MORRISON: This panel is entitled “Uncharted Waters: The Search for ‘Balanced, Sustainable, and Inclusive Growth’ in the Asia-Pacific.” These are the words of the Leaders’ declaration at APEC 2009 in Singapore, an aspiration as we come out of recovery, it simply will not be back to business as usual. Rather, we have a new growth path for the Asia-Pacific region.

These words actually mirror a report of the Pacific Economic Cooperation Council (PECC), a report that was delivered to the ministers of APEC and also reflected a lot of wisdom that came out of the G20 process. One of our panelists was the coordinator of that report and I’ll explain that in just a moment.

We have three people on the panel. Amb. Chan is a very distinguished political scientist from Singapore, educated at Cornell, Ph.D. from the National University of Singapore where she also taught for a number of years. She’s been the director of the Institute of Southeast Asian Studies, she’s been the Executive Director of the Singapore International Foundation, she was Ambassador to the United Nations, and she’s now in her 14th year as Singapore’s Ambassador to the United States.

Next to her we have Dr. Ivalio Izvorski, who is the lead economist for East Asia and the Pacific at the World Bank. He is originally from Bulgaria. He has a Ph.D. in economics from Yale, he worked for the IMF and has worked on central and eastern Europe, including the Balkans, before his current position with the World Bank.

And next to him is Prof. Peter Petri, the Carl J. Shapiro Professor of International Finance in the International Business School at Brandeis University. He was the Dean of the business school there for a number of years. He has a Ph.D. from Harvard University. He also has a non-resident relationship with the East-West Center. As part of that relationship, he coordinated the PECC study on balanced, sustainable and inclusive growth. I want to welcome all the panelists and start with the Amb. Chan.

CHAN: Thank you very much, Charles. The search for balanced, sustainable and inclusive growth is not a new thing. In various ways, the countries of the Asia-Pacific region have sought to address these challenges in our development for years.

You remember the World Bank report of 1993 on the East Asian miracle? It touted the great success of the rapid economic growth in the East Asian region. I picked up that volume again and it said that we achieved sustainable growth, notably the four tigers and the three NIEs of ASEAN, Indonesia, Malaysia and Thailand.

continued on page two
Economic growth with distribution and life expectancy had increased. From 1960-1990, Indonesia was said to have eliminated poverty by 40 percent, Malaysia, by 30 percent.

Then came the financial crisis. Everything was lost. More people fell below the poverty line. During the height of the financial crisis, about 60 percent of Indonesians fell below the poverty line. We talked then of the need for balanced growth and sustainable growth again. But I think the words did not have exactly the same meaning as they have today.

The Asian financial crisis of 1997 highlighted the dark side of globalization. A decade later, we see other aspects of the dark side too but you can't wish globalization away. Since the Lehman Brothers-triggered financial crisis of 2008 and the emergence of the G20 we have been talking of balanced, sustainable and inclusive growth.

The G20, in fact, came out with the framework for a balanced and sustainable growth in Pittsburgh and this was picked up by APEC at Singapore's 2009 APEC meeting. And Japan, as the next leader of APEC this year will carry through with a special emphasis on environmentally sustainable and knowledge based growth.

What the Words Mean

So why have these words—balanced, sustainable and inclusive growth—become the catch-phrase of today? I think balanced growth today means not just balance within the economy or country, but balance between economies and countries and also to increase output through structural reforms.

Inclusive growth refers to growth that spreads evenly and builds a consensus for free trade. Sustainable growth refers to environmentally sustainable growth.

Critics in the United States and Europe and thoughtful leaders now recognize that rapid economic growth compounded by globalization has resulted in greater challenges and distortions in income equality and environmental destruction. In particular in Asia the export led model that propelled China’s breathtaking rise as an economic power has created imbalances that are viewed as unviable.

It is commonly recognized that the United States is consuming too much and the Chinese saving too much. The United States is borrowing from the Chinese to finance their spending. The bilateral trade balance between the two countries is very skewed. The U.S. trade deficit in 2009 was $379 billion, though I think that is decreasing now. The United States is buying less and this quarter the Chinese surplus also had decreased.

I should point out that when the four tigers, South Korea, Hong Kong, Singapore and Taiwan, used the export-led model it did not generate the same concerns nor did we see the same kinds of surpluses. It was a start

and perhaps the systemic effect was not felt yet. And then we saw the United States fume and fight over trade deficits with Japan. By comparison with the Chinese problem, it was not seen as dire but maybe it was.

