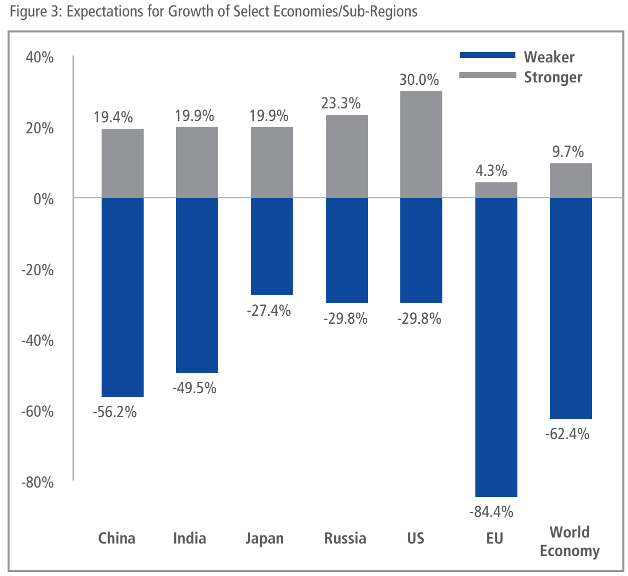


Figure 3: Expectations for Growth of Select Economies/Sub-Regions



*Eduardo Pedrosa is Secretary General of Pacific Economic Cooperation Council (PECC).

Growing Pessimism on Emerging Markets

While views on the global outlook are essentially unchanged from last year, views on emerging markets have turned from being equivocal to negative. In last year's survey although the negative impulse was already evident with 36 percent of respondents expecting weaker growth in China compared to 30 percent expecting stronger growth, this year 56 percent of opinion leaders are gearing themselves for weaker economic performance from China over the next 12 months.

Views on India, which was the only economy where the balance of opinion was towards stronger growth last year, have also gone negative with 49 percent of respondents expecting weaker growth over the next 12 months.

Views on the US economy have turned marginally positive. Whereas views on the US in last year's survey showed 80 percent expecting weaker growth, this year's views are evenly split with 30 percent expecting stronger growth and 30 percent weaker with the balance expecting growth to remain at the same level as the previous 12 months.

Views on Japan's economic growth, while still in negative territory are also showing some improvement. Last year, 57 percent expected weaker growth from the region's third largest economy. This year, the number has more than halved to 27 percent. Indeed, 53 percent of respondents expect Japan's economic performance to be 'about the same' over the next year as it has been for the last 12 months.

Opinion leaders are split on the prospects for growth in Russia, this year's APEC host. Some 30 percent of respondents expect growth to be weaker over the next 12 months, while 23 percent expect it to be stronger.

Unsurprisingly, views on the prospects for growth in the EU are overwhelmingly negative with 84 percent expecting weaker growth and just 4 percent expecting stronger growth.

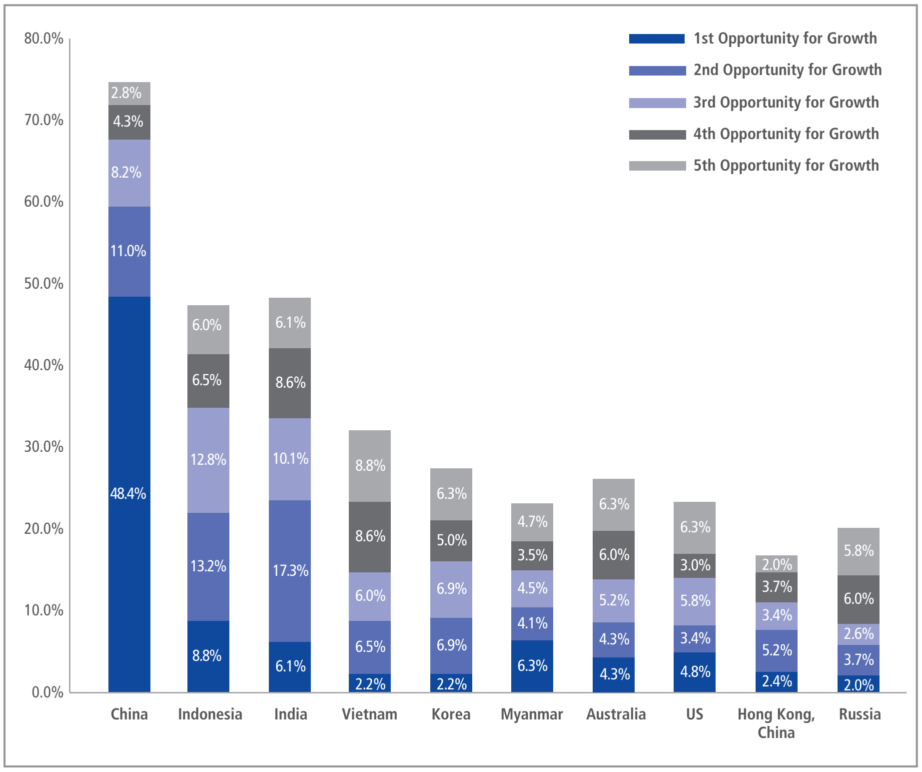
These views are somewhat in contrast to prevailing forecasts for the European Union which indicate a mild recession in 2012 and a slight rebound in 2013.

Opportunities for Growth

Even though opinion leaders are concerned about short-term prospects for growth in emerging markets, over the next 5 years, they see growth coming from the major emerging markets in the region; especially China, Indonesia and India (See Figure 4). China, by far outweighs all other markets as an opportunity for growth. While close to 50 percent of respondents picked China as the top opportunity for growth, Indonesia, while second in the list, had close to 9 percent of respondents ranking it as the top opportunity for growth.

In spite of the current economic outlook and emphasis on emerging markets as drivers of growth, regional opinion leaders picked two developed market economies, Australia and the United States as top 10 opportunities for growth. Interestingly, Northeast Asians were the most bullish on the US economy while Southeast Asians were the least. Perhaps even more telling is that business respondents were more positive about the US as a growth opportunity than either government or non-government panelists.

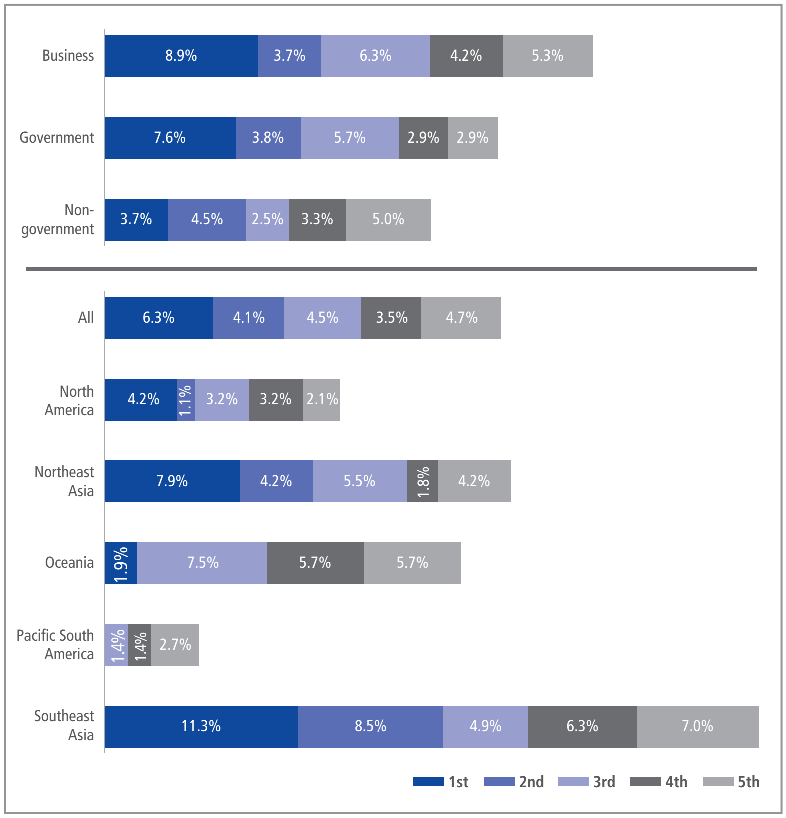
Figure 4: Top 10 Regional Best Opportunities for Growth



Myanmar

Although not part of PECC or APEC and barely integrated into the broader Asia-Pacific economy, Myanmar was ranked as the 6th best opportunity for growth. Some 23 percent of respondents selected Myanmar as a top 5 opportunity for growth. However, there were very wide variations of views. Those most interested in Myanmar were respondents from Southeast Asia; in other words, fellow ASEAN members. Respondents from South America were significantly less interested in Myanmar than other sub-regions in the Asia-Pacific. Business respondents were much more interested in Myanmar than those from the government or the non-government sectors.

Figure 5: Myanmar as an Opportunity for Growth

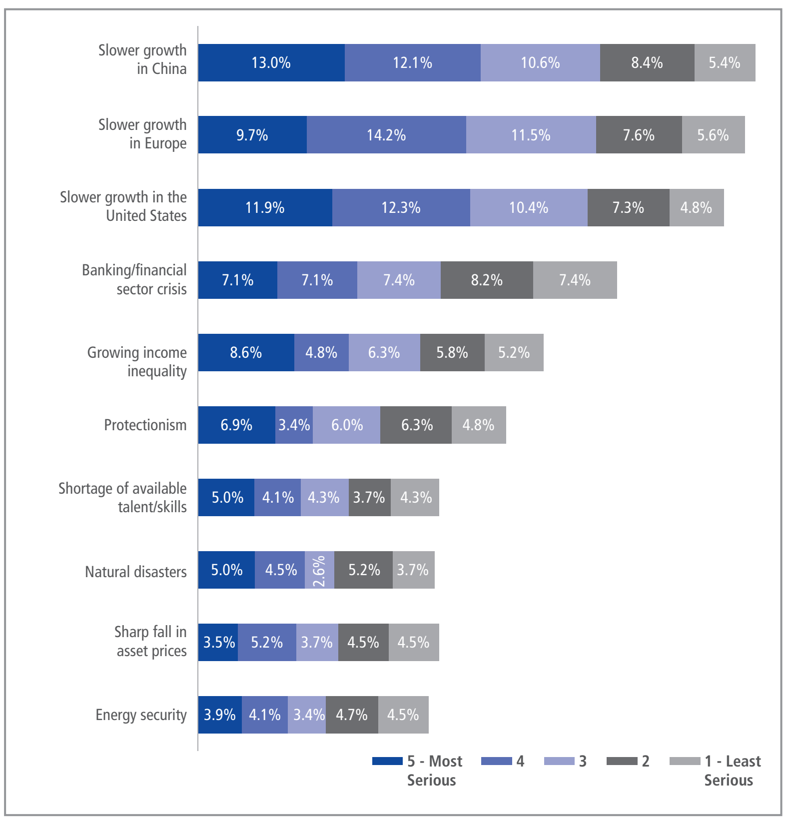


Risks to Growth

Slower Growth in China Biggest Risk to Growth

Big macroeconomic factors continue to dominate concerns about growth. Close to half of all respondents picked slower growth in China, Europe and the United States as top-five risks to growth for their own economy. Interestingly, slower growth in China was of marginally higher concern than a slowdown in either Europe or the US. This somewhat affirms views expressed on the outlook for growth in China above.

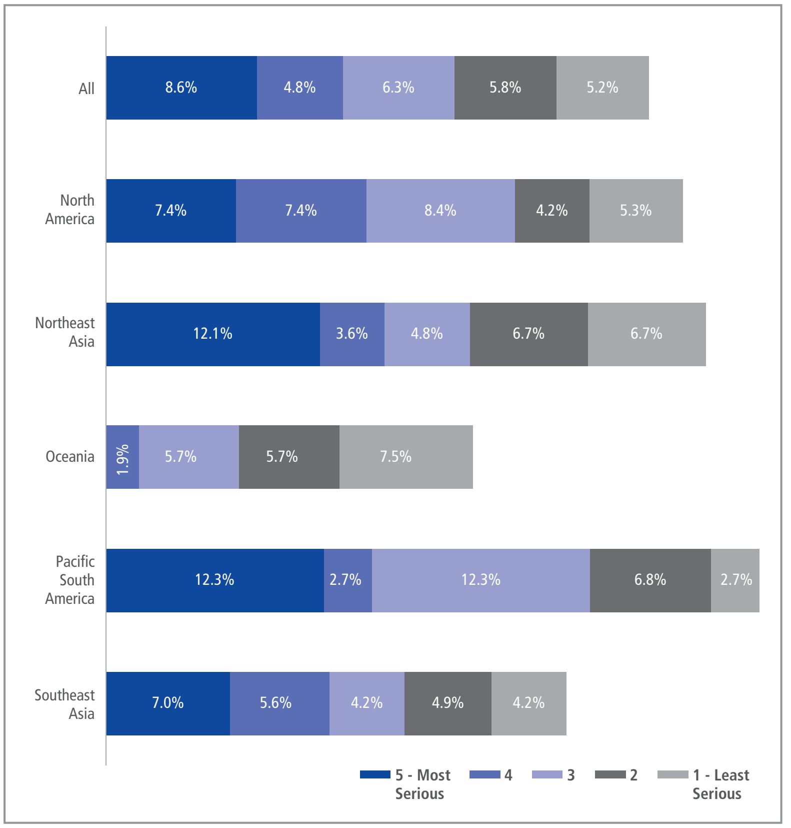
Figure 6: Risks to Growth



What should be of concern to regional policy-makers are views on protectionism and income inequality as risks to growth. Income inequality was already concern before the economic crisis struck but has been exacerbated by the crisis.

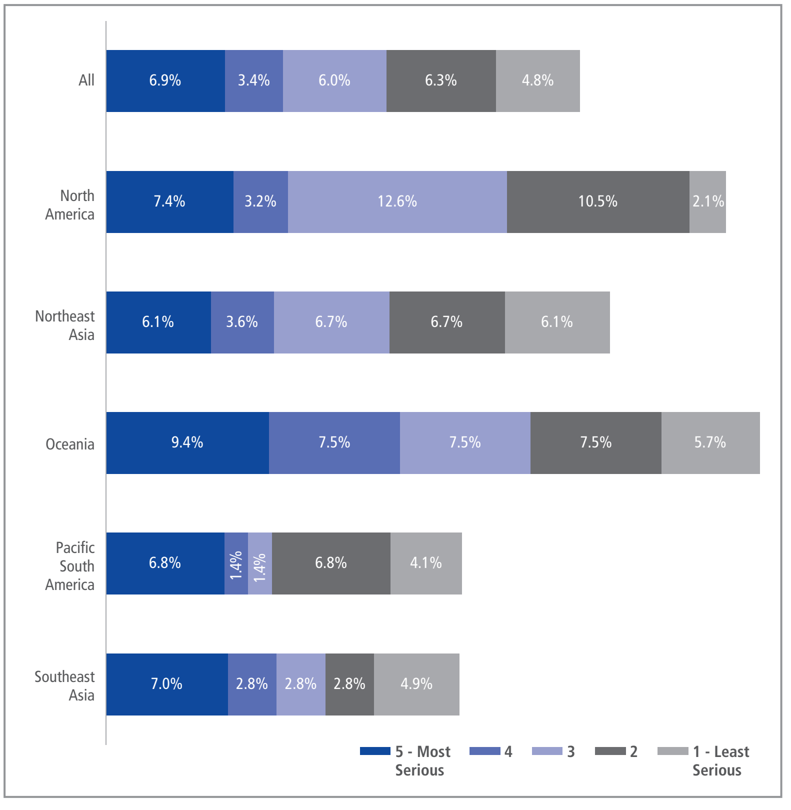
Concerns over income inequality were expressed the highest risk by respondents from South America with 37 percent of respondents selecting income inequality as a risk to growth, followed by Northeast Asia (34 percent) and North America (33 percent) and least by those from Oceania. The APEC Growth Strategy emphasized the need for inclusive growth. However, views from opinion leaders indicate that this is an area where further work should be done.

Figure 7: Views on Growing Income Inequality as a Risk to Growth (by Sub-Region)



On protectionism, respondents from Oceania were most concerned with 38 percent selecting it as a top 5 risk to growth for their economy, followed by North Americans at 36 percent. While resisting protectionism was highlighted at the peak of the crisis, evidence suggests that it has been increasing and covering a growing percentage of global trade. The risk is that as the recovery stalls, as opinion leaders seem to fear, that protectionism will simply continue to increase. As PECC Statement to APEC Trade Ministers warned last June, the number of trade restrictiveness practices adopted by regional economies was at 431 – or 20 percent of all trade restrictive measures implemented across the world since the start of the crisis. These measures come despite the calls of our leaders for a standstill on the adoption of protectionist policies.

Figure 8: Views on Protectionism as a Risk to Growth (by Sub-Region)



Box 2-1: Myanmar: Are the reforms for real?^

Myanmar was ranked as the 6th best opportunity for growth, even though it is neither a PECC nor APEC member. Business respondents were much more interested in Myanmar than those from the government or the non-government sectors.

One reason for this is that the winds of change are picking up in Myanmar. Since his inauguration on 30 March 2011, President Thein Sein has initiated several steps that reflect a new approach to governance. His inaugural address highlighted transparency, accountability, good governance, rule of law, as well as the need to deal with corruption, cronyism and widening gap between the rich and poor.

In light of the reforms taking place in Myanmar, the international community has begun taking steps to ease sanctions imposed on the economy. On 16 May 2012, the European Union officially suspended all sanctions against Myanmar until 30 April 2013, with the exception of the arms embargo. The United States also announced the easing of financial and investment sanctions on 17 May 2012, and subsequently implemented those measures on 11 July 2012.

The spotlight is very much on Myanmar, and the focus will only increase in the next two years as Myanmar hosts the South East Asia Games in 2013 and chairs the Association of South East Asian Nations (ASEAN) in 2014. There is now a unique opportunity to change the trajectory of growth and uplift the lives of its citizens.

Will the reforms last?

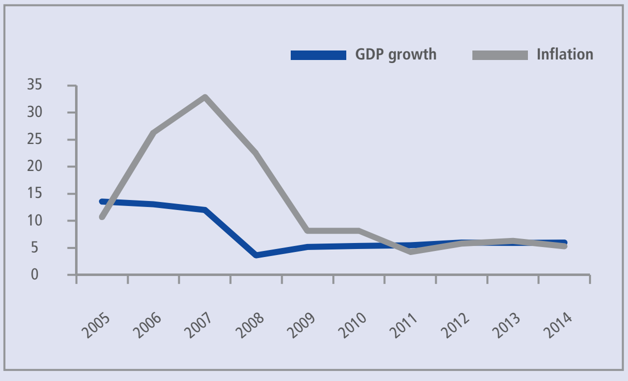
Myanmar is now experiencing vast change and transformation. But what has surprised observers more than the reforms has been the exhilarating pace at which they have been carried out. Inevitably, this has led observers to cast doubt on the sustainability of the reforms.

Whether the reforms are irreversible depend on what factors motivated the change.

