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Abstract

APEC's vision of integrating the APEC has remained, for the most part, intangible. Cultural differences, socio-economic disparity and lack of a defined structure and leadership have been cited by many as major obstacles. Lately, there has been a proliferation of regional groups in Asia, creating an impression that APEC is no longer a priority for its members. Thus, various inquests into APEC's role and relevance in the Pacific region have come to fore. Several options and strategies has been presented to reshape APEC and transform it into a much more relevant, responsive, viable and cohesive Regional group. These options range from a reevaluation of the APEC agenda, to administrative improvements and more radical changes. What kind of role has APEC played that has particularly benefited developing countries like the Philippines? What else could be done to make APEC more effective as a key player in the global economy and a vehicle for countries in the Pacific Region to maximize economic gains in a multilateral trading environment? This short paper provides a perspective on how APEC should be shaped from the point of view of a developing economy member, particularly the Philippines.

Keywords: regional integration, free trade area, developing countries, APEC, ASEAN, WTO

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Introduction

APEC has made considerable achievement in accomplishing the Bogor goals of trade liberalization, trade in services, investment liberalization and business facilitation in the past decade. Member economies had also shown marked improvement in global economic integration. Merchandise trade, services trade and foreign direct investment have increased for most of the economies in the region since 1994. (Tables 1, 2 and 3) Increase in trade is mostly the result of concerted efforts to liberalize the economies, intensive trade and integrated supply chains, use of ICT to blur geographic distances and borders, and freer flow of foreign direct investment.

However, APEC's vision of "putting together a community of Asia Pacific economies" has remained elusive. Cultural differences, socio-economic disparity and lack of a defined structure and leadership have been cited by many as major obstacles. Moreover, the formation of regional groups in Asia has also created an impression that APEC has been pushed to the periphery of its members' agenda. Thus, various inquests into APEC's role and relevance in the Pacific region have come to fore. Several options and strategies have been presented to reshape APEC and transform it into a much more relevant, responsive, viable and cohesive Regional group. These options range from a reevaluation of the APEC agenda, to administrative improvements and more radical changes.

This short paper provides a perspective on how APEC should be shaped from the point of view of a developing economy member, particularly the Philippines. What kind of role has APEC played that has especially benefited developing countries like the Philippines? What more could be done to make APEC more effective as a key player in the global economy and a vehicle for countries in the Pacific Region to maximize economic gains in a multilateral trading environment?

Philippine gains in APEC¹

While there would be disagreements on how much, few would argue that the Philippines has benefited from its APEC membership in three areas: trade and investment liberalization, economic and technical cooperation, and various areas for cooperation.

¹ Media Brief, APEC 10 year anniversary

Trade and Investment Liberalization

From APEC, it has gained a formidable and strategic partner in advancing its concerns and interests in international and multilateral fora. It has also profited from the wide variety of demands of APEC economies and trade promotion initiatives aimed at promoting intra regional trade. Moreover, APEC economies continue to be the Philippine's biggest market for its exports. (Table 4)

The Philippines also benefited from foreign direct investments from investors coming from APEC economies. While most of these economies have been economic partners of the Philippines for years, APEC's program to enhance mobility of business people within the APEC region and its efforts to cut transaction costs through the different trade facilitation projects further helped in smoothening business relationships with these countries. Out of the US\$ 95,806 Million Total Approved FDI in 2005, 60% came from APEC Member economies. (Table 5)

APEC was helpful in making the Philippines comply with its Standards and Conformance. The Philippines worked closely on the following main areas: adoption of good regulatory practices, recognition of conformity assessments, cooperation in technical infrastructure development, and recognition of conformity assessments in the voluntary sector. To date, the Philippines is able to align 78.5% of Philippine National Standards (PNS) with international standards. It has also intensified promotion of standards and conformity assessment activities in the country thru mass media campaign.

The Philippines gained from the transfer of knowledge for greater efficiencies in agricultural production, supply and trade and improving infrastructure from the APEC Food System. Learning from experiences shared by APEC economies, it has called on for a more comprehensive approach to food and agriculture policy and other facilitation measures.