U.S. As Market Destination

China, because of the sheer size of the economy and the energy of the economy, seems to present a different situation. Also, the United States today has difficulties. But it is not just about the Chinese imbalance, though China is a big part of the story. Asia as a whole is linked to the United States closely for its export markets as well as linked to Europe.

For many countries, the United States is still the key driver of economic growth. The United States and Europe are our number one to number three export markets, although this is beginning to change for some countries and China is coming on top.

With the stagnation of the U.S. and European economies, will Asia's continued growth become vulnerable? Over the long run, it must be because we’ve depended on the U.S. market. However, in the short term, the growth of China and India has given a lift to the region's economies.

Influence of China and India

2010 was a good year for Asian countries. It was helped by China’s domestic consumption and to some extent India’s. The question is, can Asia grow with less reliance on the United States and Europe? The trade pattern is changing but China is the final production stop before goods are sent to the US market. The question is, can China replace the United States as the major final destination export market for the Asia Pacific region? And that is still an open question.

We’re always talking of imbalances and wanting to correct the imbalances. Can they be corrected? The countries in Asia recognize they must spend more and I think the United States recognizes it must save more. China has implemented a very substantial stimulus package and that has helped. But I believe that China will build its consumer economy by urbanizing its population.

China's Urbanization

According to McKinsey [and Company], China will build eight mega-cities of more than ten million each. Beijing already has 22 million and Shanghai has 19 million. Urbanization will generate greater demand for the building of infrastructure, health care, education, and the beginnings of social nets. This is how the imbalance primarily will be addressed but it will take time and Asia as a whole has to learn to consume more.
Ironically, after the financial crisis Asian countries decided to accumulate more reserves for a rainy day, but I think we can invest more in infrastructure. We can invite FDI [foreign direct investment] and we can do it ourselves with loans.

Inflationary Concerns

As we deal with growth we have to deal with inflation, too. You may have noticed that Singapore recently announced in our half yearly review of currency policy that we have moved from the policy of zero appreciation to modest appreciation. The market reads this as a 1.3 percent upward revaluation. Malaysia and South Korea did the same thing, as did India. So the imbalances in the region are being addressed but I think it will take time.

Green Growth

In the region we are increasingly aware of realizing sustainable growth. But as you know, at the Copenhagen meeting [United Nations Climate Change Conference 2009], 115 countries including the large emitters such as the United States, China, Russia, India, and Japan, agreed to the accord but it was short of a binding treaty. Each nation would set its own targets for the year 2020 though we want to all bring down the global warming limit to below two degrees.

The Chinese have come up with a target as have the Indians, but they have not agreed to verifiable targets. ASEAN wants a legally binding treaty. We want a global legally binding pact and we want more investment from the West to share their technology and that’s how we will deal with sustainable development.

Copenhagen 15 did not work very well. Copenhagen 16 may come up with better results because I think Mexico is learning from what happened at the Copenhagen summit. We are moving there slowly. Sustainable development is something that we are now dealing with, but I think you will not find the Asia Pacific being the strong leaders in this.

I was just in Brazil recently, and a friend said to me, “The BRICs [Brazil, Russia, India, and China] look on climate change this way. We have been invited to a feast by the developed countries. We join at the end of the feast to have the dessert but we have been asked to split the price, to pay for the feast and split the cost equally. We don’t think that is fair.” I think that attitude is in the Asia Pacific region and so we want to see the developed countries take the lead. We would like to see a legally binding global pact.

Challenges of Inclusive Growth

Inclusive growth is a bit like chasing after the Holy Grail. Every country talks of the search for inclusive growth but it’s all about political will and it’s about ideology and what governments are prepared to do. Some countries get it right, some don’t, and it’s hard but the goal post also changes.

As countries try to succeed in working to address inclusive growth with social policies, they find expectations rise, the economic situation changes and it becomes a little more difficult. Each of the key meetings, whether it is APEC or the G20, try to push forward the goals of balanced, sustainable, and inclusive growth. We’re trying to deal with the imbalances, so it will take time. Sustainable growth will take the lead from the western countries and for inclusive growth we will have to work that out ourselves. Thank you.

IZVORSKI: Thanks to the East-West Center for having me here. I have a very upbeat message and then I have a bit more cautionary story to tell for the medium term.