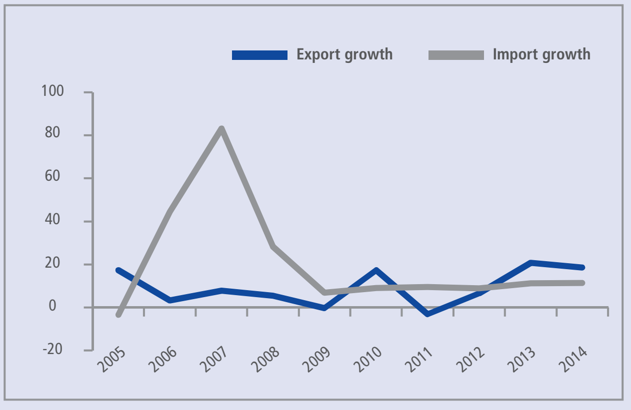
While the reform process could flounder if there is strong opposition to it by those who would prefer the status quo, the possibility that the government would be forced to back track is slim. The principal reason is that most of the impetus for change comes from within. Due to the ascendancy of science and technology and the increasing use of the internet and mobile phones, the people are connected like never before and are aware of the vast changes that are taking place in the world. They desire real change. The military too has a new generation of leaders that are aware of the aspirations of the people.

Geopolitics is another compelling factor that is driving the reforms. Myanmar may be small and undeveloped but is one that is strategically located, wedged as it is between China and India, the two fastest growing economies in the world. When Western sanctions were in place, neighboring economies were well-placed to fill the vacuum. Myanmar had few markets to enter and China, India, Thailand and other ASEAN members had no competition in entering the market. As of 2010, over 70 percent of Myanmar's exports went to just three markets; Thailand, India, and China. In addition to geographical reliance on a few markets, it is also heavily dependent on natural resource exports – oil and gas approximately 40 percent of all exports and gemstones another 25 percent.

GDP and Inflation (%)



Export and Import Growth (%)



Source: IMF World Economic Outlook

^Thaung Tun is former Ambassador of Myanmar to Belgium, the Netherlands and the European Union, and currently a Visiting Senior Research Fellow at the Institute of Southeast Asian Studies (ISEAS), Singapore.

The challenges that lie ahead

As Myanmar forges ahead with its reforms, it will have to overcome serious challenges. The most difficult task will be to unite it by finding a lasting solution to the majority-minority tensions that have plagued Myanmar since independence in 1948. The Union of Myanmar is made up of 135 ethnic groups, Estimates are that the Bamar make up close to 70 percent of the population with the balance from others including the Kachin, Kayah, Kayin, Chin, Mon, Rakhine and Shan.

The new government has made a good start by reaching out to the ethnic groups just as it has to the political opposition. All but one group, the Kachin Independence Organization, have signed preliminary peace agreements with the government.

There are signs that further progress can be made. But the recent flare-up of tensions between the Rakhine and Rohingya communities serve to underscore the daunting challenge the government faces.

The second challenge for the new government will be to meet the expectations of the people for greater economic opportunities. The International Monetary Fund, following a visit of its mission to Myanmar in January 2012, has published an analysis of the economic situation in Myanmar in which it stresses the need to take further steps to stabilize the economy. The report pointed out the need for structural reforms as well as the need to improve monetary and fiscal management.

One concern that has been the focus of extensive debate in the past year is the exchange rate, as a realistic exchange is sine qua non for the economy to take off. Since 1 April 2012, the Myanmar Central Bank has set a reference exchange rate of 818 kyats to the dollar. Previously, the official rate was 6.4 kyats to the dollar, while the black market rate was 800 to 1000 kyats to the dollar. As a resource rich economy, Myanmar runs the risk of "Dutch Disease" as the reform process unfolds; finding the right policy mix that enables inclusive growth process is an added dimension of to the exchange rate reform. The success of the managed currency float will pave the way to a more open, market-based economy and attract foreign investors. A new foreign investment law is also under consideration in the parliament.

The third challenge would be to develop human resources as there are gnawing gaps in the state's capacity to implement the reforms to meet the aspirations of the people. . There is limited institutional and technical capacity to carry out detailed policy formulations and to implement some of the changes being adopted. This is acting as a brake on the reform process and means that citizens will not be able to see the full impact of some of the changes. The pressures on the system are only likely to increase in the next two years as Myanmar hosts the South East Asia Games in 2013 and takes over the chairmanship of the Association of South East Asian Nations (ASEAN) in 2014. Unless the civil servants and the technocrats have the capacity to deal with the new environment, the economy cannot achieve its goals. As part of the efforts to build this capacity, in 2011 the Myanmar Development Resource Institute (MDRI) was established with three centers: 1) Center for economic and social development; 2) Center for strategic and international studies; and 3) Center for legal affairs.

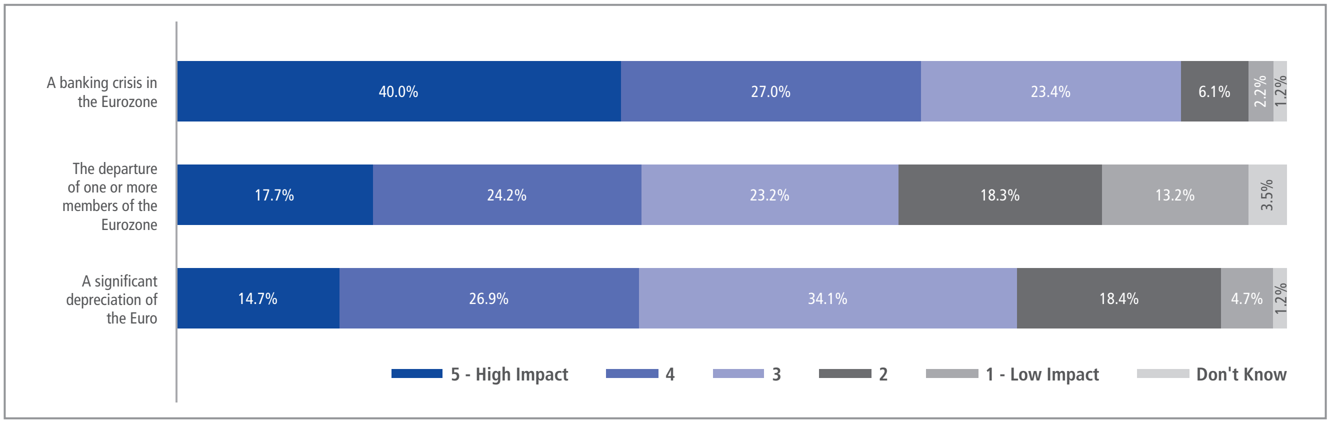
If the government can overcome these challenges, it will make a large difference to the peoples' lives. While the baseline estimates for growth in Myanmar remain modest with the IMF forecasting an average of 6 percent growth over the next 5 years. However, the Economist Intelligence Unit estimates that if the reform process continues and investments in infrastructure and human resources come in, average growth could be from 7 to 8 percent. While if reforms stall growth would likewise suffer and be at the lower end of 4.5 percent.

In all of this, the government, the opposition in Parliament including Daw Aung San Suu Kyi, need to find ways to work together on the reform process. Myanmar has seen more positive changes in the past year than in the half-century proceeding, but still has many challenges to overcome.

The Eurozone Crisis

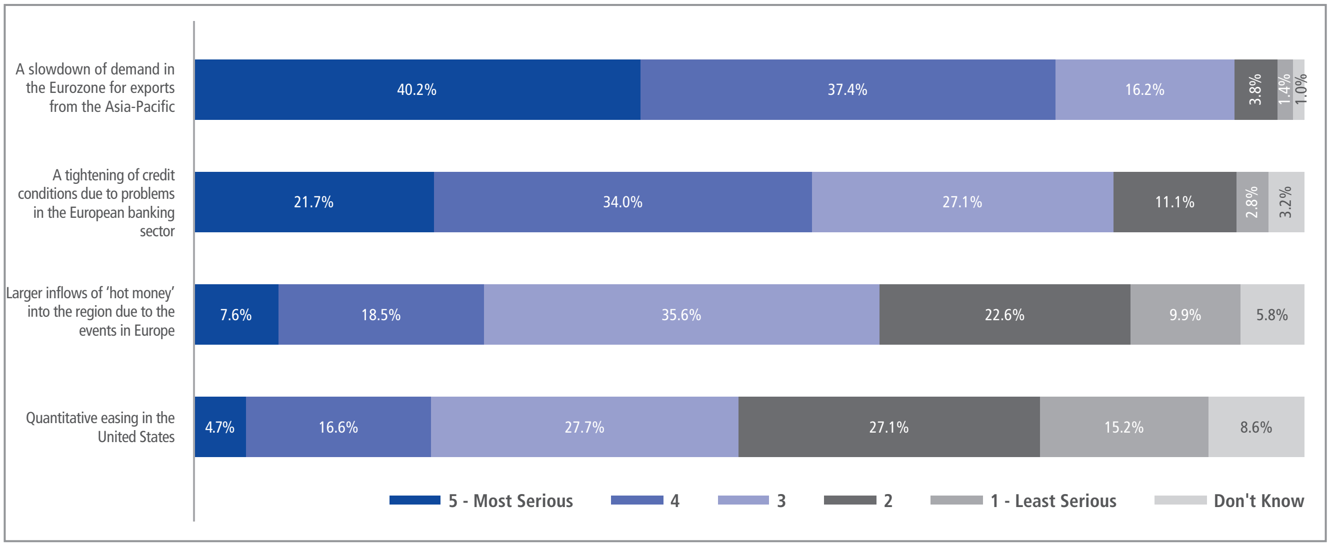
Regional opinion leaders clearly believe that the impact of the Eurozone crisis on the Asia-Pacific is an issue that APEC leaders should discuss in Vladivostok. Of the possible fallouts from the current turmoil, opinion leaders are most concerned about the possible impact of a banking crisis in the Eurozone, followed by a significant depreciation of the Euro and then a departure of a Eurozone member. A large proportion (40 percent) thought that a banking crisis in the Eurozone would have a high impact on their economy compared to under 20 percent who thought that a depreciation of the Euro or a departure of a member of the Eurozone would have.

Figure 9: Impact of the Eurozone Crisis



On the policy challenges emanating from the Eurozone, by far the biggest concern is over the likely slowdown of demand from Europe for the region's exports. More than double the number of respondents selected this as the most serious challenge facing policy-makers than those who selected a tightening of credit conditions – the next most serious issue.

Figure 10: Policy Challenges from the Eurozone



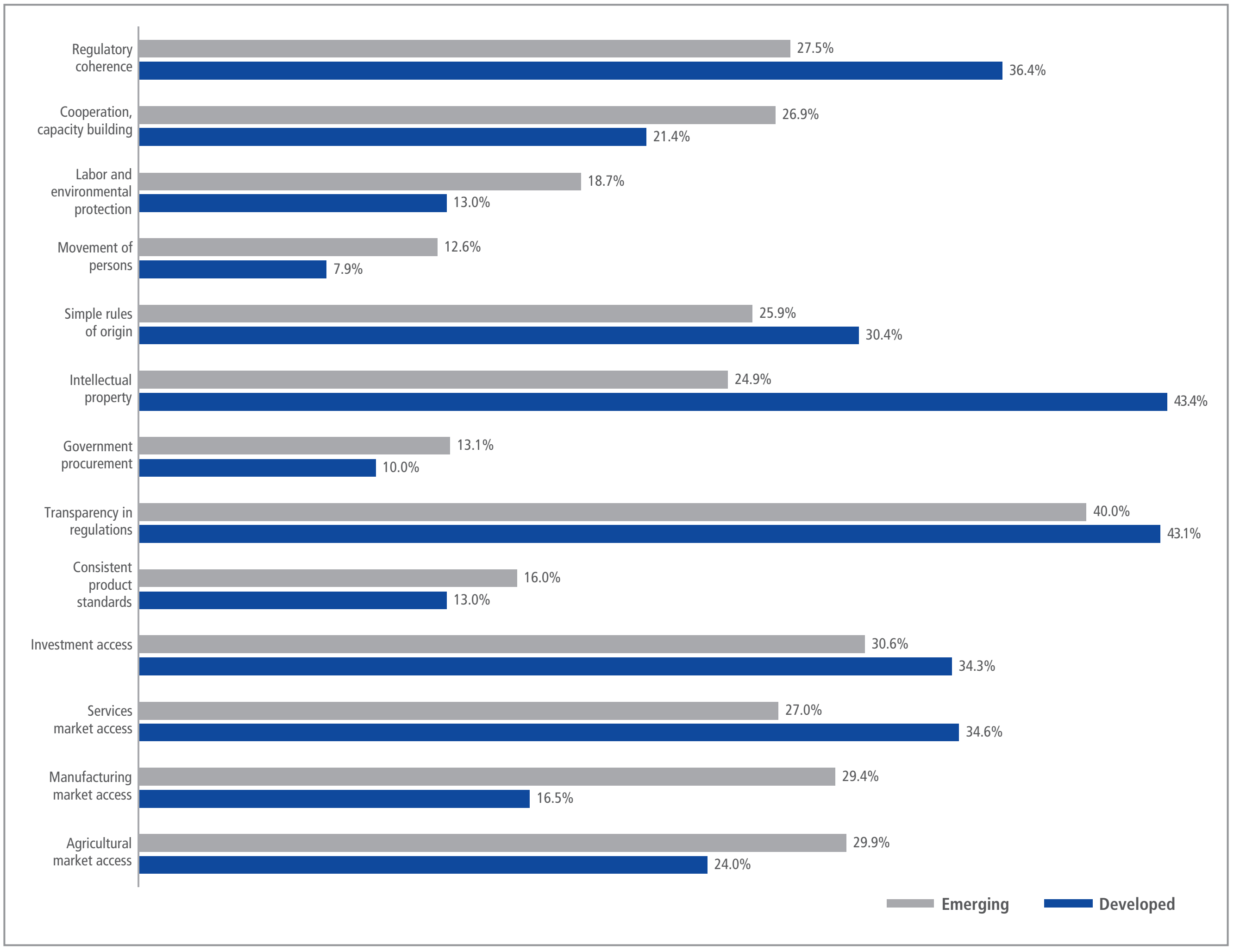
Priorities for Trade Agreements

There are a number of tracks being pursued that could ultimately lead to a Free Trade Agreement of the Asia-Pacific: the Trans-Pacific Partnership and the ASEAN Plus approaches.

Analyses of various templates of trade agreements in the region show that most agreements include tariff reductions, and that there are differences in approaching nontariff barriers. US agreements had higher scores than ASEAN agreements on average and especially in provisions related to competition, intellectual property rights, government procurement, state-owned enterprises, and labor. ASEAN agreements had higher scores than US agreements in a few areas, including dispute resolution and cooperation (See "The Trans-Pacific Partnership and Asia-Pacific Integration: Policy Implications," by Peter A. Petri and Michael G. Plummer, www.piie.com/publications/pb/pb12-16.pdf).

The views of opinion leaders tend to support the view that the different templates reflect the comparative advantages of the different economies. Asian agreements, negotiated largely by emerging economies with comparative advantages in manufacturing, focus on market access for goods while the templates negotiated by the United States reflect the interests of advanced economies by placing emphases on services, investment, and intellectual property.

Figure 11: Priority Issues for Regional Trade Agreements



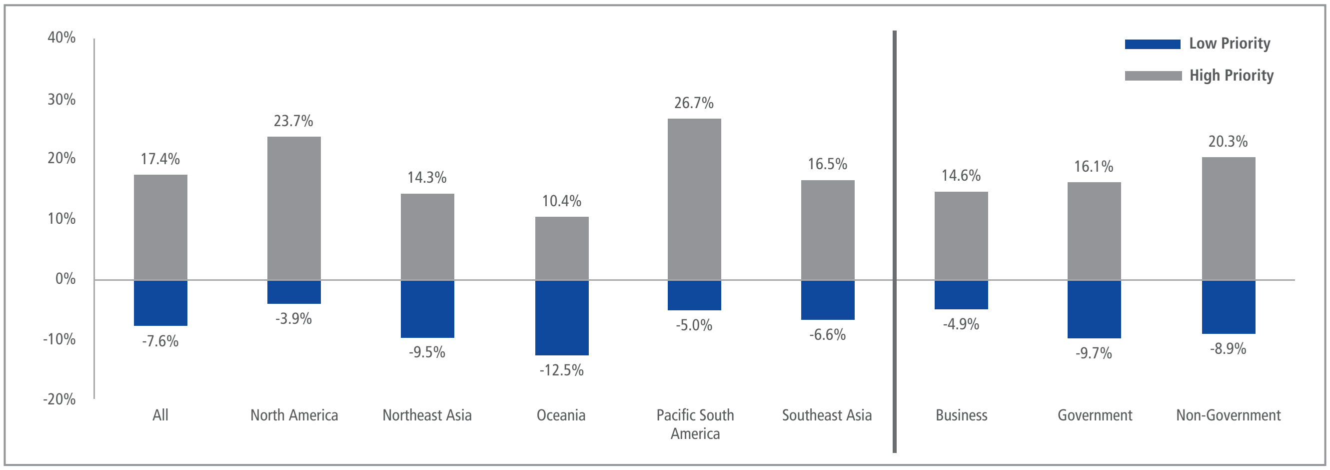
While there is some divergence in regional views on regulatory coherence, transparency in regulations is an issue that both developed and emerging economies agree on. This indicates some considerable room for useful policy dialogue to bridge gaps in views.

One surprising result from the survey is the level of priority that emerging market opinion leaders place on labor and environmental protection. Close to 19 percent of respondents from emerging market economies rated labor and environment protection as a high priority compared to 13 percent in developed market economies.

Labor and the Environment: Divergence among Emerging Economies

As discussed above, the survey gave a surprising result on the priority that opinion leaders in emerging market economies place on labor and environment protection. This is one set of issues rarely included in the East Asian template but in many agreements involving developed economies, especially the United States, are labor and environment standards. Breaking down the survey results by sub-region and sectors shows where there remain some possible divergences. Respondents from Pacific South America – Chile, Colombia, Ecuador, and Peru – all defined as emerging economies in this survey, placed a higher priority on this issue. Respondents from Southeast Asia put much less emphasis on these issues.