In the area of promoting transparency, APEC's call for more transparent government and promotion of good governance practices in the region served as a wake up call to fortify efforts in creating a more transparent and accountable government. The Hongkong model on Anti-Corruption with its three pronged approach of 1) strong implementation of the law, 2) adoption of systems designed to reduce anomalies and irregularities in government transactions and 3) inculcation of values in school and government agencies, served as a model for reform.

The government has also institutionalized lifestyle checks on government officials and enacted the Government Procurement Reform Act (RA 9184) on January 2003. Reforms were likewise undertaken at the Office of the Ombudsman and Office of the Special Prosecutor to build up institutional resource and strengthen individual and institutional competence.

Economic and Technical Cooperation (ECOTECH)

ECOTECH is aimed at creating capacity building efforts to assist APEC Members, particularly developing economies to reach the Bogor Goals of liberalized trade and investment in the Region. It targets to accomplish four main objectives: Integration into the Global Economy, Counter-terrorism Capacity Building, Promoting the Development of Knowledge-Based Economies, and Addressing the Social Dimensions of Globalization.²

The Philippines has been actively involved in more than 40 projects amounting to US\$4million, 55% of which is funded by the APEC TILF or Operational Funds. ECOTECH programs cover a wide variety of projects such as human resource development, energy, SMEs, standards, customs, WTO implementation, agriculture, environment, fisheries, services, finance and others.

Upon recommendation of the Philippines on September 2006, the APEC SOM agreed to strengthen the ECOTECH Pillar of APEC thru improved implementation of activities, ongoing reform and community outreach, bridging the development gap by promoting sustainable development, SME competitiveness, human resource development, knowledge based and information technology and private sector development.

Other Areas for Cooperation

The Philippines benefited from active participation in various areas for cooperation such as Energy, Telecommunications and Information, Transportation, Human Resource Development, Education, SME, Agriculture, Counter Terrorism and Disaster Preparedness and Health Security.

The Philippines has gained a lot from APEC, especially in terms of establishing core competencies and increasing the level of technical and administrative expertise in trade policies. It has also helped in making the country a more conducive economic partner and in creating a positive image in the region. APEC is an effective partner in establishing networks in the Region and keeping the country abreast on the best practices in economic governance.

Moving APEC Forward

While there have been significant benefits from the Philippine participation in APEC, and no doubt, for other developing countries, as well, there still remains questions about sustainability, relevance, and on the whole, about how to make it more effective and useful. Below are some thoughts and suggestions.

² www.apec.org

Strengthen ECOTECH Programs

APEC is an acknowledged global engine of growth. Composed of the fastest growing economies of the world, it is a global leader in trade liberalization. It is also a vehicle for trade facilitation and cooperation. More importantly for developing countries, it provided a venue to discuss and collaborate on issues and technical matters that will enhance growth and cooperation with the leading developed economies in the Pacific region. Without APEC, there will be no regular framework for smaller economies such as the countries of Southeast Asia to engage the United States in a dialogue and debate on regional issues³.

This is where ECOTECH plays an important role as it provides the opportunity for developed countries to directly extend support programs and interventions for capacity building to better equip developing country members for trade negotiations, and to address the socio-economic disparity in the region.

Moreover, ECOTECH can also be a tool in unlocking the deadlock in the Doha Development Agenda (DDA) negotiations. The capacity building programs and technical trainings it provides can help countries maximize the opportunities brought about by a multilateral trading environment.

Thru ECOTECH, developing economies can become more globally competitive and become meaningful partners in advancing free and open trade and investments in the region.

Is FTAA an Option?

The idea of coming up with a Free Trade Area in APEC (FTAA) was created amidst the Doha Round deadlock. Bergsten called it, “*the best possible Plan B available as an FTAAP will provide the biggest single liberalization in history and could restart WTO’s multilateral negotiations*”. Supporters envision an FTAAP to unify the integration efforts in the region and prevent competitive liberalization in Americas and Asia, and provide a framework for the US and China to address trade tensions and revitalize APEC. At a glance, an FTAAP is a compelling and politically feasible next step. Indeed, Philippine President Gloria Macapagal Arroyo appears inclined to take further steps towards this direction.