The upbeat message essentially is that East Asia has emerged strongly and forcefully from the economic crisis, has led the global economy, has now fully recovered its level of GDP, and its level of industrial production, its level of exports.

Employment is still lagging behind. As we know, usually recessions have this effect. We observe here in the United States that economic activity is now pretty much to pre-crisis levels while we have unemployment that is double in percentage terms to what we had before.

Fiscal and Monetary Stimulus

Why did it happen? Several factors, but largely of course China. There was a massive fiscal and monetary stimulus package, very rapid investment in infrastructure, social measures including health, education, social services to boost living standards.

Other countries in the region also stepped up. South Korea had a massive fiscal stimulus package, the ambas-
sador’s home country of Singapore had an extraordinary fiscal and monetary stimulus package. Overall East Asia and Pacific had a fiscal stimulus of about 2.25 percent of GDP. That compared pretty much with a similar-sized package in the United States last year. The U.S. stimulus is spread over a number of years so therefore the fiscal impact last year was the same as in East Asia.

Nevertheless despite these very ambitious fiscal stimulus measures in east Asia we had a much smaller deterioration in fiscal balances, in fiscal deficits in East Asia than we had in Eastern Europe, only a quarter of the amount. Only about one fifth of what advanced economies experienced.

**Pre-Crisis Preparation**

So these economies entered the crisis well prepared. They had paid down external debt, they had paid down government debt, they had boosted the quality of banking supervision, they had improved substantially the environment for doing business, and therefore they had the fiscal space. They had the space on the side of businesses and households to spend additional amounts of money to cushion the impact of the most severe economic crisis and financial crisis since the great depression.

Economic growth in the region was almost 8 percent last year—led by China, where growth was almost 9 percent—which was the year in which the global economy contracted for the first time since 1945. We had wide divergences among countries. The more open ones, such as Singapore, South Korea, Taiwan, Hong Kong, Malaysia and Thailand, that are more integrated in the global economy, experienced contractions but they very quickly rebounded.

Large countries mostly focused on domestic markets, such as China, Indonesia, and India, never experienced a contraction. Neither did Vietnam, neither did Laos. Overall, this region emerged bolder and in much stronger shape than in any previous crisis.

**Capital Flows**

If you compare this crisis with the Asian financial crisis of only ten years ago, one sees capital flows returning to the region despite concerns about the global environment for capital flows. More forceful flows now are giving rise to concerns about asset price inflation, home price bubbles, and so forth.

We had domestic demand rather than exports driving recovery in the region. This explains why barely a year and a half ago most commentators in Washington and in other places were doubting that East Asia could recover without recovering demand abroad.

Notice that two thirds of the exports of the region go to advanced economies. Europe, which is by far the largest export market, not the United States, is now mired in a deep recession. Certainly prospects for East Asia will depend crucially on what happens to Europe.

**Withdrawing Stimulus**

The challenge this year, and this is my second point, will obviously be how to withdraw the monetary and fiscal stimulus without triggering a renewed weakness in economic activity. On the monetary side central banks in the region, are taking measures to withdraw these exceptional support measures.

We see only a few countries, Malaysia and Vietnam, increasing interest rates. There is so much more to be done to remove this exceptional accommodation. And, of course, China’s interest rate and exchange rate policies now have taken center stage.

On the fiscal stimulus side, we think that there is a bit more reason for many countries in the region, certainly not all, to sustain the fiscal stimulus they injected in late 2008. Countries such as Vietnam, for example, certainly have to be removing their fiscal stimulus and they have already begun to do so. Countries such as China certainly don’t have room to introduce more stimulus given the overwhelming concerns the authorities themselves express about the stimulating effect of that stimulus and the monetary component on domestic economy.

However, countries such as Indonesia and Malaysia certainly have more room to continue to ensure a smoother transition to a time when domestic demand or notably domestic investment becomes a driving force. I can talk or answer questions much more on this point but let me actually move to the third point which I think is more important.

**Slower Growth Model**

When we look forward, we obviously see that East Asia, as any other region in the world, is facing a changed and very challenging global environment. We have slower growth in advanced economies. Certainly we’re going to see slower growth for the global economy until at least the middle of this decade.

High unemployment, de-leveraging among companies and banks will certainly weaken the momentum in economic growth in the United States. In Europe we see a financial crisis that started in Greece threatening to spread to other Euro-zone countries. So overall, we’re likely to see the advanced economies, which account for two-thirds of Asia’s exports, mired in a slower growing model. We are likely to see a more challenging environment for global trade.