Figure 12: Labor and Environment as Priority Issues for Regional Trade Agreements

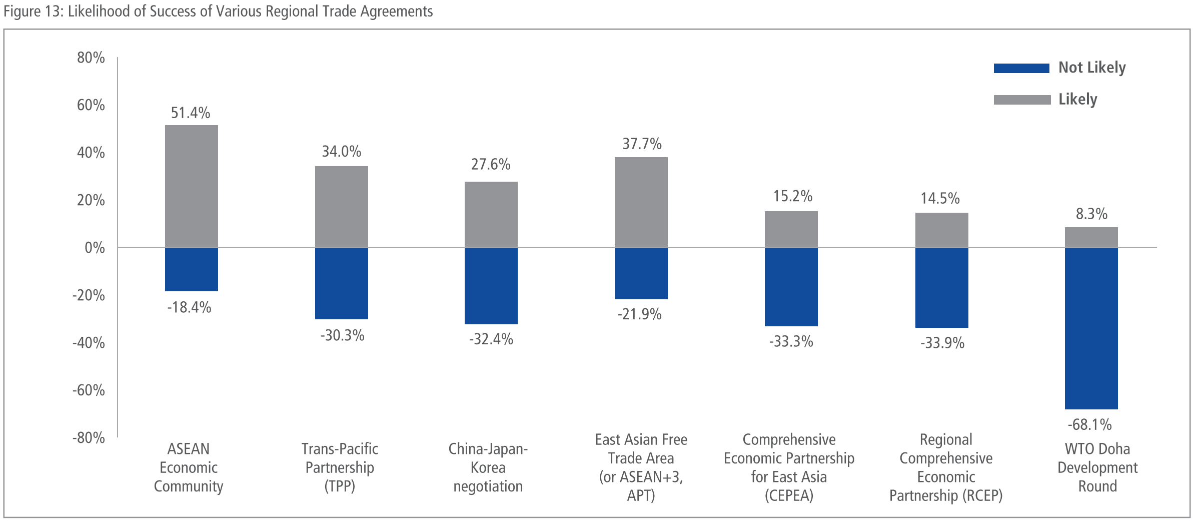


Pathways to a Free Trade Area of the Asia-Pacific

At their summit in Yokohama in 2010, APEC Leaders committed to "take concrete steps toward realization of a Free Trade Area of the Asia-Pacific (FTAAP), which is a major instrument to further APEC's regional economic integration agenda. 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."

To gauge sentiments around the region on these different pathways, we asked two separate but related questions: which of the trade agreements was likely to succeed and which offers the best pathway to a FTAAP.

Figure 13: Likelihood of Success of Various Regional Trade Agreements



On the whole, opinion leaders were most positive about the success of the ASEAN Economic Community and least about the prospects for the WTO Doha Development Round. There is a great deal of uncertainty about the broader ASEAN Plus track (whether plus 3, plus 6, or plus X – EAFTA, CEPEA and RCEP) and the Trans-Pacific Partnership. Even though the TPP is well advanced - now into its 13th round of negotiations - only a plurality of respondents thought it was likely to succeed (34 percent); subtracting those respondents who think it is not likely to succeed, there is a net positive of less than 4 percent. While the EAFTA, which is yet to begin formal negotiations, has a slightly larger plurality of close to 38 percent who think it will succeed.

East Asian Free Trade Area (ASEAN Plus 3)

Although the East Asian Free Trade Area (also known as the ASEAN Plus 3) remains an idea, albeit one that has been studied intensively, in general, opinion leaders in the Asia-Pacific think that it has a chance of success, with 38 percent of respondents ranking it as likely to succeed with under 22 percent thinking it not likely. There are some considerable variations in views around the region. Respondents from economies which are negotiating parties to the TPP tend to have a slightly less positive view on the likelihood of success of EAFTA, while potential parties to the agreement are more positive.

The same is true for the TPP. While regional views on the likely success of the TPP negotiations are marginally positive, TPP members (TPP 13) are the most positive about the possibility of its success. However, respondents from economies which are parties EAFTA/APT are in fact pessimistic about the likelihood of the success of the TPP negotiations.

Figure 14: Likelihood of Success of EAFTA by Group Membership

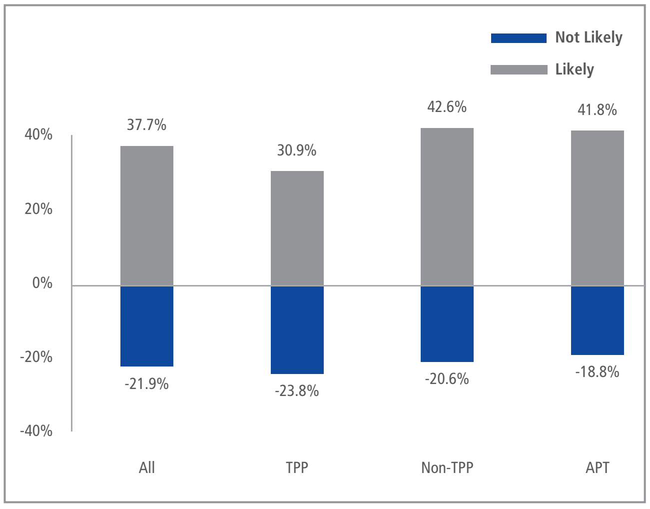
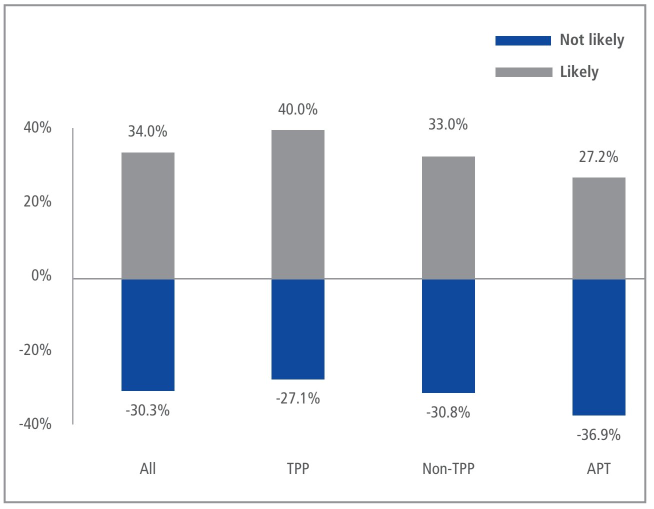


Figure 15: Likelihood of Success of Various Regional Trade Agreements



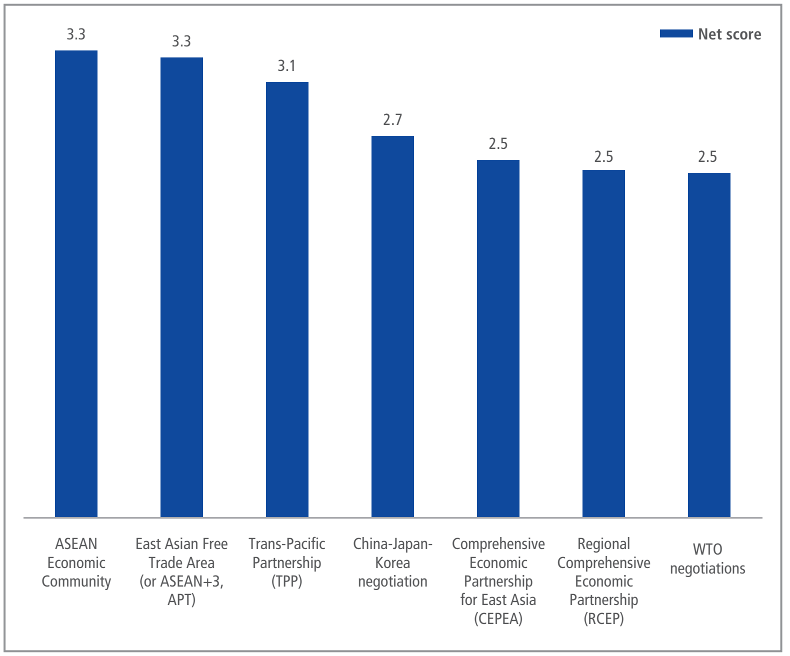
As will be discussed with respect to priorities for the APEC leaders' meeting, there is considerable disagreement on the WTO DDA. While the overwhelming majority of respondents do not think the WTO DDA round is likely to be successfully concluded, there is considerable variation of views on this issue. As measured by the coefficient of variation (the standard deviation over the mean), while there is a similar variety of views on the regional trade arrangements of around 32 to 37 percent, with respect to the WTO DDA it is a high 52 percent.

Which Pathway for FTAAP?

A slightly different variation on the theme of pathways to the question is which putative agreement is the best pathway towards FTAAP. At the regional level, after years of debate there is little to choose between the transpacific track as represented by the Trans-Pacific Partnership negotiations, and the East Asian Free Trade Area (EAFTA, also known as the ASEAN Plus 3, or APT).

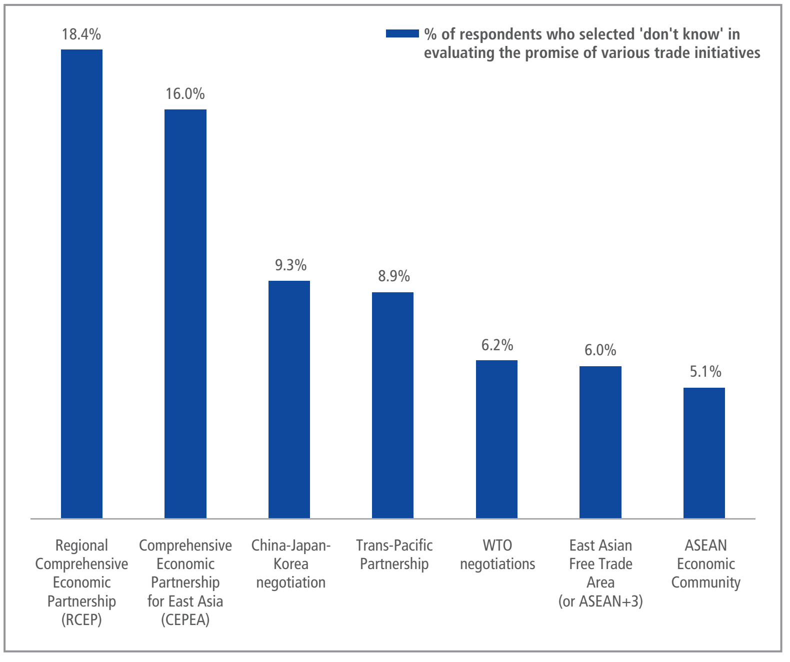
The ASEAN Economic Community, which by its nature is limited to ASEAN members only, is nonetheless considered as the most promising pathway to a free trade area in the Asia-Pacific, followed by the East Asian Free Trade Area and then the Trans-Pacific Partnership agreement. The relatively newer concept of the Regional Comprehensive Economic Partnership (RCEP) launched by ASEAN in November 2011 ranked rather low. However, it may be too early for such a judgment as the details of the mechanics of the RCEP are yet to be decided let alone socialized among the broader community. Close to 20 percent of respondents selected 'Don't know" in evaluating RCEP.

Figure 16: Most Promising Pathways to FTAAP (1 = Not Promising, 5 = Very Promising)



The relative lack of awareness about Comprehensive Economic Partnership for East Asia and Regional Comprehensive Economic Partnership points to a need for a great deal more of dialogue and socialization of these proposed pathways.

Figure 17: Significant Lack of Awareness on RCEP and CEPEA



Top Issues for APEC Leaders' Meeting

The leaders of Asia-Pacific region will gather in Vladivostok confronted with an enormous range of issues. While APEC has a large continuing agenda, inevitably the agenda will become dominated by issues of the day. This year, such meetings have been dominated by concerns and possible policy actions in response to events in the Eurozone.

- Regional economic integration (including the TPP and the ASEAN Plus agreements among others)
- The region's response to the Eurozone crisis and lessons from the crisis for Asia-Pacific regional integration
- The APEC growth strategy
- Regulatory impediments to business
- Regional cooperation to foster innovative growth

Russia's Priorities Well Supported by Regional Opinion Leaders

Looking at APEC Leaders' priorities from the sub-regional level, while there is much common emphasis on issues such as regional economic integration, the response to events in Europe and the APEC growth strategy, some issues are of higher concern to different sub-regions. North America and Oceania, largely composed of developed market economies include addressing regulatory impediments to business as one of top 5 priorities for APEC Leaders' discussion, while Southeast Asia, mostly emerging economies, puts more emphasis on growing inequality. Only South America, which includes more respondents from non-APEC member economies, places the expansion of APEC membership as a top-5 priority.

	North America	Northeast Asia	Oceania	Pacific South America	Southeast Asia
1	Regional economic integration	The region's response to the Eurozone crisis	Regional economic integration	Regional economic integration	The region's response to the Eurozone crisis
2	The region's response to the Eurozone crisis	Regional economic integration	Regulatory impediments to business	The region's response to the Eurozone crisis	Regional economic integration
3	The APEC growth strategy	Lessons from European Crisis for Asia-Pacific regional integration	Financial sector regulatory reform	Lessons from European Crisis for Asia-Pacific regional integration	Lessons from European Crisis for Asia-Pacific regional integration
4	Regulatory impediments to business	The APEC growth strategy	Establishing reliable regional supply chains	Expansion of APEC membership	The APEC growth strategy
5	The APEC growth strategy	Regional cooperation to foster innovative growth	Lessons from European Crisis for Asia-Pacific regional integration	The APEC growth strategy	Growing income inequality in the region

Looking across different segments of society, there is a good deal of convergence on top priorities for the APEC Leaders' meeting: non-government respondents, unlike government and business, include financial sector regulatory reform as a top-5 issue, while government and non-government included regional cooperation to foster innovative growth and respondents from the business sector included regulatory impediments to business in their top-5 list.

	Business	Government	Non-government
1	Regional economic integration	Regional economic integration	The region's response to the Eurozone crisis
2	The region's response to the Eurozone crisis	The region's response to the Eurozone crisis	Regional economic integration
3	Lessons from European Crisis for Asia-Pacific regional integration	The APEC growth strategy	Lessons from European Crisis for Asia-Pacific regional integration
4	The APEC growth strategy	Regulatory impediments to business	Regional cooperation to foster innovative growth
5	Regulatory impediments to business	Regional cooperation to foster innovative growth	Financial sector regulatory reform

Region Divided on the Doha Round

Since 2007, the annual survey of opinion leaders has asked for respondents' views on the top 5 priorities for APEC summit discussions, and without fail, the WTO Doha Development Round has been a priority, until this year. It is not that other factors have become more important; indeed, while there has been tremendous variation in issues opinion leaders think APEC summits should address ranging from climate change, cutting red tape, reducing corruption, to regulatory coherence, there have been two constant items – regional economic integration and the multilateral system.

Figure 18: Decline of Support for WTO as a Top APEC Leaders' Issue (2007 –2012)

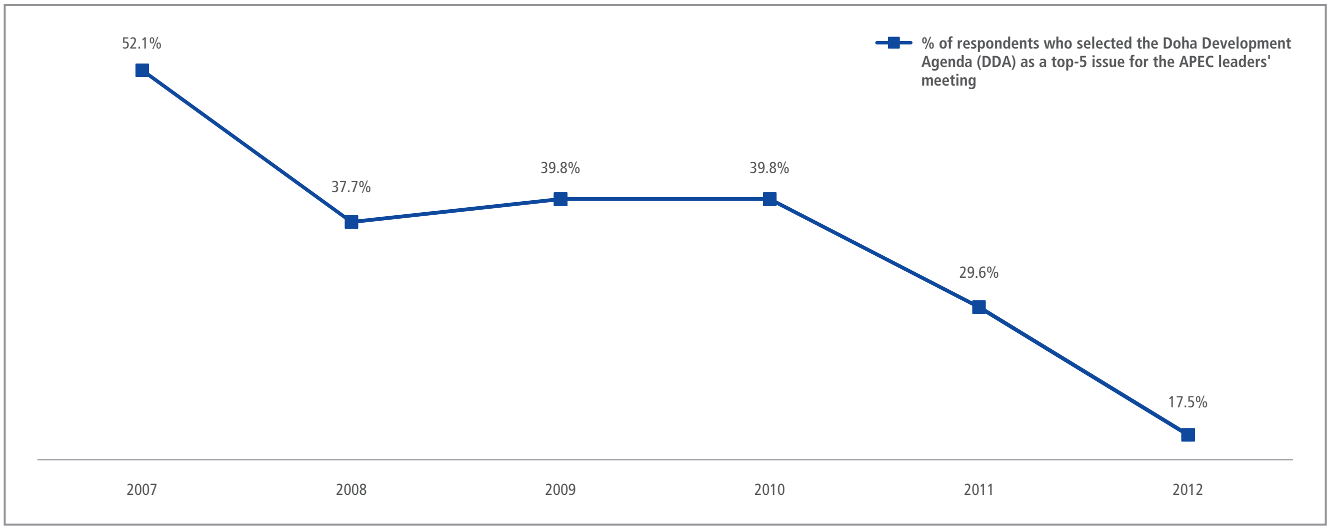
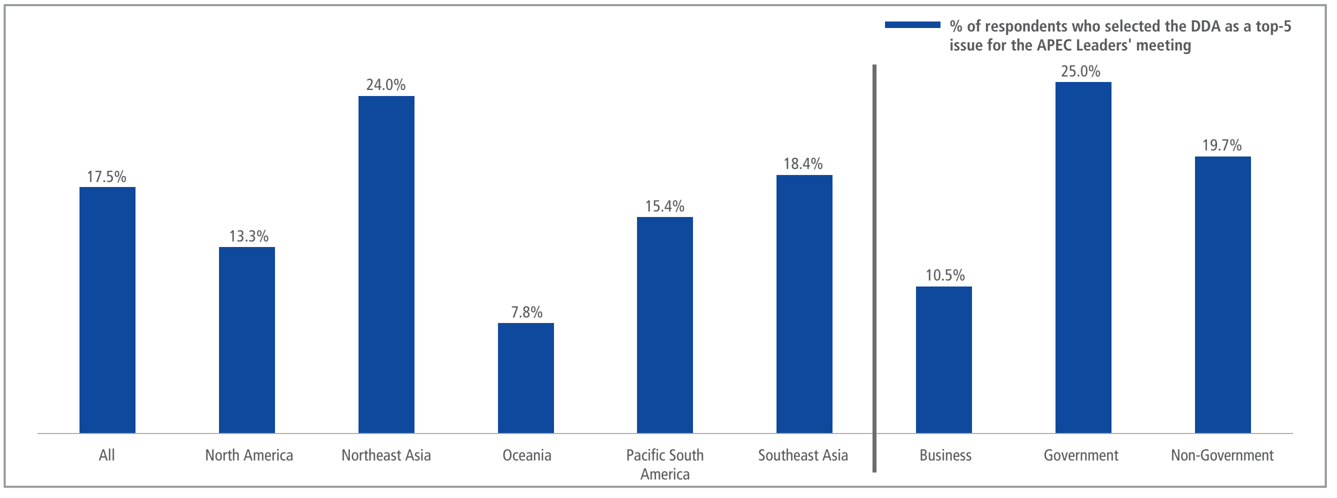


Figure 19: Diverse Views on WTO DDA as an APEC Leaders' Issue (2012)



However, while there has been a general decline in interest of discussing the WTO Round at APEC Leaders' meetings over time (See Figure 18), there are considerable differences in emphasis on this across the Asia-Pacific region. North Americans placed the Doha Development Round 17th (13 percent of respondents listed the WTO DDA as a top-5 priority), Northeast Asia 7th (24 percent), Oceania 21st (8 percent), Pacific South America 17th (15 percent), and Southeast Asia 11th (18 percent) (See Figure 19).

The decline in support for spending time discussing the Doha Development Round is most pronounced amongst the business community. Only 10 percent of business respondents listed the multilateral negotiations as a top-5 issue for APEC Leaders' discussions – less than half the number of non-government respondents. This finding, while disturbing, should not come of any surprise. For some years the regional business community has been pushing the idea of a free trade area of the Asia-Pacific. Given the differing views among respondents from sub-regions, we may yet see more emphasis on the trade round depending on the host economy.