On the other hand, critiques such as Aggarwal strongly argue against the desirability and feasibility of an FTAAP. Based on an analysis of the American political economy, Aggarwal cited the following reasons why an FTAAP is not politically feasible:

1. like in most selective liberalization and bilateral trade agreements, it can leave trade policy to protectionist interests;

³ Lowly Institute for International Policy

2. an FTAAP will be met by strong opposition in the US Congress. In fact, it is considered “dead on arrival” in Congress because it would not allow an FTAAP at a time when it is experiencing massive trade deficit with China. Moreover, an FTAAP would not accomplish the agricultural and industrial market objectives the U.S. is seeking through the Doha Round; and finally
3. APEC does not have the institutional basis to negotiate and conclude a trade deal as big and comprehensive as that of an FTAAP.

Considering the varying levels of development, motivations and existing relationships between and among member economies in APEC, an FTAAP may have to contend with several challenges. In the Philippines, in particular, and ASEAN as a whole, an FTAAP would have to deal with the following issues:

First, what will be FTAAP’s impact to ASEAN and the efforts in establishing an East Asian community? ASEAN is an important block in APEC. In recognition of ASEAN’s role in APEC, it has reassured ASEAN that it will acknowledge and respect its independence as a subregional organization within the APEC region. An FTAAP can potentially diminish this independence and can expose ASEAN to unwarranted intervention in making decisions concerning economic cooperation and governance. It can also quash ASEAN’s ongoing efforts towards establishment of an East Asian community, which is an integral part of Asian integration.

An FTAAP therefore, should be able to clearly spell out how it will harmonize the ongoing RTAs existing in the Region. It can not just interfere and cut through the FTAs that have already been concluded or negotiations currently taking place without bringing in a clear, defined plan on how to tie things to create a unified, coherent and WTO-consistent Agreement.

Second, are developing countries politically equipped to handle this kind of comprehensive trade negotiations? An FTAAP covers 80-95% of trade among member economies and address behind-the-border issues such as finance, telecommunications, national treatment for FDI, intellectual property protection. At an average, it is projected to need at least five years of negotiations to get completed. Considering the magnitude of this negotiation, participating member economies are expected to make it their central trade negotiating activity. Ideally, there should also be a standstill at the outset for negotiating other RTAs⁴.

Such trade negotiation will require participating member countries to have the resources, and technical and administrative capacity to sustain the process. The Philippines, at present, is lacking in both financial and human resource to sustain this kind of negotiations.

Third, how much flexibility will an FTAAP allow its developing country members? The Bogor goals had given developing countries until 2020 to fully liberalize. This timetable sufficiently allows a grace period for developing countries to address

⁴ Morrison, Charles. An APEC Trade Agenda, p. 10

domestic issues and strengthen the economic environment that will effectively accommodate an open market. Furthermore, an FTAAP should contain provisions for Special and Differential treatment to compensate asymmetries in development of member economies.

Finally, while an FTAAP is expected to reap welfare gains, there are studies showing that ASEAN's economic gains in an FTAA is lesser compared to its gains in an ASEAN+3 FTA or ASEAN+6 FTA scenario. Results of the CGE Analysis conducted by Plummer and Wignaraja reveals that the rest of Asia and Europe, which would be outside of this FTAAP, are likely to lose should an FTAAP happen. (See table 6) Establishment of an FTAAP can potentially result in competitive discrimination which guarantees market access in countries within the APEC region but strains ties with markets outside of the Region.

Conclusion

Notwithstanding the important role it plays in trans-Pacific economic cooperation, APEC has been the target of criticisms because it seemed "to have lost its momentum and is confused about its purpose...as it is suspended on the brink of terminal irrelevance." Support and information campaign on APEC has dwindled the past years. It also has to compete with a number of regional sub-groupings in Asia with interests that can potentially challenge APEC's role in the region⁵.

APEC has opened a lot of opportunities for its developing country members. For the past years, the Philippines has gained from its participation in APEC activities. APEC has effectively brought together countries in the region and established ties and networks that were previously non-existent or were not thought feasible. Its strength lies in the vastness and diversity of this network. It should therefore strive to strengthen this network by coming up with programs that reinforce cooperation among member economies. APEC should pool in more resources for its ECOTECH programs in the next years as it is thru capability building programs that APEC will be able to help members overcome the obstructions to significantly participate in global trade.