There is an increase in protectionist measures. Even though these still are far from causing any trade wars bilaterally or multilaterally, we still have to be concerned.
Resuming Structural Reforms

Despite this flow of capital to Asia, we also have to be concerned about a tight environment for global finance. In this environment can Asia grow fast? Can it grow as fast as it used to in the period before the crisis? We certainly think so. This is manageable, provided Asia continues structural reforms it pursued before the crisis. Some of these very wisely were put on hold during the crisis as the authorities focused on injecting monetary and fiscal stimulus.

These structural reforms now have to be reenergized. The authorities have to reembark on these reforms to allow these new poles of growth, if you will, these drivers of growth to emerge that are different from external demand which, as I underlined, is likely to remain weak.

What are these reforms? This is a very divergent region. We have China with 1.3 billion people, we have Tuvalu with 40,000 people, we have Mongolia with a million people. Obviously, in a very diverse region these reforms always have always meant different things for different countries.

China is certainly in a category of its own. As Chinese authorities amply have emphasized in their 11th five-year plan and likely will be the key point in the 12th five-year plan, rebalancing of the economy remains key. We would probably call it a restructuring of the economy, but they call it rebalancing.

Rebalancing the Chinese Economy

Rebalancing has three main aspects: (1) rebalancing to allow greater room for private consumption within GDP, (2) rebalancing to allow greater room for the service sector to take some of the pressure from investment heavy, export-led and manufacturing-based growth, and (3) rebalancing to allow for greater accounting for environmental sustainability as China secures energy for its richer development, makes its cities more livable, and actually comes to the forefront of a green-growth sector that is poised for rapid global growth.

Leaving “Middle” Industrial Development

We group other countries in the region into several categories. The middle income countries include Indonesia, Malaysia, Thailand, and the Philippines. For these countries, the agenda now is how to get out of this crowded middle of industrial development. As you know, these countries benefited tremendously over the last 20 to 30 years from specializing in narrow manufacturing tasks and integrating in global or regional production networks.

China, South Korea, and Singapore now are reaching the point where they are the end production points. Parts and components that are traded hugely within the region are assembled and shipped to third countries. But this model—characterized by low-cost, high-volume, and not much diffusion of knowledge—needs to be revamped.

There also are the rise of China and India. Squeezed by these two giants, this low-cost model is coming increasingly under threat. In order to continuing growing, these countries therefore should strive to move up the value chain by boosting and improving the efficiency of this investment and creating an environment for more rapid innovation.

Slow Innovation Process

Look at fixed investment in the region. When we compare investment in the region to levels for Japan, South Korea, and Singapore when these economies took off, it is much too low except for levels in China and Vietnam.

In addition, while primary and secondary education is fairly universal in the region, the outcomes are far from satisfactory. Combine that with lower access to tertiary education than in any other country in the region of the more advanced economies, plus very low investment in research and development by local companies and by governments, and you have a very slow innovation process in the region’s middle income countries.

For the lower-income countries, such as Cambodia, Laos, Vietnam, breaking into these global production networks is a huge opportunity given the rising costs in China and the further disintegration of production into tasks that are traded rather than performed as part of a vertical production process. In addition, the commodity countries in the region face the challenge of translating huge inflows of natural resource revenues into a steady stream for development.

Let me end with two topics that are very important for the region to be able to sustain the rapid growth rates. One is regional integration; the other one is climate change.

Challenge of Regional Integration

Concerning regional integration, the market has driven this process for the past 20 to 30 years. But most of regional trade has been composed of parts and compo-
Climate Change Issues

There are three issues with respect to climate change. First, the region needs to secure energy for future development. The countries of East Asia have tripled energy consumption over the last 30 years and are likely to triple it over the next 20 years if current patterns remain unchanged and if prices for these commodities by some miracle remain unchanged. Obviously this is not going to happen.

By 2025, China will account for 80 percent of global energy consumption if current patterns remain unchanged. Obviously, this cannot happen. So the key question is how to secure energy for future development in a way that does not disturb this fragile global equilibrium.

Second, even though energy consumption in the region and actually emission of any kind of harmful gases or carbon dioxide is much below the levels of advanced countries, the nations of East Asian have the most polluted cities in the world. Complicating the challenge of tackling climate change will be the challenge of making these cities more livable even as the region sees much faster urbanization in the coming decades.