For detailed results of the survey, please refer to Annex B.

CHAPTER 3

ASIAN AND TRANS-PACIFIC INITIATIVES IN REGIONAL INTEGRATION*

The nearly two decades since the Uruguay Round was concluded in 1993 represent the longest stretch of time without a new global trade agreement under the GATT/WTO system. Regional and bilateral trade agreements are now filling this vacuum. In the Asia-Pacific region, two dynamic, high profile initiatives have emerged: an Asian track of negotiations centered on ASEAN, and a trans-Pacific track centered on the proposed Trans-Pacific Partnership (TPP) agreement, which also includes the United States and other economies from the Americas.

Where will these tracks lead? Are they pathways to a Free Trade Area of the Asia Pacific (FTAAP), as APEC Leaders hope? Are they the seeds of tense economic rivalry between China and the United States, as some pundits fear? How will they affect ASEAN's own integration efforts and its "centrality" in regional cooperation? The answers matter; the Asia-Pacific region is the world's largest trading zone and its most promising driver of long-term economic growth.

These extraordinary results have been achieved mostly without formal trade agreements, although the WTO system has played an important role. China and Vietnam, two of the region's most dynamic exporters, dramatically boosted their trade following accession to the WTO in 2001 and 2007, respectively. Now a new wave of regional trade agreements and negotiations on both the Asian and TPP tracks are creating new opportunities as well as sources of uncertainty for Asia-Pacific trade.

The Asian and TPP negotiating tracks have similarities and differences. Both see trade liberalization as a positive-sum game. Both seek to reduce at-the-border and behind-the-border barriers to trade and investment between the members, to generate increased output growth, exports and employment. The two tracks also incorporate elements of open regionalism; they represent intermediate steps towards wider and more comprehensive integration pacts. Finally, both Asian and TPP agreements constitute viable efforts for deepening international economic integration while global negotiations are stalled. Successful negotiation and implementation of these agreements would generate progress on international economic integration and perhaps help push global negotiations back on track.

Table 1. Trade flows in the Asia-Pacific region, 2010 ($bn)

	APEC				ROW	World
	Americas	Asia	Oceania	Russia		
APEC						
Americas	999	397	28	8	635	2,067
Asia	740	2,291	109	51	1,340	4,532
Oceania	14	154	14	1	55	238
Russia	14	53	0	0	332	400
ROW	894	1,198	62	177	4,720	7,050
World	2,661	4,094	214	237	7,082	14,287

Source: APEC Bilateral Database, accessed 25 February 2012.

Of the world's $14.3 trillion in trade in 2010, 67 percent (all but $4.7 trillion) involved APEC economies – a useful working definition of the Asia-Pacific region – as either exporters or importers or both (See Table 1). Asia-Pacific trade is also tremendously creative: it has facilitated the development of modern production chains; enabled labor-rich and resource-poor economies to exchange manufactured goods for primary materials; allowed advanced and emerging economies to exchange high-technology and labor-intensive products and services; and made it possible for economies to move into new industries while passing older industries on to new "flying geese."

Nevertheless, the Asian and TPP tracks also differ in terms of motivation. Asian agreements were initiated after the Asian financial-monetary crisis to promote intra-regional cooperation and to improve the region's capacity to deal with common adverse economic shocks, at a time when APEC and major partners provided weak support. The TPP (then the P4) was first launched by four

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small APEC economies to accelerate progress towards APEC's goals of free and open trade and investment. The United States became involved in 2009, to help promote the dynamic development of Asia-Pacific trade and to sustain its own economic engagement in the region. The challenge to policy makers and analysts is to determine whether, and how, the two tracks can provide pathways toward a truly free regional trading system.

In Chapter 2, PECC's annual survey of regional opinion leaders finds that respondents consider regional economic integration to be the most important focus for regional policy given the difficult global macro-economic environment. The Asian and TPP tracks (defined as the ASEAN+3 and TPP discussions) receive roughly equal support from respondents, and are both thought to be promising pathways to the FTAAP. However, their chances for success are not judged to be high – only 38 percent and 34 percent for the Asian and TPP tracks, respectively. More opinion leaders expect success in ASEAN integration (51 percent), but many fewer in the Doha Round (8 percent).

The Asian Track

Somewhat surprisingly, the Association of Southeast Asian Nations (ASEAN), rather than the giant Northeast Asian economies, has emerged at the center of Asian integration efforts so far. ASEAN has been in the driver's seat in several concentric circles of cooperation, including the ASEAN Regional Forum (ARF) and the East Asia Summit. Its central role is explained by three factors. First, the development of Southeast Asia is in the interest of all major economies, including the US, EU, China and Japan. Second, ASEAN provides a "second best" mechanism for cooperation when more direct interactions among major economies are hampered by history or geopolitics. Third, the importance of integrating ASEAN's smaller economies provides an incentive for developing mechanisms and expertise in economic cooperation.

ASEAN's centrality in trade negotiations was given a boost by an agreement with China in 2002, leading to a full ASEAN-China FTA in 2010. This initiative has been followed by Japanese and Korean agreements, and eventually by agreements with India, Australia and New Zealand.

These "plus one" initiatives have generated interest in wider regional agreements. In 2004, ASEAN+3 economic ministers commissioned a feasibility study to establish an East Asia FTA (EAFTA). While the commissioned experts and some leaders recommended an early, high-standard, comprehensive agreement, there was little follow-up. Meanwhile, on the political-strategic side, ASEAN launched the East Asian Summit (EAS) in 2005, adding Australia, New Zealand and India. Shortly thereafter, the Japanese trade minister proposed a free trade agreement based on that grouping at the 2007 Summit. For a while, competition between the ASEAN+3 (backed by China) and ASEAN+6 (backed by Japan) proposals blocked progress, but at the 2011 Bali Summit China and Japan agreed to move forward with the two frameworks in parallel. ASEAN has since begun work on a general template for regional integration (the so-called ASEAN++ model) that would harmonize existing ASEAN agreements and permit others to join. This effort could transform the ASEAN-centric process into a building block toward a larger Asia-Pacific free trade area.

FTAs of varying quality now connect ASEAN with all six potential regional partners, but the critical missing piece is an FTA among China, Japan and South Korea. These three economies completed a study of a trilateral FTA in 2011, concluded a trilateral investment agreement, and announced that FTA negotiations would begin in 2012.

The Trans-Pacific Track

The vision of Asia-Pacific (or trans-Pacific) economic integration dates back to a 1965 proposal for a Pacific Free Trade Area, which led to the convening of the Pacific Trade and Development Forum (PAFTAD) in 1968 and eventually the quasi-official Pacific Economic Cooperation Council (PECC) in 1980. These efforts set the stage for the governmental Asia Pacific Economic Cooperation (APEC) forum that was established in 1989. Some early supporters of APEC had expected that it would lead to formal trade agreements, but as a voluntary process, it has settled on non-binding approaches focused on trade and investment facilitation. APEC has encouraged "pathfinder" initiatives among sub-groups, and the Trans-Pacific Strategic Economic Partnership created by Brunei, Chile, New Zealand and Singapore in 2005 (also known as the P4) has emerged as a prominent example of such efforts.

The transformation of the P4 into TPP negotiations was catalyzed by the U.S. Bush administration's decision to enter into negotiations with P4 members in February 2008. Australia, Peru and Vietnam announced their intention to join later in 2008. The pace of activity accelerated in late 2009, when President Obama made the TPP a centerpiece of his new trade policy at the Singapore APEC meeting. Malaysia joined the negotiations in October 2010. At the APEC leaders' meeting in 2011 the negotiators issued an outline of the agreement and Canada, Japan and Mexico expressed their intentions to join. In June 2012, Canada and Mexico were formally invited to join the negotiations. Japan's involvement is still uncertain at this time, but it is now clear that at least 11 but perhaps 13 or more Asia-Pacific economies (many expect Korea to join at some point) are likely to be involved. As of July 2012, 13 rounds of negotiations have been held, each reportedly involving 400 or more negotiators.

The TPP could represent a breakthrough in merging existing trade agreements since there are 24 bilateral or regional agreements among the economies now negotiating the TPP. A successful TPP agreement would begin the complex process of consolidating the existing "noodle bowl" of rules and agreements that have emerged over the last decade. In the best scenario, it might eventually lead to a region-wide Free Trade Area of the Asia Pacific (FTAAP). The FTAAP was strongly pushed by some members of the APEC Business Advisory Council in 2006, and has appeared in several APEC Leaders' Declarations. The 2010 Declaration identified the EAFTA, CEPEA and the TPP as possible pathways to this goal (APEC 2010).

Contrasting Templates

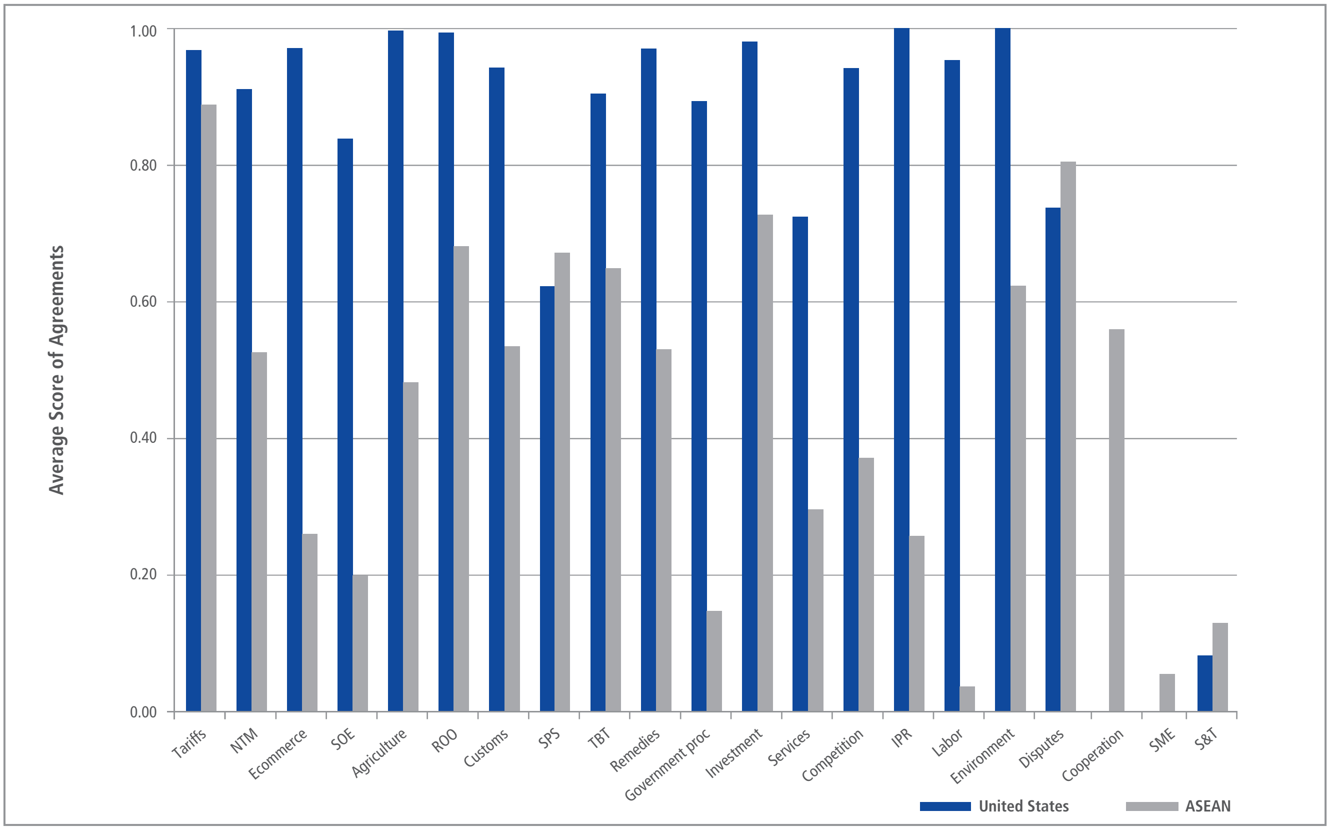
The Asian and TPP tracks differ in issues and membership. Asian agreements typically seek gradual liberalization, while the TPP aims to create a comprehensive, "21st century" template for economic partnerships. Asian agreements are usually more willing to accommodate exceptions (such as in agriculture or services) and to avoid imposing constraints on the domestic regulations of economies at different levels of development and with different political systems. The TPP, by contrast, seeks to develop common, high quality rules to restrict even "behind-the-border" measures that interfere with international commerce (albeit long transition periods might be allowed for some developing economies or sensitive sectors).

To a large extent, the proposed templates reflect the contrasting sectoral advantages of emerging economies and advanced economies. The Asian track is focused on reducing impediments to goods trade, mainly in manufacturing industries, while the TPP track is also focused on rules for service trade, investment, intellectual property rights and several other areas of economic and political interest. The templates are considered important by economies not only because of their direct impact, but also because they are likely to affect future regional and perhaps global trading rules. No economy can benefit from dividing the region into blocks, but economies naturally favor rules that improve the terms of trade for their strongest sectors. A template with strong rules for the leading sectors of both emerging and advanced economies is ultimately ideal, since it promotes more trade among them.

The tracks also differ in membership. At least for now, the Asian track excludes the Americas, while China and some other Asian economies are not participating in the TPP negotiations. Much has been made of this difference, but it does not have to be permanent, and it seems to be a pragmatic accommodation of current economic and political realities. However beneficial an immediate, region-wide agreement might be, its prospects of success would be slight – no better than those of the Doha Round. China, the United States and all other economies would be unlikely to agree on many issues covered by a comprehensive agreement, including competition policy, trade remedies, services liberalization, the protection of intellectual property, technology exports, labor, environment, and so on. And things could get even more complicated if domestic politics forced additional financial and social issues onto the agenda.

Systematic differences in templates can be also found in trade agreements concluded in the past by Asian economies and the United States. Petri et al. (2012) developed a database of trade agreements and assigned scores to the rigor of provisions in 21 issue areas commonly contained in them (Figure 1). The results show significant differences between agreements concluded, for example, by the United States and ASEAN. U.S. agreements tend to have much hi gher average scores on issues such as government procurement, intellectual property rights, investment, and competition. ASEAN agreements tend to have more limited provisions on average, but have higher scores on cooperation and collaborative dispute resolution. The results also show that, on average, intra-Asian accords have made more gradual and smaller cuts in higher initial tariffs, leaving larger barriers behind.

Figure 1. Average scores of provisions on major issues



Source: Petri, Plummer and Zhai (2012).

Since both tracks include diverse economies, they are likely to face many contentious issues. This is especially so for the TPP, which intends to limit exceptions and achieve high standards. Some controversial aspects of the TPP negotiations are highlighted in Box 3-1. In some cases these involve traditional conflicts between exporters and importers – for example, the United States is a major exporter of services, while many of its trade partners are primarily service importers. In other cases they involve issues such as labor and the environment, which are necessary to secure the passage of an agreement in the domestic politics of advanced economies.

Box 3-1: The TPP: A minefield of issues

Trade liberalization typically attracts passionate interest from individuals and groups that expect to gain the most, or fear to be hurt the most. Some issues have already attracted much controversy in many participating economies. A partial list of examples follows.

The intellectual property rights (IPR) chapter will address several contentious issues, with interest groups on both sides. Copyright-based industries – led by the movie industry in the United States – argue for provisions that go beyond the TRIPS provisions of the WTO in restricting illegal file sharing of movies, music and software. Such provisions are opposed by IPR importers and by interest groups and service providers that favor unregulated Internet access. Another important intellectual property rights battle involves the process that national health services use to put proprietary medicines on the list of those eligible for reimbursement.

The competition chapter is likely to adopt strict provisions to ensure "competitive neutrality" for state-owned enterprises (SOEs). The goal is to deny SOEs special access to capital, inputs, government procurement markets, and regulatory influence. Economies with largely private-sector economies support these provisions, but economies like Vietnam with a large state-owned enterprise sector face significant adjustments. Transparency requirements will also be difficult for some economies with sovereign wealth funds.

The service trade chapter is bound to be important in the TPP, with normally generous access, except for a limited number of sectors identified in a "negative list." Economies with highly protected service industries or where service industries are in an "infant industry" stage will seek to expand this negative list. In Japan, for example, opposition to TPP service liberalization has already emerged from the Japan Medical Association, which opposes allowing for-profit companies into health service and insurance markets. Yet given Japan's aging population, this is a potentially attractive market to other TPP economies.

The investment chapter is likely to include provisions that permit foreign investors to use UN or World Bank arbitration if they believe that government regulations resulted in the expropriation of their property. Such "investor-state" arbitration provisions have been included in hundreds of bilateral investment agreements (BITs) and the ASEAN Comprehensive Investment Agreement, but are opposed by Australia. One solution may be to exclude public health regulations, such as tobacco packaging, from arbitration.

Economies also have narrow but highly politicized "defensive issues." Japan's agricultural tariff quotas have strong support from its Association of Agricultural Cooperatives. Canada's TPP debate is dominated by "supply management" in the dairy and poultry industries, where Canada imposes tariffs as high as 250 percent. The United States has long had restrictive sugar quotas.

Some economies have high priority "offensive issues." Vietnam wants the rules of origin in textiles and apparel to be more liberal than the "yarn forward" rule, which would deny preferences to garments produced from imported fabrics and yarn. The United States is eager to liberalize financial services. New Zealand wants free trade in dairy products. Finally, issues such as labor rights and environmental rules have strong support from NGOs and labor unions.

Many of these issues will be difficult to resolve and, given intense political pressures, will require final negotiating decisions and strong support in the ratification process from the political leadership in each economy.

The PECC survey of opinion leaders also asked them to identify priorities for different trade issues (Chapter 2, Figure 11). The survey covered issues similar to those listed in Figure 1 and distinguished between responses from developed and emerging economies. The differences among the priorities of respondents from developed and emerging economies are similar to those revealed by the scores of past agreements in Figure 1. For example, developed economy respondents assign a higher priority to intellectual property, services market access, and investment access than their colleagues in emerging market economies. In turn, emerging market respondents assign a higher priority to goods market access (for manufacturing and agriculture), to cooperation and the movement of persons.

Interestingly, both groups of respondents see "new issues" as important. For example, the transparency of regulations is rated as a high priority by 43 percent of developed economy respondents (the highest among all issues) and by 40 percent of emerging-market respondents. Investment access, services market access and regulatory coherence are also seen as important by both groups. New issues generally have higher priority than "old issues" such as market access in goods and product standards. They are also given a higher priority than labor, cooperation, and the movement of persons. In other words, while developed and emerging-market respondents differ somewhat on specific issues, they agree generally on the importance of the behind-the-border issues prioritized by the TPP.

The Asian and Trans-Pacific tracks are interdependent and dynamic. Each influences the other by demonstrating faster progress, attracting more members, or adopting "better" provisions. They compete for acceptance and legitimacy in the international policy community. The two tracks already appear to be stimulating mutual progress. For example, some see the TPP as a response to Asian track agreements that have excluded the United States. (Seven of the eight partners as of 2011 had an FTA with China, and the eighth – Australia – was in the process of negotiating an agreement.) In turn, the TPP has led to more vigorous efforts on negotiations among China, Japan and Korea. The ASEAN++ initiative is still another move in this multi-player game.