While an FTAAP is an attractive option for regional integration, it can potentially preempt existing integration efforts in the region, especially the ones involving ASEAN. It can also result to APEC abandoning its community-building mission to focus more on trade negotiations. An FTAAP should therefore be subjected to careful examination before it is brought in as part of APEC's goal.

⁵ Regional organizations such as ASEAN+3 and East Asian Summit are said to be faster and more persuasive in creating a community in the region.

Table 1
APEC Merchandise Exports and Imports
US\$ Billion

	Exports		Imports	
	1994	2005	1994	2005
Australia	47.4	105.9	49.9	118.6
Brunei	2.1	5.7	1.9	1.6
Canada	161.3	360.1	151.5	314.4
Chile	11.7	39.5	11.6	32.3
China	120.9	762.3	115.7	660.2
Hongkong, China	151.5	292.3	161.8	300.6
Indonesia	40.1	85.7	32	57.7
Japan	395.3	595.3	274.3	516.2
Korea, Rep	101.4	284.4	102.3	261.2
Malaysia	58.8	141	59.6	114.6
Mexico	60.9	213.7	87.3	221.3
New Zealand	12.2	21.7	11	24.5
PNG	3	5.2	1.4	2
Peru	4.5	17.3	5.6	13.2
Philippines	13.4	41	22.5	44.1
Russian Federation	63.1	241.2	38.6	98.6
Singapore	96.9	229.7	102.6	200.1
Chinese Taipei	94.1	189	85.5	181.7
Thailand	46.1	109.8	55.1	118.1
United States	512.5	906	689.4	1673.5
Vietnam	4.1	31	5.8	38.3
Total	2001.1	4677.8	2065.4	4993

cited from Trends in Regional Integration, Data gathered from World Trade Atlas, UN Statistics Division, IMF Direction of Trade Statistics

Table 2
APEC Services Exports and Imports
US \$ Billion

	Exports		Imports	
	1994	2005	1994	2005
Australia	14.5	31.1	15.5	30.5
Brunei	na	0.5	na	1.1
Canada	23.2	52.2	32.1	64.2
Chile	2.8	7.1	2.9	7.6
China	16.4	73.9	15.8	83.2
Hongkong, China	31.1	62.2	18.6	32.4
Indonesia	4.7	5.1	11.1	17.2
Japan	56.8	107.9	105.4	132.6
Korea, Rep	16.2	43.9	18.2	57.7
Malaysia	9.2	19	11.9	21.6
Mexico	10.1	16	12.4	20.9
New Zealand	3.6	8.2	4	7.8
Papua New Guinea	0.2	0.3	0.6	1
Peru	1	2.1	1.5	3
Philippines	na	4.5	na	5.8
Russian Federation	8.4	24.3	15.4	38.5
Singapore	22.9	45.1	13.8	44
Chinese, Taipei	13.1	25.6	20.5	31.4
Thailand	11.4	20.5	15.2	27.5
United States	181.3	354	120.8	281.2
Vietnam	1.3	3.9	1.3	4.7
Total	428.2	907.4	437.1	913.8

cited from Trends in Regional Economic Integration, data coming from ABS, WTO Online Statistics Database, IMF Database, CIEC Database. Final year data for Brunei are for 2004, for Indonesia 2003 and for Vietnam 2004