Third, the green energy sector is poised for rapid global expansion. The countries of Asia—led by China, Singapore, and South Korea—can take the lead and actually turn climate change into a very good business proposition because of the economies of scale available there and the opportunity to have investment rates at 30-40 percent of GDP. South Korea, in particular, has doubled investment in renewable energy over the last five years. During the past period, China has been doubling investment in wind power and now is the second country in the world in installed capacity.

Early this year, President Obama unveiled an $8 billion grant for Florida to build high-speed trains. Last year, China spent $90 billion in building high-speed trains and plans to invest close to $500 million by the year 2015.

Clearly, the nations of East Asia are taking serious steps to deal with the climate change mitigation as well as adaptation and to consider how to make cities that are likely to rapidly urbanize more livable and be good for business. Thank you very much.

PETRI: Thank you very much. You will find some of the same themes that my colleagues here on the panel have proposed also emerging in my presentation. But I’d ultimately like to consider what the issues are for the United States. These are critical, very urgent, and timely as we enter the APEC cycle, which brings the subject of engagement with Asia to the United States through much of next year.

[Prof. Petri’s Power Point presentation is available at—]

You see the title, “Fast Forward.” I think you probably have a sense that this echoes some of the earlier comments. What a tremendous difference it is between now and a year ago when the USAPC hosted the 18th General Meeting of the Pacific Economic Cooperation Council (PECC).

Looking for ‘Green Shoots’

Last May, we were all looking for “green shoots” of economic recovery, but we weren’t sure they were there. The world economy had just gone through the most extraordinary free fall. The most downloaded paper on one of the important websites for economists compared the Great Depression to what we saw in 2008-2009 and found the comparison, if anything, adverse for the current conditions as opposed to the Great Depression.

The world looks quite different now. Even a year ago, members of the PECC task on the economic crisis had a fair amount of confidence that the recovery would begin in Asia and would be relatively strong for the kinds of reasons that Dr. Izvorski had mentioned—the financial systems were relatively strong, there was fiscal space, and, most importantly, the economies, especially China, were acting decisively to counter the crisis. So we had some confidence that the recovery would begin.

At the same time, we were concerned that some of the actions countries were taking in fighting the crisis were not what we needed in the post-crisis economy. We were worried these actions would make things more difficult after the crisis. And essentially, that is where we are now, where large U.S. budget deficits, for example, which necessary in fighting the crisis, now present a very serious problem going forward. Similarly, Chinese monetary stimulation and investment stimulation may lead to inflation and other distortions in the Chinese economy.
There are a series of issues that require structural solutions. Thus, much of the PECC task force focuses on these structural solutions and, in particular, this rubric of “inclusive, balanced, and sustainable growth,” which represented an effort to try to capture this diverse set of policies that countries would have to adopt to transition to a new growth path on the other side of the crisis.

V-Shaped Recovery

In retrospect it does look like a V-shaped recovery, and I remember a year ago we had a very substantial debate on the whether the recovery would resemble more of an L-shape. The top red line is China floating above it all. The more advanced economies of Asia and the United States took the greatest hit and those are the lines toward the bottom.

The ASEAN economies have proved remarkably resilient in this crisis. It is a little worrisome that things look an awful lot like nothing has happened. These are the IMF projections. The red bars are economic growth rates between GDP growth rates between 2000 and 2007. The blue bars behind them are the IMF projections from 2009 to 2015. In other words, they’re the projections from here on forward, and there are very, very little differences between these bars.

So the question is, has nothing happened? I would argue that that would be a very dangerous way to look at it. An awful lot has happened. As we have discussed on this panel, a lot has happened that sets up the need for structural policy decisions throughout the region. I will argue toward the end that a lot has happened in how the United States should relate to this region in the years going forward. That’s the “fast forward” part.

Linking to Engines of Growth

Let me go relatively quickly through two slides that I had intended to talk about a little bit but they have been covered very well by Amb. Chan and Dr. Izvorski. One of them is the challenge of rebalancing, the challenge of making demand in all the economies of Asia Pacific region sustainable, not just in the sense that we don’t kill the environment around us but also sustainable in that we can pay for the debt that we taken on to consume.