Nevertheless, some observers see the tracks as potentially harmful. One set of concerns has focused on the impact of the tracks on other integration processes, notably ASEAN's efforts to build a single market. As Box 3-2 demonstrates, various current trends – including bilateral FTAs as well as the Asian and TPP tracks – pose challenges to ASEAN centrality and the coherence of the ASEAN community. But it also appears that adverse side effects could be managed with thoughtful policy responses.

Box 3-2: Is ASEAN Centrality at Risk?

Some observers have expressed concern that the Asian and TPP track negotiations may undermine the central and effective role ASEAN has played in regional integration.

First, the active participation of ASEAN member economies in bilateral FTAs with partners outside the region raises the possibility of the weakened centrality, and even solidarity, of ASEAN. Such agreements could generate stronger linkages between some ASEAN members and non-members than now exist within ASEAN itself. However, ASEAN's stepped-up efforts to build the ASEAN Economic Community (AEC) by 2015 lessens this concern, since member economies have acknowledged the need to build "one community, one destiny," as emphasized at all ASEAN Summits since 2010. This vision is now backed up by commitments to institutionalize regional integration through the approval and enforcement of ASEAN Charter and ASEAN Blueprint.

Second, China, Japan and Korea (CJK) have recently agreed to negotiate an FTA among themselves, starting by the end of 2012. A significant deal among these economies could affect ASEAN negatively. Ex ante impact assessments suggest that a CJK FTA may produce "preference erosion" losses for ASEAN, since China and ASEAN compete in exporting products to Japanese and Korean markets. At the same time, China, Japan and Korea have expressed support for the centrality of ASEAN. The CJK FTA may constitute a necessary first step in easing tensions inherited from history, but it is not intended to become an alternative to ASEAN-centered integration (Singh 2012). Indeed, some type of CJK agreement is an essential part of any roadmap for integration that ultimately leads to an East Asia FTA.

Third, the TPP agreement could also undermine ASEAN centrality. The TPP currently involves only some, but not all, ASEAN members, raising the concern that members will strengthen linkages outside ASEAN rather than within it. Also, the TPP does not currently include China, the hub of global production networks that often involve ASEAN suppliers. By complicating relations between China and the US, the TPP could place ASEAN economies into the difficult position of juggling relations with these partners. At the same time, ASEAN is interested in new issues addressed by the TPP including, for example, the facilitation of merchandise and services trade, standard conformance, customs harmonization and investment facilitation. Moreover, the benefits of the TPP (as discussed in the text) could attract other ASEAN economies into the TPP. In that process, ASEAN may even assume a role within the TPP itself.

While current FTA trends raise questions about ASEAN's future centrality, they also suggest possibilities for ensuring that ASEAN centrality is sustained and achieves its purpose – bringing about deeper integration within ASEAN and promoting broader groupings that enhance regional cooperation and economic welfare. Clearly, the preservation of ASEAN centrality will not be automatic. ASEAN can retain a pivotal role by strengthening intra-ASEAN integration and connectivity. If ASEAN takes bold steps to realize the AEC and to reduce intra-regional development gaps, it will increase its economic clout and collective voice in broader dialogues. Further, ASEAN could take steps to blend its vision for an ASEAN community into an East Asia community, for example, by pursuing an Initiative for East Asia Integration (Vo and Nguyen 2010). ASEAN's involvement in such broad integration efforts – as a group and as individual economies – can be consistent with its overarching vision of open regionalism.

Potentially more serious may be tensions between China and the United States that result from their participation in the different tracks. Some observers have resorted to cold-war terms such as "encirclement" and "containment" to describe these interactions, even calling the TPP "economic warfare within the Asia Pacific region" (Rowley 2011). Critics of Asia-only agreements in the United States, in turn, have warned that China is attempting to squeeze the U.S. out of Asian markets in order to establish hegemony in Asia (Friedberg 2011). These viewpoints are far too extreme, but they feed on each other and damage the environment for cooperation. The Chinese and American economies are highly interdependent, and have much too much to gain from cooperation to view their relationships in such apocalyptic terms. Thus, even if the tracks remain separate for now, it is essential for Chinese and U.S. analysts and officials to focus on tangible progress toward region-wide integration. China and the United States are but single players in the two FTA tracks, but they have large stakes in an integrated Asia-Pacific economy.

Economic Effects

Estimates of the effects of the tracks have been developed by Petri, Plummer and Zhai (2012). The study defines the Asian track as an ASEAN+3 agreement and the TPP track as a 13-member grouping that includes the current 11 negotiating partners plus Japan and Korea. The income gains associated with full, region-wide liberalization are estimated at $1.9 trillion, or nearly 2 percent of world GDP in 2025. Similarly large effects are estimated for international trade, with the FTAAP increasing world exports by $3.4 trillion, or by 12 percent.

Interestingly, the study estimates total benefits on the Asian track to be larger than on the TPP track. One reason is that the economies participating in the Asian track have higher average barriers than those in the TPP track. The other is that much TPP trade is already covered by high quality trade agreements – for example, NAFTA, the P4, the AEC, and numerous bilateral agreements. Of course, for many economies the Asian and TPP tracks are not alternatives, and for some, like Japan, Korea and Vietnam, substantial benefits can be derived from both.

The study finds that Asia-Pacific agreements represent a Doha-scale project. The region accounts for only part of world trade, but it could achieve larger benefits if it implements deeper liberalization, as assumed in the Asian and TPP track scenarios. Furthermore, the results show that the benefits would increase with the scale and ambition of the integration project: for example, the FTAAP would generate more than twice the benefits that the Asian and TPP tracks could deliver together. Also, the benefits would be considerably larger if the more rigorous TPP template were used in the FTAAP instead of the Asian template. Importantly, an overwhelming proportion of the gains associated with the two tracks and the FTAAP would be derived from trade creation – deeper integration made possible by reduced barriers – rather than from trade diversion, or gains achieved at the expense of third parties.

The results also suggest a complex, multiple-move "game." The early stages of this game are likely to be driven by preferential access to the markets of the United States and China. Smaller economies – Vietnam, Malaysia and Peru on the TPP track, and Korea and the ASEAN economies on the Asian track – stand to benefit the most. However, China and the United States are likely to participate in these early stages in order to strengthen their own bargaining positions in the subsequent stages of regional integration.

In the middle stages of the game the agreements would widen – to ASEAN+3 on the Asian track, and to a 13-member grouping on the TPP track – and integration would encompass several other large economies on each track. Economies that join both tracks would benefit the most – for example, in our scenarios Brunei, Japan, Korea, Malaysia, Singapore and Vietnam are all expected to do so. (Indonesia, the Philippines, and Thailand might also, eventually.)

In the final stage, China and the United States would be left among a few economies without preferential access to both of their large markets. For them, the grand prize would be a consolidated agreement – the FTAAP would offer China 2.9 times the benefits of the Asian track alone and the United States 3.4 times the benefits of the TPP track alone. Reaching a consolidated agreement will be hopefully easier in the future, when deeper integration and wider networks of agreements connect the region. Much will still depend on politics, but the economic benefits of integration will be compelling.

Table 2. Income gains in 2025

Economy	GDP2025 (billions of 2007 dollars)	Income gains in 2025 (billions of 2007 dollars)			Percent change from baseline		
		TPP track	Asian track	FTAAP	TPP track	Asian track	FTAAP
TPP track economies	**26,502**	**128.7**	**7.8**	**405.4**	**0.49**	**0.03**	**1.53**
United States	20,273	77.5	2.5	266.5	0.38	0.01	1.31
Australia	1,433	8.6	0.2	26.4	0.60	0.02	1.84
Canada	1,978	9.9	0.4	26.2	0.50	0.02	1.32
Chile	292	2.6	0.1	6.5	0.90	0.02	2.23
Mexico	2,004	21.0	4.2	67.7	1.05	0.21	3.38
New Zealand	201	4.5	0.3	5.8	2.25	0.1	2.86
Peru	320	4.5	0.1	6.3	1.42	0.04	1.98
Asian track economies	**20,084**	**-55.9**	**304.2**	**844.4**	**-0.28**	**1.51**	**4.20**
China	17,249	-46.8	233.3	678.1	-0.27	1.35	3.93
Hong Kong	406	-0.8	42.7	84.9	-0.19	10.51	20.91
Indonesia	1,549	-3.5	12.8	38.0	-0.23	0.83	2.45
Philippines	322	-1.1	5.5	15.9	-0.35	1.72	4.95
Thailand	558	-3.7	9.9	27.4	-0.67	1.78	4.91
Two-track economies	**8,660**	**245.9**	**210.7**	**483.4**	**2.84**	**2.43**	**5.58**
Brunei	20	0.2	0.6	1.1	1.10	2.77	5.45
Japan	5,338	119.4	103.1	228.1	2.24	1.93	4.27
Korea	2,117	45.8	87.2	129.3	2.16	4.12	6.11
Malaysia	431	26.3	8.3	38.4	6.10	1.93	8.90
Singapore	415	8.1	-2.0	13.6	1.95	-0.49	3.28
Vietnam	340	46.1	13.5	72.9	13.57	3.97	21.46
Others	**47,977**	**-24.0**	**-22.9**	**188.6**	**-0.05**	**-0.05**	**0.39**
Russia	2,865	-2.0	-2.6	265.9	-0.07	-0.09	9.28
Chinese Taipei	840	-2.9	-15.9	53.0	-0.35	-1.90	6.31
Europe	22,714	-3.4	4.7	-32.6	-0.02	0.02	-0.14
India	5,233	-3.8	-7.9	-29.5	-0.07	-0.15	-0.56
Other ASEAN	83	-0.4	1.0	3.1	-0.50	1.14	3.74
Rest of world	16,241	-11.4	-2.0	-71.4	-0.07	-0.01	-0.44
World	**103,223**	**294.7**	**499.9**	**1,921.7**	**0.29**	**0.48**	**1.86**

Note: The groups reported in the table reflect assumptions used in the simulations. TPP-track economies are those that were assumed to participate only in Trans-Pacific-track agreements. Asia-track economies were those assumed to participate only in Asia-track agreements, and Two-Track economies are assumed to participate in both agreements. The FTAAP was assumed to include all APEC economies.
Source: Petri, Plummer and Zhai (2012).

Policy Implications

The Asian and TPP negotiating tracks appear to be gaining momentum and promise substantial, widely distributed benefits. The gains will be particularly large if the tracks proceed to region-wide integration and use a high quality template. Still, there are risks that the tracks will fail or head off in irreconcilable directions. Leaders and negotiators have great responsibility to balance the immediate pressures from constituents against the long-term objective of wider and deeper integration.

Several policy implications emerge. First, there is much to be said for early, vigorous progress on both tracks. After a gap of nearly two decades, the world trading system would get a much needed boost from new, large high quality trade agreements. The TPP negotiation appears to be especially close to conclusion; although controversial issues remain (and will not be settled before the U.S. elections in November), its 13 completed rounds of negotiations have brought it close to delivering real results.

Second, in order to lead to a region-wide agreement, the negotiations will have to reconcile high standards with the capacities and needs of diverse economies. One operational goal might be to limit agreements to provisions that "lead by a decade" – that is, to standards that are high, but no higher than could be accepted by a reform-minded economy in 10 years. Another goal should be to include innovative provisions for cooperation to help reduce development gaps. Key areas for cooperation include improvement of economic institutions, upgrading of human resource quality, and the promotion of technology transfer.

Third, the Trans-Pacific and Asian tracks of negotiations should be connected by a new, high-level dialogue. Such a dialogue could encourage substantive overlap between the tracks, ensure their compatibility with the end goal of region-wide free trade, and reduce political frictions. Formats might include technical exchanges, discussions among senior officials, or an Eminent Persons Group. The dialogue could be convened by APEC, ASEAN, the WTO or an ad hoc group of economies involved in both tracks. Various institutions, including APEC and the WTO, could provide technical support. This dialogue could help to shape the 21st century global trading system.

Fourth, since the tracks might lead to friction between the China and the United States in their initial stages, attention also needs to focus on a third track – direct cooperation between them. They have the most to gain from a region-wide agreement and should strive gradually but systematically to narrow differences that might block that outcome. Other elements of cooperation could address joint initiatives to reduce development gaps and support ASEAN integration, jointly providing the public goods that facilitate deeper regional integration. The China-U.S. Strategic and Economic Dialogue (S&ED) offers a potential venue, and the political climate for such efforts will hopefully improve once both complete the 2012 leadership selection process.

An integrated Asia-Pacific economy and good rules for trade and investment are important for the region and the world. The Trans-Pacific and Asian tracks, and especially the TPP, represent pathways to such integration. There are risks associated with these strategies, but there is also reason to hope that their coherent progress will help to realize APEC's Bogor Goals of free trade and investment in the Asia-Pacific, and perhaps export its template to the world.

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CHAPTER 4

INDEX OF REGIONAL ECONOMIC INTEGRATION*

The previous chapters discussed a variety of regional economic integration initiatives being pursued in the Asia-Pacific region. PECC's index was developed to measure the extent of economic integration in the Asia- Pacific region. The composite index is based on a combination of measures that on the one hand look at the extent to which the reference economies are becoming more alike in their economic characteristics ("convergence" measures) and on the other hand at the relative importance of trade, investment and human flows within the region compared to flows with the rest of the world.

The convergence measures are premised on the notion that integration will lead to greater uniformity among the economies. Accordingly, more trade and investment among regional partners may not translate into a higher score on the integration index if at the same time the partners are diverging in terms of income, education, life expectancy, urbanization, and economic structure.

Furthermore, since the trade, investment, and tourism measures are calculated relative to global transactions, the index will rise for a given economy only if that economy's share of trade/investment is growing relative to total trade and investment. The index was first unveiled in 2008, using data up to 2005, and it has since been updated to include 2009 data.

An important feature of the index is that it excludes trade and investment flows among geographically contiguous sub-regional trading partners, namely NAFTA, the ASEAN Free Trade Area, and Australia-New Zealand Closer Economic Relations. It also excludes flows between China, Hong Kong (China), and Chinese Taipei. This is to control for the effect that sub-regional flows may have on the index, whereby a very high degree of integration among, for example, NAFTA economies could result in a falsely high measure of integration with the Asia Pacific region as a whole.

Caution should be exercised in the interpretation of these findings. The measures chosen for inclusion in the composite index are imperfect indicators of "convergence" and trade/investment integration. The rankings in turn should not be read normatively as "league tables" in the sense that a higher ranking is superior to a lower ranking. Indeed, a low ranking may simply indicate that an economy is more oriented globally than regionally, as is likely the case for China and the United States.

Nevertheless, the change in index value for a given economy over time can be read as a measure of its changing economic orientation. The index value for the region as a whole can also be seen as a measure of closer economic ties among Asia Pacific economies and as one indicator of APEC's success.

These data are collected from 17 regional economies starting from 1990 and ending at 2009. Missing data were approximated using standard interpolation and extrapolation techniques.

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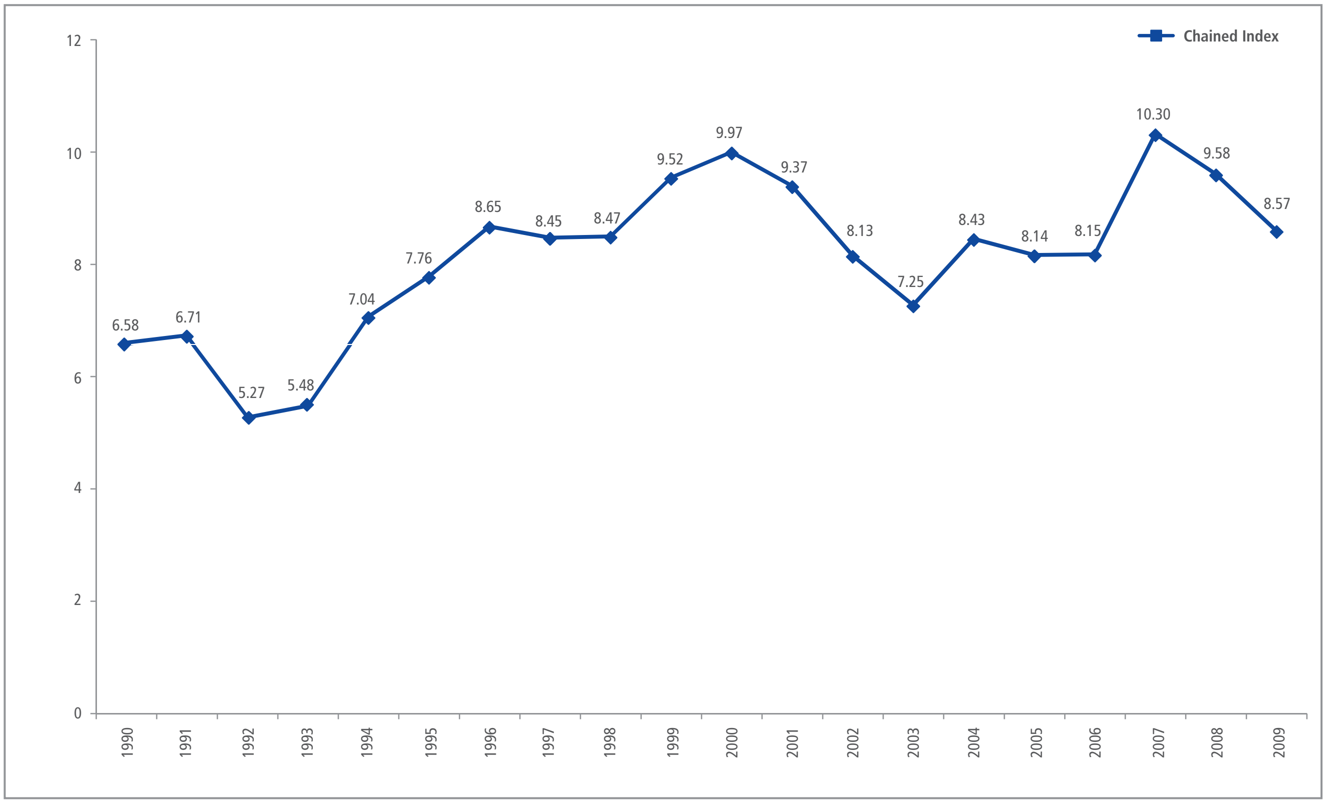
Figure 1: Composite Index of Regional Economic Integration



Economic Slowdown Takes Toll on Regional Integration

The overall pattern of integration since 1990 remains broadly positive albeit fairly erratic over the last 20 years. The global economic slowdown continues to impact regional economic integration with the composite index of economic integration slowing a decline over the past three years. The overall decline in the index comes from reductions in intra-regional trade in merchandise goods, investment flows, and tourism.