Table 3
APEC: Level of Foreign Direct Investment
US \$ Billion

	Inward		Outward	
	1994	2005	1994	2005
Australia	84	214.6	41.7	185.2
Brunei	0.1	9.3	0.3	0.6
Canada	110.2	356.9	104.3	399.4
Chile	13.9	73.6	2	21.3
China	74.2	317.9	15.8	46.3
Hongkong, China	64.7	533	58.8	470.5
Indonesia	16.2	21.1	4.6	13.7
Japan	19.2	100.9	257.6	386.6
Korea, Rep	8.2	63.2	7.5	36.5
Malaysia	22.9	47.8	7.9	44.5
Mexico	33.2	209.6	4.4	28
New Zealand	22.1	55.1	5.9	11
Papua New Guinea	1.6	2.2	0.2	0.3
Peru	4.5	15.9	0.1	1
Philippines	5.3	14	0.8	2
Russian Federation	0.3	132.5	2.3	120.4
Singapore	54.9	186.9	26.3	110.9
Chinese, Taipei	14.2	41.9	39.6	97.3
Thailand	15.7	56.5	1.5	3.9
United States	480.7	1625.7	612.9	2051.3
Vietnam	5.4	31.1	na	na
Total	5.4	31.1	na	na

cited from Trends in Regional Economic Integration, data sources from Australian Bureau of Statistics, UNCTAD FDI Statistics Online Database. There is a series break in the Australian data at 2001: the 1994 and 2005 figures are not therefore strictly comparable.

Table 4

Direction of Trade	
2005 Exports (F.O.B. value in thousand US\$)	
(Top 20 countries)	
Countries	2005
USA ^{c/}	7,417,629
Japan ^{b/}	7,206,071
China	4,076,996
Netherlands	4,032,644
Hong Kong	3,340,699
Singapore	2,706,923
Malaysia ^{a/}	2,452,777
Taiwan	1,888,143
Korea, Rep. of	1,391,309
Germany	1,349,364
Thailand	1,169,151
Indonesia	476,466
Australia	455,055
United Kingdom	436,810
Viet Nam	311,566
Belgium	270,086
Canada	265,274
France	186,829
Italy	166,395
United Arab Emirates	117,956
Notes:	
^{a/} Includes Sabah and Sarawak.	
^{b/} Includes Okinawa	
^{c/} Includes Alaska and Hawaii	
Source: National Statistics Office, 2005	
APEC Member Economies in Bold Print	

Table 5. Total Approved Foreign Direct Investment, 2005

Indicator/Year	2005
<i>APEC Member Economies</i>	
Australia	563.00
Hongkong	92.60
Indonesia	
Japan	27,539.00
Korea	10,828.40
Malaysia	69.50
PROC	194.60
Singapore	889.50
Taiwan	1,393.50
Thailand	1,535.00
United States of America	14,912.70
Total	58,017.80
<i>Non-APEC Member Countries</i>	
Netherlands	19,157.60
British Virgin Islands	484.90
France	45.50
Germany	417.50
Italy	7.60
Switzerland	817.20
United Kingdom	195.10
Cayman Islands	13,817.20
Others	2,845.80
Total	37,788.40
Total	95,806.20
<i>Source: PIDS Economics and Social Database</i>	

Table 6. Impact of 6 FTA Scenarios, Real Income (Equivalent Variation)

	(1) Fragmentation Scenario	(2) ASEAN+3 FTA	(3) ASEAN+6 FTA	(4) Asia-wide FTA	(5) APEC FTA	(6) Global Free Trade
<i>In US\$ Mn 2001 prices</i>						
North Asia	-1,219	21,724	34,460	35,713	56,734	72,944
ASEAN	8,869	10,375	10,582	10,907	8,341	11,319
Rest of Asia	-101	-425	-619	1,355	-1,560	4,288
USA	-1,371	-2,362	-3,633	-3,263	12,035	22,884
Europe	-1,021	-904	-1,597	-1,413	-3,047	25,325
ROW	-555	-464	-1,880	-2,291	280	14,861
World	4,401	27,546	40,546	45,012	74,689	153,718
<i>In % of GDP</i>						
North Asia	-0.02	0.37	0.58	0.60	0.96	1.23
ASEAN	1.72	2.02	2.06	2.12	1.62	2.20
Rest of Asia	-0.01	-0.06	-0.09	0.19	-0.22	0.61
USA	-0.01	-0.02	-0.04	-0.03	0.12	0.24
Europe	-0.01	-0.01	-0.02	-0.02	-0.04	0.30
ROW	-0.01	-0.01	-0.04	-0.05	0.01	0.34
World	0.01	0.09	0.14	0.15	0.25	0.51
Source: ADB Staff estimates using GEMAT						

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