This also means linking our production and our structures of economic growth to engines of growth, to areas where demand is likely to grow in the future, which is both a geographical concept and a sectoral concept in areas such as green energy. These have to be in addition structural changes within economies to accommodate this. President Obama’s net export policy United States is one example of rebalancing supply and shifting to net exports. But we also have to find ways to energize nontradeable sectors in much of Asia.

As we calculated in the PECC report, the magnitudes are not that large. A change in Chinese consumption of about 4-5 percent would offset that country’s net external trade surplus. If one digs down further into the sectoral implications, the changes or dislocations are potentially even smaller because many industries would produce whatever they produce regardless of who actually does the demanding.

That’s not to say that the political challenges aren’t great. In all of our economies, we understand that the political challenges of rebalancing will be very significant.

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Understanding Policy Prescriptions

The policies that we have in mind are probably better understood than almost any set of economic policy prescriptions that I can remember in my recent years as an economist. Amb. Chan, Dr. Izvorski, and Congressman Larsen all discussed them: budget discipline, financial regulation, the renewal of our technological base in the United States. All of these are U.S. policies.

There is a package of Chinese policies that leaders in Beijing understand and, in fact, articulates frequently. This also is the case in Japan. In general, there is a very sophisticated level of analysis and understanding of what needs to be done. But it’s another thing to implement these policies against the current political backdrop. We all face very serious problems, perhaps not surprisingly given the economic wringer we have all just gone through.

U.S./China Forecasts

Let me turn to the United States. Something rather dramatic has happened over the last two years. Here is a semi-serious graph. It projects the time when China will pass the United States in its GDP, and it projects it based on prior year growth rates starting in the year 2000.

If you had looked at historical growth rates in the year 2000 and asked when China would pass the United States you would have come up on the red line in market prices with an estimate at around 2060, or on the blue line in purchasing power parity with a number like 2030. Over the last couple of years that has dropped by just about a decade. In other words, if you now look at the time when China will catch up it looks like probably

continued on page eight
some time later this decade. We have gone from 2060 to something like 2010. China, by the way, will pass Japan this year in the size of its GDP. I estimate actually it happened on February 21st.

What does that mean? If you look at U.S. exports, there are two pie charts here. The left one is U.S. exports in 2009. The right one is the growth of U.S. exports between 2009 and 2014 if we achieve the President’s export doubling initiative. These are based on relatively simple assumptions about how fast those markets grow and how fast import penetration in those markets is likely to be. So this is a kind of first pass projection of what it would look like if we met the President’s export initiative.

The answer that emerges is that while U.S. exports in 2009 came roughly half from the advanced countries of the world and half from emerging markets, in the change between now and 2014, about three-quarters will have to come from emerging markets and only one quarter from the developed countries.

Moreover, within emerging markets—the red slice, which is developing Asian nations—has to be by far the largest slice and it would be roughly twice as large, around 41 percent versus 20 percent of current exports in 2009. So the next five years of exports have to double Asia’s role relative to what it is now.

The next five years of exports have to double Asia’s role relative to what it is now... which sets the strategic imperative for the United States

That sets the strategic imperative for the United States. We must engage emerging economies. I know I’m preaching to the converted here but it is now clearly an imperative that we have to tackle as a nation. We have to facilitate domestic adjustment.

The health bill actually makes a big difference because it will make it possible for people to change jobs without losing health insurance. But we must facilitate domestic adjustment also in terms of building strong export sectors and we must manage and engage a very, very complicated multilayered institutional architecture that is emerging in the world economy. By the latter I mean, the alphabet soup of various organizations, in all of which the United States must be an important participant.

I won’t go through the quotes, but it does seem to me that at top officials in the Obama Administration certainly get it. The President, Secretary of State Clinton, and Treasury Secretary Geithner all said very clearly that America’s role in Asia is very important.

The next 18 months are critical. APEC is coming to the United States in 2011. We will have a legislative win-
MORRISON: Before we turn to the panel let’s see if there’s another question. Stanley Roth in the back?

STANLEY O. ROTH, The Boeing Company: My question is for Prof. Petri about globalization. Do you see any impact from the current financial crisis in the Euro zone on the EU’s relative standing in the world in general and particularly from China’s point of view? As you know, China’s been quite dismissive recently of the US economy in light of our difficulties and we hear a lot from our Asian friends about how the Chinese model in some ways looks more attractive.

Now parts of the EU are in significant crisis and may be due for headed for change. So first, do you think there is significant change on the horizon in Europe? And second, how do you think that augurs for the relative balance of power financially in the different regions of the world?