Figure 2 shows the index results for the 17 regional economies based on the latest available data. Small open economies of Hong Kong (China) and Singapore have been the top two most integrated economies of the region since we began the index. The regional trend where the convergence index is a negative factor is generally replicated at the level of the economies, with the exception of Chile, Korea, Malaysia, and Chinese Taipei. Large regional tourist flows (relative to global tourist flows) account for much of the top two economies greater levels of integration compared to other economies.

Figure 2: Composite Index of Regional Economic Integration

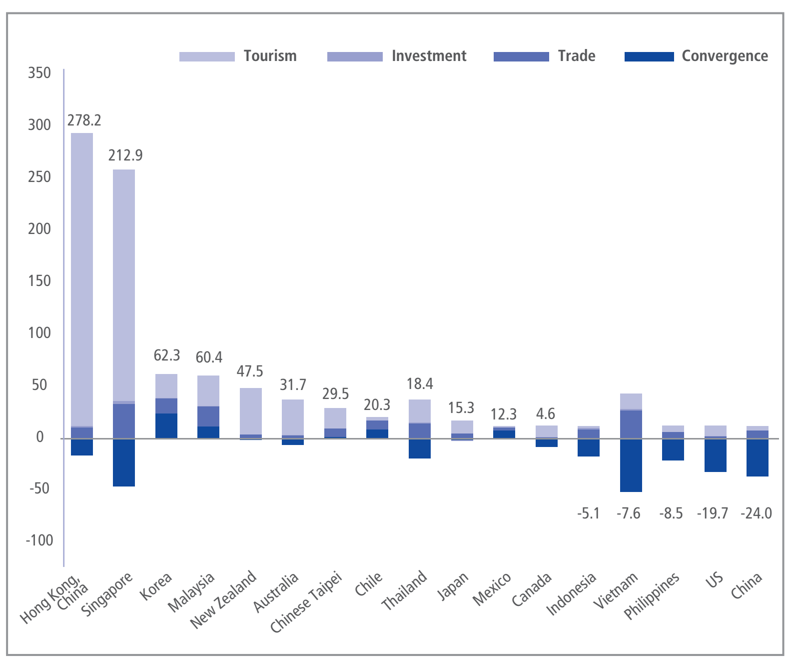


Table 1: Comparison of 2008 and 2009 indices

	Convergence Index		Composite Index		Ranking		
	2009	2008	2009	2008	2009	2008	Change
Australia	1.76	-27.8	31.75	46.86	6	6	0
Canada	11.47	-34.29	4.57	6.16	12	12	0
Chile	45.04	29.48	20.26	23.22	8	8	0
China	-54.44	-91.07	-24.03	-17.66	17	17	0
Hong Kong, China	-56.05	-98.32	278.23	488.41	1	1	0
Indonesia	-44.18	-75.42	-5.13	-14.57	13	16	+3
Japan	17.19	-2.04	15.26	13.43	10	10	0
Korea	66.89	70.91	62.26	53.36	3	5	+2
Malaysia	51.67	36.48	60.39	58.21	4	4	0
Mexico	52.02	25.17	12.31	9.68	11	11	0
New Zealand	13.25	-20.71	47.5	107.64	5	3	-2
Philippines	-68.75	-85.13	-8.53	-7.7	15	14	-1
Singapore	-68.59	-156.05	212.88	266.91	2	2	0
Chinese Taipei	8.88	23.97	29.49	46.46	7	7	0
Thailand	-3.37	-71.9	18.39	17.24	9	9	0
United States	-28.02	-83.76	-19.67	-14.19	16	15	-1
Vietnam	-78.43	-95.61	-7.64	5.8	14	13	-1
Asia-Pacific	-6.59	-7.39	8.57	9.58			

Between 2008 and 2009 six out the seventeen regional economies showed an increase in their integration with the rest of the region: Indonesia; Japan; Korea; Malaysia; Mexico; and Thailand. Hong Kong, China and Singapore were still the most integrated economies with the Asia-Pacific region, their integration indices (278.23 and 212.88, respectively), compared to theirs in 2008 (488.41 and 266.91, respectively), substantially declined. As the freest economies they have suffered the most from less flows in trade, capital, and tourists (See Table 1).

Most economies kept their relative integration ranking in 2009 compared to the 2008 ranking. However, the two largest economies in this region, namely the United States and China, were the bottom two in the ranking. The reasons are threefold. First, these two largest economies are more diversified in their international business. For instance, both economies have deep economic connections with Europe. Second, both of them have very important economic relations with their immediate neighbors, the United States with Canada and Mexico, and China with Hong Kong (China) and Chinese Taipei. Third, since both are so large, they, especially the United States, rely relatively more on their domestic economies than other regional economies.

Intra-Regional Flows Impacted by Crisis

As is well known, international trade was much more volatile during crisis and hence we find the trade share dropped to its 2007 level. Figure 3 shows the share of Asia-Pacific intra-regional imports and exports (to regional GDP).

Figure 3: Intra-Regional Trade Flows (share %)

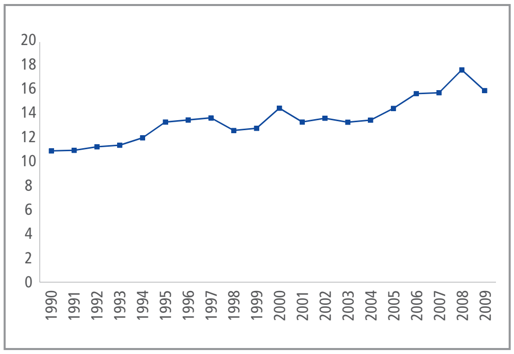


Figure 4 shows that the intra-regional FDI share (to regional Gross Capital Formation) had dipped dramatically in 2008, and the 2009 level was even slightly lower than 2008, which indicates that the investors in 2009 were still quite conservative about the prospect of economic performance. Compared to trade, FDI responded earlier to the economic crisis as it is pro-cyclical.

Figure 4: Intra-Regional Investment Flows (share %)

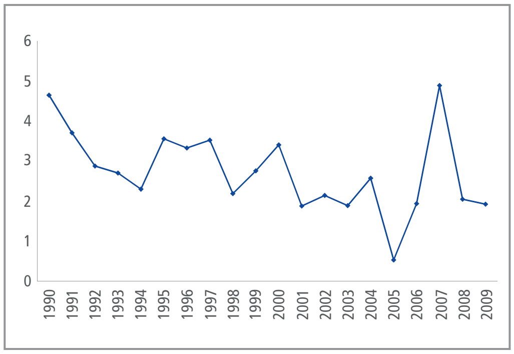
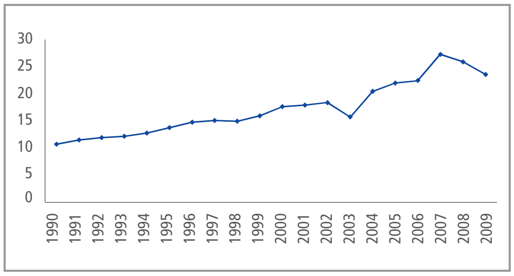


Figure 5 indicates that the intra-regional tourist share (to total annual international tourists hosted by each of the sample economies) continued its declining trend since 2007. In sum, all the three flow indicators in Figures 3 to 5 imply that the world economic crisis has dampened the regional economic integration trend in the Asia-Pacific.

Figure 5: Intra-Regional Tourist Flows (share %)



The Convergence Index

The five measures included in the convergence index are shown in Figure 8. Except for Chinese Taipei and Korea, all the other 15 economies experienced convergence to the regional average. As a result, Figure 8 shows that the regional divergence had continued to decline since 2005, though at a modest rate.

Income Inequality in the Region

This year's PECC survey shows growing income inequality as a major risk to growth for regional economies (See chapter 2). Over the years that PECC has been issuing the index of integration, the biggest single factor accounting for 'dis-integration' has been a growing gap in incomes across the region. As shown in Figure 8, for the past 20 years, incomes, as represented by GDP per capita, have been diverging while other factors have either been constant or converging. In 1990, the average GDP per capita in the region was US$9,836; by 2009 it had increased to US$22,974 (shown in Figures 6 and 7). However, in 1990 the average absolute deviation among regional economies GDP per capita was US$ 6,910, by 2009, this had increased to US$14,423. Also the most recent economic crisis, on average, hit the more developed economies more than it did the emerging economies.

Figure 6: GDP per capita in 1990 (US$)

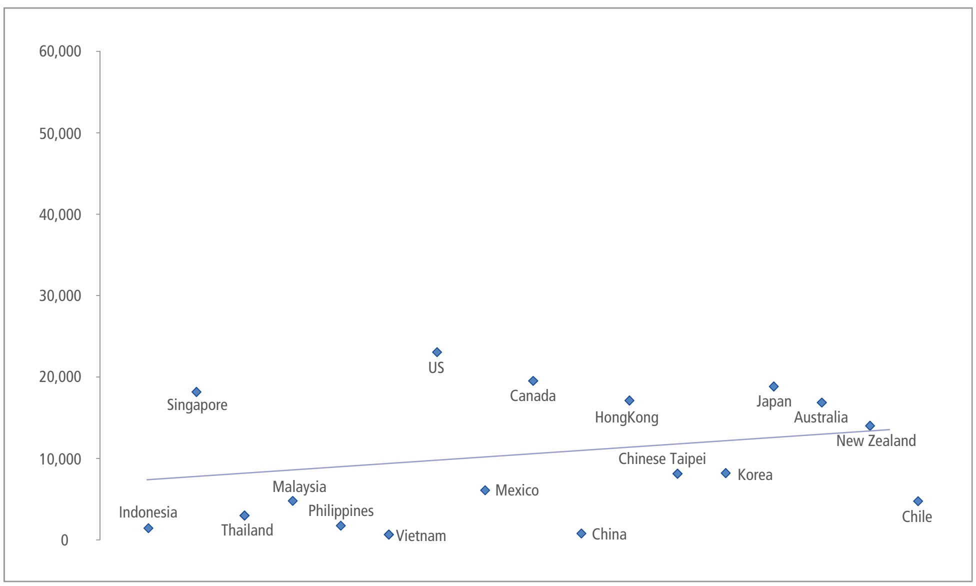
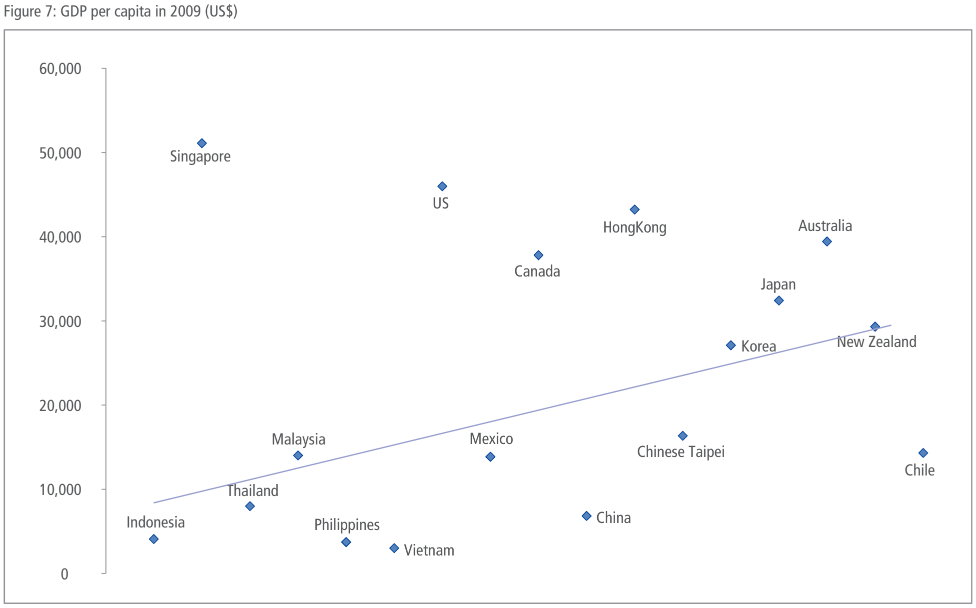
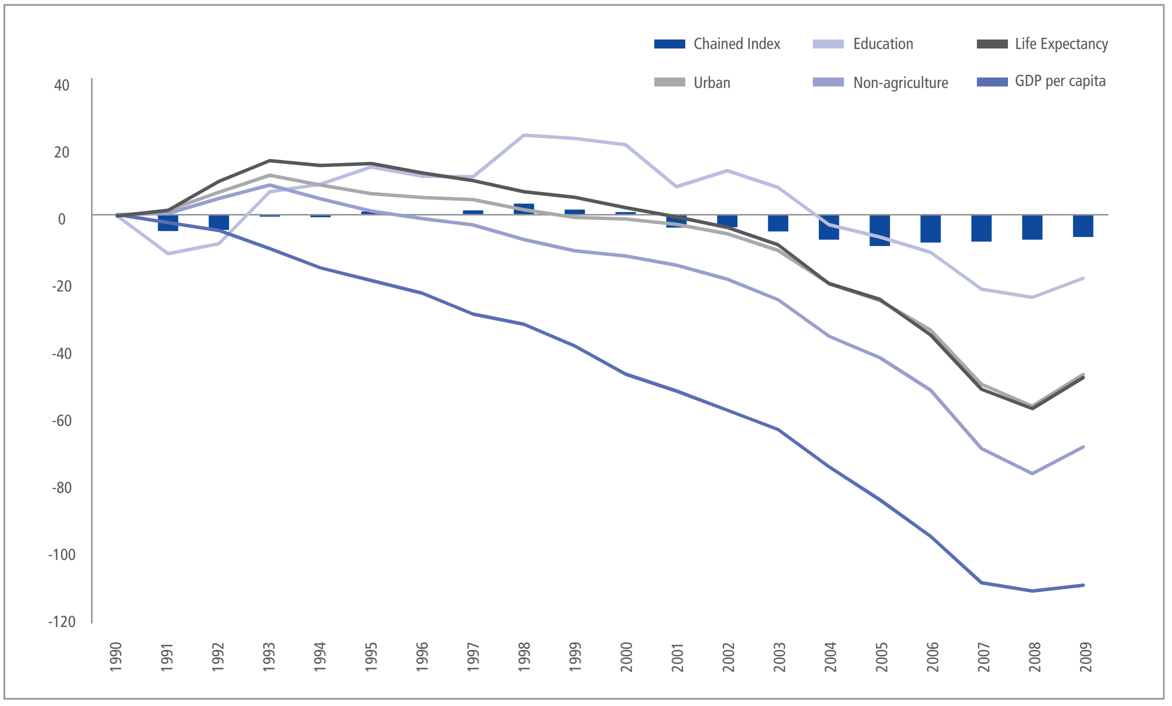


Figure 7: GDP per capita in 2009 (US$)



The deviation indicator of non-agriculture share shows that Asia-Pacific economies' industrialization (as measured by the deviation indicator of non-agriculture share), though somewhat reversed during 2006 to 2008, was resumed in 2009. The indicator of urban resident share is still steadily converging over time thanks to the ambitious urbanization process in developing economies such as China and Southeast Asian economies. The overall divergence trend of regional economies' life expectancy was still preserved in 2009. Data shows that the life expectancy differs more between the developed and emerging economies even though all the sample economies report longer life expectancy. Finally, the education indicator implies that the share of education expenses across the region have been converging over time.

Figure 8: Convergence Index



Methodology

The index assigns weights to the variables using statistical methodology. Rather than assign weights based on the perceived importance of the different dimensions of integration, the index uses variations within the data to determine the weights.

An important feature of this index is that it excludes trade and investment flows among geographically contiguous sub-regions:

- North America
- Southeast Asia
- Australia and New Zealand
- China, Hong Kong (China), and Chinese Taipei

This is to control for the effect that sub-regional flows may have on the index whereby a very high degree of integration within a sub-regional could lead to a false high measure of integration within the whole Asia-Pacific.

The weightings for each dimension of the index are derived using principal component analysis – they are determined by the variation among the indicators themselves. What this means is that while the indices' weights change over time, they are more objective being derived from the data rather than any pre-conceived notions of which factors are more important.

Weights of Different Dimensions of the Index

Composite Index	Weight
Convergence	37.6%
Trade	31.7%
FDI	19.1%
Tourism	11.6%

Weights of Different Dimensions of the Index

Convergence Index	Weight
GDP per capita	15.4%
Share of non-agriculture	7.3%
Urban ratio	7.2%
Life expectancy	20.1%
Expenditure on education	50.0%

ANNEX A

Table 1: GDP Growth (%)

	2008	2009	2010	2011	2012	2013	2014
Australia	2.5	1.4	2.5	2.0	3.0	3.5	3.5
Brunei Darussalam	-1.9	-1.8	2.6	1.9	3.2	1.6	4.9
Cambodia	6.7	0.1	6.0	6.1	6.2	6.4	6.9
Canada	0.7	-2.8	3.2	2.5	2.1	2.2	2.4
Chile	3.0	-0.9	6.1	5.9	4.3	4.5	4.5
China	9.6	9.2	10.4	9.2	8.0	8.5	8.7
Colombia	3.5	1.7	4.0	5.9	4.7	4.4	4.5
Ecuador	7.2	0.4	3.6	7.8	4.5	3.9	3.7
Hong Kong, China	2.3	-2.6	7.0	5.0	2.6	4.2	4.3
India	6.2	6.6	10.6	7.2	6.1	6.5	7.5
Indonesia	6.0	4.6	6.2	6.5	6.1	6.6	6.9
Japan	-1.0	-5.5	4.4	-0.7	2.4	1.5	1.5
Korea	2.3	0.3	6.3	3.6	3.5	4.0	4.0
Laos	7.8	7.6	7.9	8.3	8.4	7.1	7.4
Malaysia	4.8	-1.6	7.2	5.1	4.4	4.7	5.0
Mexico	1.2	-6.3	5.5	4.0	3.9	3.6	3.8
Mongolia	8.9	-1.3	6.4	17.3	17.2	11.8	12.2
Myanmar	3.6	5.1	5.3	5.5	6.0	5.9	6.0
New Zealand	-0.1	-2.1	1.2	1.4	2.3	3.2	2.9
Papua New Guinea	6.6	6.1	7.6	8.9	7.7	4.0	7.7
Peru	9.8	0.9	8.8	6.9	5.5	6.0	6.0
Philippines	4.2	1.1	7.6	3.7	4.2	4.7	5.0
Russia	5.2	-7.8	4.3	4.3	4.0	3.9	3.9
Singapore	1.7	-1.0	14.8	4.9	2.7	3.9	4.1
Chinese Taipei	0.7	-1.8	10.7	4.0	3.6	4.7	4.8
Thailand	2.6	-2.3	7.8	0.1	5.5	7.5	4.5
United States	-0.3	-3.5	3.0	1.7	2.0	2.3	2.9
Vietnam	6.3	5.3	6.8	5.9	5.6	6.3	6.9

	2008	2009	2010	2011	2012	2013	2014
World	2.8	-0.6	5.3	3.9	3.5	3.9	4.4
Euro area	0.4	-4.3	1.9	1.4	-0.3	0.7	1.4
Asia-Pacific	2.5	-0.7	5.4	3.5	3.7	3.9	4.2
Oceania	2.3	1.1	2.5	2.0	3.0	3.5	3.5
North America	-0.1	-3.6	3.2	1.9	2.1	2.4	2.9
Northeast Asia	4.6	1.1	7.3	4.6	5.1	5.1	5.2
Pacific South America	5.0	0.6	5.6	6.3	4.7	4.8	4.7
Southeast Asia	4.5	1.6	7.7	4.7	5.1	5.9	5.7

Table 2: Inflation (%)

	2008	2009	2010	2011	2012	2013	2014
Australia	4.4	1.8	2.8	3.4	2.7	3.0	2.8
Brunei Darussalam	2.1	1.0	0.4	2.0	1.6	1.4	1.4
Cambodia	25.0	-0.7	4.0	5.5	4.0	3.6	3.1
Canada	2.4	0.3	1.8	2.9	2.2	2.0	2.0
Chile	8.7	1.5	1.4	3.3	3.8	3.0	3.0
China	5.9	-0.7	3.3	5.4	3.3	3.0	3.0
Colombia	7.0	4.2	2.3	3.4	3.5	3.1	3.0
Ecuador	8.4	5.2	3.6	4.5	5.7	4.8	3.9
Hong Kong, China	4.3	0.6	2.3	5.3	3.8	3.0	3.0
India	8.3	10.9	12.0	8.6	8.2	7.3	5.5
Indonesia	9.8	4.8	5.1	5.4	6.2	6.0	5.1
Japan	1.4	-1.3	-0.7	-0.3	0.0	0.0	0.3
Korea	4.7	2.8	2.9	4.0	3.4	3.2	3.0
Laos	7.6	0.0	6.0	8.7	6.7	5.3	4.6
Malaysia	5.4	0.6	1.7	3.2	2.7	2.5	2.5
Mexico	5.1	5.3	4.2	3.4	3.9	3.0	3.0
Mongolia	26.8	6.3	10.2	9.5	13.6	12.5	9.7
Myanmar	22.5	8.2	8.2	4.2	5.8	6.3	5.3
New Zealand	4.0	2.1	2.3	4.0	2.1	2.4	2.4
Papua New Guinea	10.8	6.9	6.0	8.4	6.8	6.7	6.6
Peru	5.8	2.9	1.5	3.4	3.3	2.6	2.1
Philippines	8.2	4.2	3.8	4.8	3.4	4.1	4.0
Russia	14.1	11.7	6.9	8.4	4.8	6.4	6.5
Singapore	6.6	0.6	2.8	5.2	3.5	2.3	2.1
Chinese Taipei	3.5	-0.9	1.0	1.4	1.3	1.8	2.0
Thailand	5.5	-0.8	3.3	3.8	3.9	3.3	3.0
United States	3.8	-0.3	1.6	3.1	2.1	1.9	1.8
Vietnam	23.1	6.7	9.2	18.7	12.6	6.8	5.7

	2008	2009	2010	2011	2012	2013	2014
World	6.0	2.5	3.7	4.8	4.0	3.7	3.4
Euro area	3.3	0.3	1.6	2.7	2.0	1.6	1.7
Asia-Pacific	4.8	1.1	2.6	3.7	2.7	2.5	2.4
Oceania	4.4	1.9	2.8	3.5	2.7	3.0	2.8
North America	3.8	0.1	1.8	3.1	2.2	2.0	1.9
Northeast Asia	5.0	0.7	2.2	3.5	2.3	2.3	2.4
Pacific South America	7.4	3.2	2.0	3.5	3.7	3.1	2.9
Southeast Asia	9.1	2.9	4.2	5.5	5.1	4.5	3.9

Table 3: Current Account Balances (US$ billions)

	2008	2009	2010	2011	2012	2013	2014
Australia	-45.6	-42.0	-35.4	-33.0	-73.2	-83.9	-98.8
Brunei Darussalam	7.1	4.3	5.6	8.4	9.0	9.0	9.6
Cambodia	-0.5	-0.4	-0.4	-1.2	-1.5	-1.5	-1.2
Canada	4.9	-39.6	-49.4	-48.8	-48.3	-49.9	-51.7
Chile	-5.8	3.5	3.3	-3.2	-6.5	-7.0	-7.3
China	412.4	261.0	305.3	201.0	181.7	228.9	286.2
Colombia	-6.8	-5.0	-8.9	-9.3	-10.1	-9.4	-8.3
Ecuador	1.3	-0.2	-1.9	-0.2	0.4	0.4	-1.1
Hong Kong, China	29.5	18.0	12.4	10.1	8.2	9.9	12.3
India	-31.0	-25.9	-52.2	-47.2	-57.5	-57.7	-61.1
Indonesia	0.1	13.6	5.6	2.1	-3.9	-9.4	-11.9
Japan	157.1	141.8	195.9	120.2	130.0	166.2	161.8
Korea	3.2	32.8	29.4	26.5	22.2	19.1	12.7
Laos	-1.0	-1.2	-1.2	-1.5	-1.8	-2.1	-3.0
Malaysia	39.4	31.8	27.3	32.0	33.1	34.5	36.0
Mexico	-15.7	-5.1	-3.1	-8.8	-9.9	-11.7	-13.5
Mongolia	-0.7	-0.4	-0.9	-2.6	-2.7	-0.3	0.9
Myanmar	-0.9	-1.0	-0.4	-1.4	-2.3	-2.0	-1.0
New Zealand	-11.6	-3.0	-4.8	-6.6	-9.8	-11.8	-12.9
Papua New Guinea	1.0	-0.6	-0.8	-4.3	-4.7	-3.5	-2.1
Peru	-5.3	0.2	-2.6	-2.3	-3.6	-3.8	-3.8
Philippines	3.6	9.4	8.9	5.8	2.1	2.5	3.4
Russia	103.7	49.5	70.0	101.1	96.4	43.7	8.7
Singapore	26.3	30.1	55.5	57.0	58.9	60.0	61.2
Chinese Taipei	27.5	42.9	39.9	41.3	38.5	43.9	48.1
Thailand	2.2	21.9	13.2	11.9	3.8	5.8	8.7
United States	-677.1	-376.6	-470.9	-473.4	-509.9	-499.0	-515.9
Vietnam	-10.8	-6.1	-4.3	-0.7	-2.1	-2.0	-2.0

Asia-Pacific	2008	2009	2010	2011	2012	2013	2014
Oceania	-56.2	-45.6	-41.1	-43.9	-87.6	-99.3	-113.7
North America	-687.9	-421.2	-523.4	-531.0	-568.1	-560.6	-581.1
Northeast Asia	732.7	545.5	651.8	497.7	474.4	511.3	530.6
Pacific South America	-16.6	-1.5	-10.1	-15.0	-19.8	-19.8	-20.5
Southeast Asia	65.7	102.5	109.9	112.4	95.3	94.7	99.7
Other	-31.0	-25.9	-52.2	-47.2	-57.5	-57.7	-61.1

Table 4: Current Account (% of GDP)

	2008	2009	2010	2011	2012	2013	2014
Australia	-4.3	-4.2	-2.8	-2.2	-4.6	-5.1	-5.8
Brunei Darussalam	48.9	40.2	45.5	54.2	52.6	53.4	56.3
Cambodia	-4.5	-3.5	-4.0	-9.6	-10.6	-9.7	-7.0
Canada	0.3	-3.0	-3.1	-2.8	-2.7	-2.7	-2.7
Chile	-3.2	2.0	1.5	-1.3	-2.4	-2.4	-2.4
China	9.1	5.2	5.1	2.8	2.3	2.6	3.0
Colombia	-2.9	-2.1	-3.1	-2.8	-2.7	-2.4	-2.0
Ecuador	2.5	-0.3	-3.3	-0.3	0.5	0.6	-1.3
Hong Kong, China	13.7	8.6	5.5	4.1	3.2	3.5	4.1
India	-2.5	-2.1	-3.3	-2.8	-3.2	-2.9	-2.8
Indonesia	0.0	2.5	0.8	0.2	-0.4	-0.9	-1.0
Japan	3.2	2.8	3.6	2.0	2.2	2.7	2.6
Korea	0.3	3.9	2.9	2.4	1.9	1.5	1.0
Laos	-18.5	-21.0	-18.2	-19.4	-19.6	-22.0	-28.3
Malaysia	17.7	16.5	11.5	11.5	10.8	10.4	10.1
Mexico	-1.4	-0.6	-0.3	-0.8	-0.8	-0.9	-1.0
Mongolia	-12.9	-9.0	-14.9	-30.4	-24.4	-1.8	4.7
Myanmar	-2.7	-2.8	-0.9	-2.6	-4.3	-3.4	-1.6
New Zealand	-8.8	-2.6	-3.4	-4.1	-5.4	-6.3	-6.7
Papua New Guinea	12.0	-7.3	-8.4	-34.3	-30.5	-21.8	-11.4
Peru	-4.2	0.2	-1.7	-1.3	-2.0	-1.9	-1.8
Philippines	2.1	5.6	4.5	2.7	0.9	1.0	1.3
Russia	6.2	4.0	4.7	5.5	4.8	1.9	0.4
Singapore	13.9	16.2	24.4	21.9	21.8	21.3	20.8
Chinese Taipei	6.9	11.4	9.3	8.8	8.0	8.4	8.6
Thailand	0.8	8.3	4.1	3.4	1.0	1.4	2.0
United States	-4.7	-2.7	-3.2	-3.1	-3.3	-3.1	-3.0
Vietnam	-11.9	-6.6	-4.1	-0.5	-1.6	-1.4	-1.2

Asia-Pacific	2008	2009	2010	2011	2012	2013	2014
Oceania	-4.7	-4.1	-2.9	-2.6	-4.9	-5.3	-5.9
North America	-4.1	-2.6	-3.1	-3.0	-3.1	-2.9	-2.9
Northeast Asia	5.8	4.3	4.5	3.0	2.6	2.7	2.6
Pacific South America	-2.8	-0.2	-1.4	-1.8	-2.2	-2.1	-2.0
Southeast Asia	4.3	6.8	5.9	5.2	4.1	3.7	3.5
Other	-2.5	-2.1	-3.3	-2.8	-3.2	-2.9	-2.8

Table 5: Export Growth (%)

	2008	2009	2010	2011	2012	2013	2014
Australia	3.8	3.4	7.8	-0.1	8.8	6.3	6.9
Brunei Darussalam	-7.5	-7.3	12.1	1.9	3.2	1.6	4.9
Cambodia	2.1	2.6	23.6	1.4	14.5	15.5	12.1
Canada	-5.3	-15.0	6.9	4.9	4.3	4.3	4.9
Chile	-2.1	-3.2	0.1	3.9	4.8	4.5	4.6
China	8.2	-10.7	28.4	9.4	6.7	9.9	10.9
Colombia	5.6	6.2	1.6	14.3	7.3	7.9	6.4
Ecuador	0.8	-2.2	-2.8	3.2	7.7	1.3	-3.2
Hong Kong, China	1.9	-12.7	17.3	3.6	-2.9	8.9	8.4
India	6.5	5.5	19.8	12.4	11.4	11.2	11.8
Indonesia	0.1	5.4	10.0	6.1	5.5	6.3	6.6
Japan	-1.3	-27.6	25.4	-2.1	2.3	8.5	7.0
Korea	6.8	0.1	16.2	11.9	5.7	10.0	10.2
Laos	15.4	7.0	19.0	11.4	13.2	3.9	8.5
Malaysia	2.9	-12.7	11.6	1.8	8.0	7.9	8.8
Mexico	-2.4	-7.7	15.8	2.3	6.1	6.9	8.1
Mongolia	20.2	-19.4	49.1	51.4	13.3	27.6	22.3
Myanmar	5.5	-0.3	17.4	-3.1	6.6	20.8	18.6
New Zealand	-0.8	3.6	4.3	2.8	1.9	2.5	2.2
Papua New Guinea	3.7	-11.1	0.7	-2.7	7.0	1.7	13.7
Peru	6.7	-3.4	1.6	8.4	5.9	8.1	9.3
Philippines	-9.5	-14.7	27.0	-14.9	4.1	3.8	4.0
Russia	-2.6	-9.7	8.5	4.7	2.3	2.8	3.5
Singapore	3.7	-10.1	19.9	3.0	2.9	5.6	5.3
Chinese Taipei	0.0	-9.6	26.5	4.3	5.2	7.1	6.9
Thailand	5.1	-14.4	17.9	10.2	9.2	7.4	7.0
United States	6.3	-12.0	14.4	7.4	4.2	4.7	4.9
Vietnam	3.7	3.7	11.0	4.3	11.3	12.5	15.0

	2008	2009	2010	2011	2012	2013	2014
World	2.8	-10.2	13.0	5.8	3.9	5.7	6.1
Euro area	0.7	-13.0	11.1	6.3	1.4	3.2	3.9
Asia-Pacific	3.4	-10.5	18.3	5.8	4.9	7.4	7.6

Table 6: Import Growth (%)

	2008	2009	2010	2011	2012	2013	2014
Australia	10.1	-9.3	13.8	11.5	12.3	8.8	6.9
Brunei Darussalam	17.3	-3.6	-3.1	1.9	3.2	1.6	4.9
Cambodia	-7.1	9.1	8.3	5.6	3.5	11.6	10.0
Canada	1.3	-14.9	13.9	6.7	4.7	4.9	4.6
Chile	12.7	-16.0	29.0	12.5	5.9	4.6	4.6
China	3.4	2.5	22.3	9.7	10.1	10.9	11.4
Colombia	11.6	-9.2	14.5	22.4	11.4	4.9	4.9
Ecuador	30.3	-20.1	13.5	16.8	-4.4	2.4	-1.6
Hong Kong, China	1.8	-9.5	18.1	4.8	-1.0	8.3	8.1
India	14.0	7.6	10.7	9.7	10.1	11.7	11.2
Indonesia	19.5	-14.9	28.6	20.5	12.0	8.8	7.1
Japan	0.1	-16.0	15.3	5.8	2.4	4.4	7.0
Korea	0.9	-2.2	16.8	8.7	4.3	11.1	11.8
Laos	18.7	8.7	6.6	20.4	10.4	-1.7	10.4
Malaysia	2.0	-18.2	18.2	6.0	8.8	8.7	9.7
Mexico	1.0	-21.0	23.3	8.4	6.5	7.4	8.4
Mongolia	37.7	-23.5	41.1	58.6	9.3	-7.0	7.1
Myanmar	28.1	6.8	9.0	9.5	8.9	11.2	11.4
New Zealand	3.2	-16.0	10.9	5.9	4.4	7.6	4.4
Papua New Guinea	9.6	-0.8	20.5	51.2	4.7	-8.8	-5.3
Peru	20.0	-20.3	24.6	12.7	5.7	6.9	6.6
Philippines	-7.5	-12.4	21.9	-7.0	4.9	5.5	5.6
Russia	11.1	-31.3	27.3	19.1	16.6	13.2	7.4
Singapore	10.3	-15.0	18.6	3.4	3.3	5.8	5.6
Chinese Taipei	-2.6	-14.9	30.4	-0.4	2.4	5.8	6.0
Thailand	12.4	-23.5	27.6	13.3	11.1	7.7	7.6
United States	-3.8	-15.6	14.8	5.7	3.0	4.5	5.6
Vietnam	6.4	-1.4	7.0	4.6	9.7	10.3	12.0

	2008	2009	2010	2011	2012	2013	2014
World	3.0	-10.9	12.7	5.8	4.2	5.6	6.1
Euro area	0.6	-11.9	9.3	3.8	-0.5	2.2	3.4
Asia-Pacific	2.6	-10.8	18.3	7.8	5.9	7.4	7.9

Table 7: Weights for GDP and Inflation (%)

	Asia-Pacific	Developed Economies	Emerging Economies	Oceania	North America	Northeast Asia	Pacific South America	Southeast Asia
Australia	3.5	6.0		89.2				
Brunei Darussalam	0.0		0.1					0.7
Cambodia	0.0		0.1					0.6
Canada	4.2	7.1			9.5			
Chile	0.6		1.5				30.2	
China	17.4		43.0			43.0		
Colombia	0.8		2.0				40.8	
Ecuador	0.2		0.4				8.1	
Hong Kong, China	0.6		1.5			1.5		
India	4.1		10.3					
Indonesia	2.0		5.0					39.0
Japan	14.2	23.9				35.1		
Korea	2.7		6.7			6.7		
Laos	0.0		0.0					0.4
Malaysia	0.7		1.7					12.9
Mexico	2.8		6.9		6.3			
Mongolia	0.0		0.1			0.1		
Myanmar	0.1		0.3					2.4
New Zealand	0.4	0.7		10.0				
Papua New Guinea	0.0		0.1	0.8				
Peru	0.4		1.0				21.0	
Philippines	0.5		1.3					10.1
Russia	4.4		10.9			10.9		
Singapore	0.6		1.5					11.9
Chinese Taipei	1.1		2.8			2.8		
Thailand	0.9		2.1					16.4
United States	37.1	62.4			84.2			
Vietnam	0.3		0.7					5.7
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 8: Export and Import Growth (%)

	Export Weights	Import Weights
Australia	2.9	2.6
Brunei Darussalam	0.1	0.0
Cambodia	0.1	0.1
Canada	5.2	5.1
Chile	0.9	0.8
China	20.9	17.8
Colombia	0.6	0.6
Ecuador	0.2	0.3
Hong Kong, China	5.3	5.6
India	3.1	4.5
Indonesia	2.1	1.7
Japan	9.7	9.0
Korea	6.2	5.5
Laos	0.0	0.0
Malaysia	2.6	2.0
Mexico	3.9	3.9
Mongolia	0.0	0.1
Myanmar	0.1	0.1
New Zealand	0.4	0.4
Papua New Guinea	0.1	0.1
Peru	0.5	0.4
Philippines	0.6	0.7
Russia	5.5	3.3
Singapore	4.6	4.0
Chinese Taipei	3.5	3.0
Thailand	2.6	2.3
United States	17.1	25.1
Vietnam	1.0	1.1
	100.0	100.0

ANNEX B

Note on Survey

A total of 537 opinion leaders from 26 regional economies responded to the survey. The survey was conducted from 12 June to 16 July 2012.

The survey is disseminated through PECC member committees who are asked to identify panelists based on their knowledge of the Asia-Pacific region. As this is a multi-stakeholder survey, the Council's member committees are asked to have an equal balance between the different sets of stakeholders – business, government and non-government. Invariably, as there is some unpredictably many more panelists are invited to respond to the survey than actually do. This year the balance was 45 percent non-government, 35 percent business and 20 percent government

This is not a survey of public opinion but rather, a survey of those whose views help to influence policy-making especially at the regional level. As some of the questions tend to be technical, they require a relatively deep knowledge of developments at regional level. This is by no means a reflection of the general views of a population within any sub-region or even economy. However, we do believe that those surveyed include many of those who are responsible for influencing and sometimes making decisions on various aspects of their economy's positions within different regional groups.

The profiles of respondents are:

Government
Panelists should be either decision-makers or senior advisors to decision-makers. As a guide, the government respondents in previous years included a number of former and current Ministers, Deputy and Vice-Ministers, Central Bank Governors and their advisors for Asia-Pacific issues, current APEC Senior Officials, and a number of former APEC Senior Officials.

Business
Panelists should be from companies who have operations in a number of Asia-Pacific economies or conduct business with a number of partners from the region. This might include each economy's current ABAC members as well as past ABAC members. In last year's survey, these included CEOs, Vice Presidents for Asia-Pacific Operations, and Directors of Chambers of Commerce.

Non-government: Research Community/Civil Society/Media
Panelists should be well-versed in Asia-Pacific affairs, being the type of people governments, businesses, and the media would tap into to provide input on issues related to Asia-Pacific cooperation. These included presidents of institutes concerned with Asia-Pacific issues, heads of departments, senior professors, and correspondents covering international affairs.

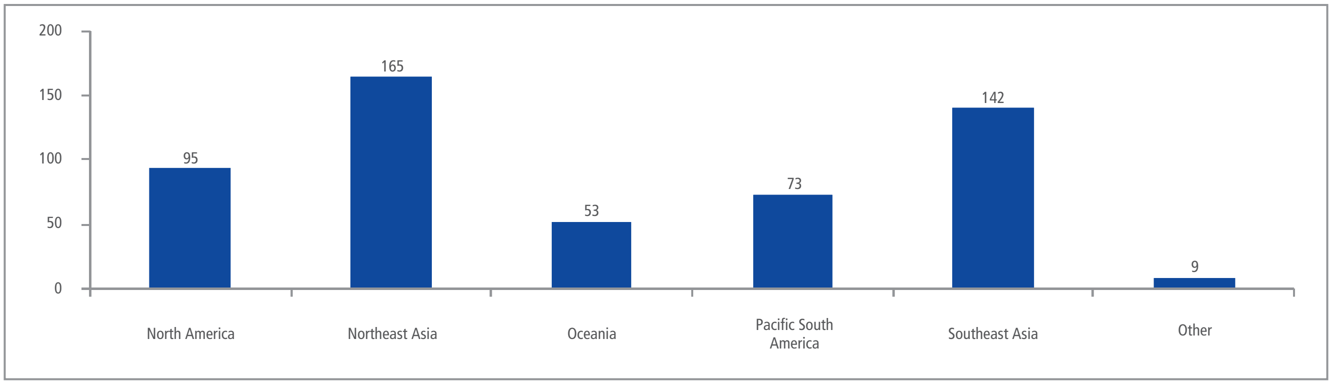
In addition to our member committees, we have also enlisted the assistance of a number of institutions who work on regional cooperation in the Asia-Pacific region to send out the survey to their members. We would like to express our appreciation to them, especially, the UN ESCAP, Asia Inc Forum, the National Business Center for APEC (Moscow), and the National Center for APEC (Seattle).

Respondent Breakdown

We do not disaggregate results for each economy but rather by sub-regions – Northeast Asia, North America, Oceania, Pacific South America, and Southeast Asia.

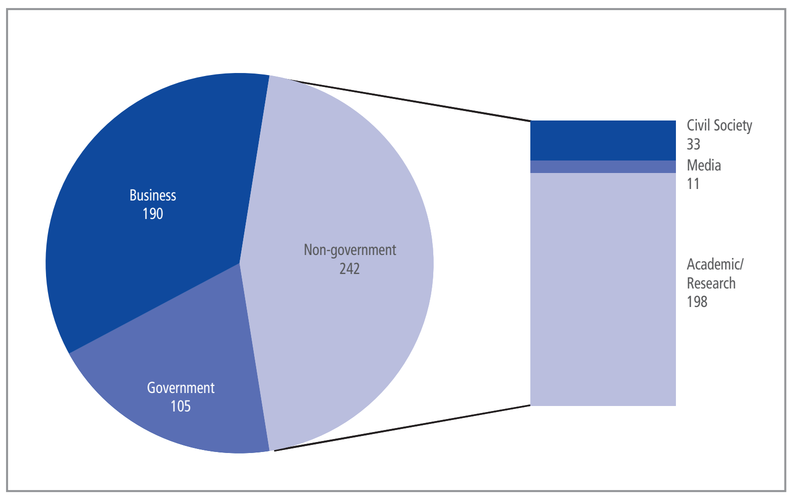
North America: Canada, Mexico, and the United States
Northeast Asia: China, Hong Kong (China), Japan, Korea, Mongolia, Russia and Chinese Taipei
Oceania: Australia, New Zealand, and Papua New Guinea
Pacific South America: Chile, Colombia, Ecuador, and Peru
Southeast Asia: Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam

Number of Respondents by Sub-Region



We also provide some analysis of differences in views based on whether the respondents are from government, business or the non-government (research, media, and civil society). We also provide some disaggregation of views on various forms of regional economic integration based on whether the respondents are from economies which are parties to the agreements or not.

Number of Respondents by Sector



The top-line results for the report are available in the annex. For a detailed breakdown of results, please visit: http://www.pecc.org/research/state-of-the-region or contact the PECC International Secretariat: info@pecc.org.

Economic Outlook and Risks to Growth

1 What are your expectations for economic growth over the next 12 months compared to the last year for the following economies/regions?

	Much weaker	Somewhat weaker	About the same	Somewhat stronger	Much stronger	Don't know/ No response
China	3.2%	53.1%	23.6%	13.2%	6.1%	0.7%
India	11.0%	38.5%	28.9%	16.4%	3.5%	1.7%
Japan	3.4%	24.0%	51.6%	18.1%	1.9%	1.1%
Russia	1.7%	28.1%	41.5%	21.2%	2.0%	5.4%
United States	2.8%	27.0%	39.7%	28.5%	1.5%	0.6%
The European Union	39.9%	44.5%	10.4%	3.5%	0.7%	0.9%
The world economy	3.9%	58.5%	27.4%	8.9%	0.7%	0.6%

2 Which economies do you think present the best opportunities for growth over the next 5 years?

	1st - Opportunity for growth	2nd - Opportunity for growth	3rd - Opportunity for growth	4th - Opportunity for growth	5th - Opportunity for growth	Net score
China	48.4%	11.0%	8.2%	4.3%	2.8%	3.2
Indonesia	8.8%	13.2%	12.8%	6.5%	6.0%	1.5
India	6.1%	17.3%	10.1%	8.6%	6.1%	1.5
Vietnam	2.2%	6.5%	6.0%	8.6%	8.8%	0.8
Korea	2.2%	6.9%	6.9%	5.0%	6.3%	0.8
Myanmar	6.3%	4.1%	4.5%	3.5%	4.7%	0.7
Australia	4.3%	4.3%	5.2%	6.0%	6.3%	0.7
United States	4.8%	3.4%	5.8%	3.0%	6.3%	0.7
Hong Kong, China	2.4%	5.2%	3.4%	3.7%	2.0%	0.5
Russia	2.0%	3.7%	2.6%	6.0%	5.8%	0.5
Singapore	1.1%	2.2%	3.9%	2.8%	4.1%	0.4
Thailand	0.7%	1.7%	2.8%	3.4%	3.7%	0.3
Philippines	0.4%	2.6%	2.4%	3.2%	2.6%	0.3
Chile	0.4%	2.0%	2.6%	3.7%	3.0%	0.3
Malaysia	0.4%	1.9%	2.0%	4.7%	3.5%	0.3
Canada	0.7%	2.2%	2.4%	1.5%	2.2%	0.3
Peru	0.4%	2.6%	0.9%	2.8%	3.0%	0.2
Japan	0.4%	1.1%	2.4%	3.7%	2.2%	0.2
Colombia	1.7%	0.7%	1.5%	2.0%	2.2%	0.2
Mongolia	1.5%	0.7%	1.9%	2.8%	0.2%	0.2
Cambodia	0.2%	1.7%	1.7%	1.9%	2.4%	0.2
Mexico	0.4%	0.4%	3.2%	1.7%	2.4%	0.2
Chinese Taipei	0.2%	0.9%	2.2%	2.2%	2.2%	0.2
New Zealand	0.2%	0.0%	0.2%	1.5%	1.5%	0.1
Laos	0.2%	0.0%	0.2%	0.7%	1.1%	0.0
Brunei Darussalam	0.2%	0.2%	0.2%	0.2%	0.0%	0.0
Papua New Guinea	0.2%	0.0%	0.2%	0.6%	0.0%	0.0
Ecuador	0.2%	0.0%	0.2%	0.2%	0.2%	0.0
Don’t know/No response	3.0%	3.4%	3.7%	5.4%	8.2%	0.6

3 Please select the top five risks to growth for your economy over the next 2-3 years?

	1 - least serious	2	3	4	5 - most serious	Net score
Slower growth in China	5.4%	8.4%	10.6%	12.1%	13.0%	1.8
Slower growth in Europe	5.6%	7.6%	11.5%	14.2%	9.7%	1.7
Slower growth in the United States	4.8%	7.3%	10.4%	12.3%	11.9%	1.7
Banking/financial sector crisis	7.4%	8.2%	7.4%	7.1%	7.1%	1.2
Growing income inequality	5.2%	5.8%	6.3%	4.8%	8.6%	1.0
Protectionism	4.8%	6.3%	6.0%	3.4%	6.9%	0.9
Shortage of available talent/skills	4.3%	3.7%	4.3%	4.1%	5.0%	0.7
Natural disasters	3.7%	5.2%	2.6%	4.5%	5.0%	0.7
Sharp fall in asset prices	4.5%	4.5%	3.7%	5.2%	3.5%	0.7
Energy security	4.5%	4.7%	3.4%	4.1%	3.9%	0.6
Inflation	5.4%	4.8%	3.4%	2.8%	2.8%	0.5
Credit crunch	4.7%	2.6%	3.7%	3.5%	2.2%	0.5
Global warming	3.9%	3.4%	1.7%	1.7%	2.6%	0.4
Political tensions or military incidents in the South China Sea	4.7%	2.0%	2.4%	1.5%	2.4%	0.4
Deterioration in US-China relations	3.7%	3.4%	2.0%	1.9%	0.9%	0.3
Food security	2.4%	1.7%	3.2%	2.0%	0.9%	0.3
Current account imbalances	2.6%	2.4%	1.1%	1.5%	1.7%	0.3
Terrorist acts	3.2%	1.3%	1.3%	2.0%	0.9%	0.2
Water pollution and shortages	2.0%	2.0%	2.0%	1.9%	0.4%	0.2
A health pandemic	3.2%	1.9%	1.1%	0.7%	1.5%	0.2
Slower growth in Japan	1.9%	1.7%	2.0%	0.7%	1.1%	0.2
Deflation	2.6%	2.8%	1.7%	0.4%	0.7%	0.2
Political tensions or military incidents related to North Korea	2.8%	1.7%	1.3%	0.9%	0.4%	0.2

Eurozone Crisis

4 More specifically, on the risks from a slowdown in Europe, please give your views on the impact of the following on your economy.

	1 - low impact	2	3	4	5 - high impact	Don't know/ No response	Net score
A banking crisis in the Eurozone	2.2%	6.1%	23.4%	27.0%	40.0%	1.2%	3.9
A significant depreciation of the Euro	4.7%	18.4%	34.1%	26.9%	14.7%	1.2%	3.2
The departure of one or more members of the Eurozone	13.2%	18.3%	23.2%	24.2%	17.7%	3.5%	3.0

5 Which of the following do you think present the most serious challenges to policy-makers in the Asia-Pacific region as a result of the Eurozone crisis?

	1 - least serious	2	3	4	5 - most serious	Don't know/ No response	Net score
A slowdown of demand in the Eurozone for exports from the Asia-Pacific	1.4%	3.8%	16.2%	37.4%	40.2%	1.0%	4.1
A tightening of credit conditions due to problems in the European banking sector	2.8%	11.1%	27.1%	34.0%	21.7%	3.2%	3.5
Larger inflows of 'hot money' into the region due to the events in Europe	9.9%	22.6%	35.6%	18.5%	7.6%	5.8%	2.7
Quantitative easing in the United States	15.2%	27.1%	27.7%	16.6%	4.7%	8.6%	2.4

Regional Economic Integration

6 What are the most serious challenges to doing business in the Asia-Pacific region?

	1 - least serious	2	3	4	5 - most serious	Don't know/ No response	Net score
Lack of transparency in regulatory practices	1.9%	11.1%	29.7%	36.2%	18.6%	2.5%	3.5
Corruption	4.8%	12.7%	23.8%	33.5%	22.7%	2.5%	3.5
Unreliable legal framework	6.0%	13.9%	25.6%	31.6%	19.8%	3.1%	3.4
Growing protectionism in developed markets	8.1%	15.4%	26.0%	26.0%	21.4%	3.1%	3.3
Growing protectionism in emerging markets	9.0%	21.5%	30.1%	24.7%	10.0%	4.6%	2.9
Inflexible labor markets	13.3%	23.1%	31.6%	22.0%	4.9%	5.1%	2.7

7 What should be the priority issues for Asia-Pacific free trade agreements?

	1 - low priority	2	3	4	5 - high priority	Don't know/ No response	Net score
Transparency in regulations	1.9%	4.8%	19.0%	32.4%	40.7%	1.3%	4.0
Investment access	2.8%	6.3%	18.9%	38.6%	31.5%	2.0%	3.8
Services market access	2.8%	6.2%	25.5%	35.3%	28.7%	1.5%	3.8
Manufacturing market access	1.3%	9.8%	22.0%	38.7%	26.4%	1.8%	3.7
Regulatory coherence	2.6%	6.0%	27.8%	31.3%	29.6%	2.8%	3.7
Intellectual property	4.3%	9.6%	25.4%	30.3%	29.1%	1.3%	3.5
Agricultural market access	2.9%	11.4%	24.6%	30.8%	28.6%	1.8%	3.7
Simple rules of origin	2.6%	8.2%	30.8%	27.1%	26.9%	4.3%	3.5
Cooperation, capacity building	1.7%	13.5%	30.5%	25.5%	25.7%	3.1%	3.5
Consistent product standards	4.2%	9.0%	31.9%	35.9%	15.3%	3.7%	3.4
Labor and environmental protection	7.6%	15.7%	28.1%	29.0%	17.4%	2.2%	3.3
Movement of persons	7.2%	17.0%	34.5%	26.9%	11.6%	2.8%	3.1
Government procurement	5.1%	20.2%	31.6%	26.9%	12.4%	3.8%	3.1

8 What do you think is the likelihood of success in concluding the following proposed agreements?

	1 - not at all likely	2	3	4	5 - very likely	Don't know/ No response	Net score
ASEAN Economic Community	4.6%	13.8%	24.6%	30.1%	21.3%	5.6%	3.3
East Asian Free Trade Area (or ASEAN+3)	6.3%	15.6%	33.3%	28.5%	9.2%	7.1%	3.0
Trans-Pacific Partnership negotiation	5.4%	24.8%	28.0%	21.5%	12.5%	7.7%	2.9
China-Japan-Korea negotiation	6.7%	25.7%	31.4%	19.2%	8.4%	8.6%	2.7
Comprehensive Economic Partnership for East Asia	9.1%	24.2%	36.0%	12.6%	2.5%	15.6%	2.3
Regional Comprehensive Economic Partnership (RCEP)	9.6%	24.3%	32.2%	10.7%	3.8%	19.4%	2.2
WTO Doha Development Round	35.3%	32.8%	16.2%	5.3%	3.0%	7.4%	1.9

9 Which agreements or negotiations offer the most promising pathway(s) toward a free trade area in the Asia-Pacific region?

	1 – not promising	2	3	4	5 – very promising	Don't know/ No response	Net score
ASEAN Economic Community	5.1%	12.4%	27.8%	28.9%	20.6%	5.1%	3.3
East Asian Free Trade Area (or ASEAN+3)	5.8%	11.1%	25.9%	34.8%	16.5%	6.0%	3.3
Trans-Pacific Partnership negotiation	6.1%	16.3%	23.5%	25.8%	19.5%	8.9%	3.1
China-Japan-Korea negotiation	6.7%	23.4%	32.3%	20.8%	7.6%	9.3%	2.7
Comprehensive Economic Partnership for East Asia	5.6%	19.0%	32.7%	20.9%	5.8%	16.0%	2.5
Regional Comprehensive Economic Partnership (RCEP)	5.8%	19.2%	30.5%	19.2%	6.9%	18.4%	2.5
WTO negotiations	24.6%	22.2%	23.3%	12.4%	11.3%	6.2%	2.5

APEC Leaders' Meeting

10 What do you think should be the top 5 priorities for APEC Leaders to address at their upcoming meeting in Vladivostok?

	1 - most important	2	3	4	5 - least important	Net score
Regional Economic Integration (including the TPP and the ASEAN Plus agreements among others)	16.1%	11.3%	4.5%	6.0%	5.8%	1.6
The region's response to the Eurozone crisis	14.8%	9.5%	5.2%	6.2%	3.7%	1.4
Lessons from European Crisis for Asia-Pacific regional integration	5.4%	9.1%	7.2%	3.7%	7.4%	1.0
The APEC growth strategy	7.8%	5.6%	6.6%	3.7%	3.7%	0.9
Regulatory impediments to business	4.3%	5.8%	5.8%	5.8%	4.9%	0.8
Regional cooperation to foster innovative growth	4.3%	5.2%	4.9%	6.6%	8.2%	0.8
Financial sector regulatory reform	4.3%	4.3%	6.6%	2.5%	3.5%	0.7
Growing income inequality in the region	5.4%	3.9%	3.9%	3.3%	4.5%	0.7
A green growth strategy for the region	3.5%	3.5%	4.7%	6.4%	3.9%	0.6
The WTO Doha Development Round	6.4%	2.9%	2.5%	2.3%	3.5%	0.6
Energy security	2.1%	5.4%	4.7%	4.5%	3.5%	0.6
Establishing reliable regional supply chains	2.9%	3.1%	6.0%	5.2%	3.3%	0.6
Investment in physical infrastructure to facilitate trade	2.7%	3.1%	3.9%	5.4%	3.1%	0.5
Corruption	2.3%	3.5%	3.9%	4.5%	4.1%	0.5
Food security	1.9%	3.3%	3.9%	5.2%	3.3%	0.5
APEC reform / institutional strengthening	2.7%	2.5%	4.9%	1.9%	3.9%	0.5
Intellectual property rights	1.4%	2.9%	1.9%	4.5%	3.3%	0.4
Unemployment	1.0%	3.1%	2.5%	2.9%	1.6%	0.3
The reform of regional institutional architecture	1.4%	1.6%	2.9%	2.9%	2.9%	0.3
Expansion of APEC membership	1.9%	1.6%	1.9%	2.3%	4.7%	0.3
Exchange rate adjustments	1.6%	0.8%	2.1%	3.9%	2.7%	0.3
Labor mobility	1.0%	1.4%	2.5%	1.4%	2.9%	0.2
A plurilateral agreement on services	0.4%	1.9%	2.3%	2.5%	2.5%	0.2
Trans-Pacific imbalances	1.2%	1.6%	1.4%	1.6%	2.5%	0.2
Emergency preparedness	1.6%	0.8%	1.2%	2.1%	2.1%	0.2
Inflation	0.8%	1.4%	1.2%	2.3%	2.3%	0.2
Terrorism	0.6%	0.8%	0.8%	0.6%	2.1%	0.1

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