MORRISON: Thank you. Amb. Chan, you may take whatever question you want and pass to the economists whatever you else want.

CHAN: On the question of the environment and ASEAN doing more I think ASEAN would like to do more. There isn’t complete agreement. The real question is, who’s going to give the financial assistance, technical assistance, the technology for us to do better? I think there’s always that aspect of it.

You are completely right about China absorbing much of the surplus from the other ASEAN countries because now China usually is the last last place before they package everything to send to the United States. I think the Chinese have been using that argument. I don’t think the U.S. Congress listens to that very much and it’s very hard for me to disaggregate who’s responsible for that part of the U.S. deficit.

But the numbers are changing, and I think this year we’re beginning to see that the United States is really importing much less from the region, mainly because of you’re just not buying as much.

IZVORSKI: In terms of value added of Chinese exports, 2 percent is the figure for the iPhone and the iPads. This is by no means representative. If that were the case, you would certainly see much fewer actions against such Chinese exports as steel, furniture, toys, and food products. There is a substantially higher value added to products that China exports to the region, probably 30 percent or 40 percent.

China’s trade surplus was very large in 2008, but shrank a little bit in 2009. The massive fiscal and monetary stimulus helped to shrink the trade surplus. Exports, nevertheless, continue to rise very rapidly. As China moves up the value chain, certainly that value added will be increasing for the more advanced products.

MORRISON: The figure I’ve usually heard for value added on Chinese manufactured goods is 17 to 20 percent. Does that seem right, Peter?

PETRI: It takes a lot of work to get a good number. There is a fair amount of analysis for that but it’s also the case that those percentages are rising. That is to say, there is a greater degree of sourcing within China that is now possible.

Let me just take up two points. First, there are market adjustments ain the United States. Exports are growing. The U.S. current account deficit is around 3 percent. That sounds like a very big number but we are, for better or worse, the only producer of the global reserve currency. And the rest of the world, to the extent it grows and needs more currency to fuel that growth, needs to find that currency some place and for better or worse it’s the U.S. dollar.

IZVORSKI: In terms of value added of Chinese exports, 2 percent is the figure for the iPhone and the iPads. This is by no means representative. If that were the case, you would certainly see much fewer actions against such Chinese exports as steel, furniture, toys, and food products. There is a substantially higher value added to products that China exports to the region, probably 30 percent or 40 percent.

China’s trade surplus was very large in 2008, but shrank a little bit in 2009. The massive fiscal and monetary stimulus helped to shrink the trade surplus. Exports, nevertheless, continue to rise very rapidly. As China moves up the value chain, certainly that value added will be increasing for the more advanced products.
tained or that there is some other ways of organizing the world that would work a lot better.

Triumphalism has not served anybody well when they were practicing it. It did not serve the United States well when during the “dot com” era. It did not serve Japan well. I hope China will learn from those mistakes and does not interpret the current three to five years of history as indicative of some major new lesson in how the world economy must function.

AMANDA ELLIS, World Bank: Thank you. Secretary Clinton has made it very clear that one of her central planks of US foreign policy is to shine the spotlight on women. I wonder if all three of you could give us your views on the dream realized with a particular emphasis on inclusion and that spotlight on women. Thank you.

SHERRY STEPHENSON, Organization for American States: I’d like to hear a bit more about what you have in mind for a fruitful Hawaiian APEC. I’d also like to focus on investment and the flow of people. APEC agreed on a menu of options for investment some years ago. What kind of investment principles would you envisage now? Something going much further than binding principles or something equivalent to those in a bilateral investment treaty which have been incorporated into all of the U.S. trade agreements?

With respect to demographics, what kind of agenda are you envisaging for APEC on this issue? Last year, the PECC undertook a major project on labor mobility. We had input and buy-in from all of our PECC member economies, produced a marvelous report and tried to get APEC interested in taking on the topic for this year. However, APEC wasn’t very receptive to the idea.

MORRISON: Thank you very much. Sherry was an author, along with Soogil Young of the Korea National Committee for Pacific Economic Cooperation (KOPEC), of the PECC report on labor mobility.

PETRI: What the fruitful Hawaiian APEC concerns is an effort that is parallel to the TPP agenda, which is really the formal negotiating agenda, such as it is, in the Asia Pacific now. We’ll discuss that later this afternoon. But there are many other things that we could pursue that are short of formal negotiations.

Some are simply initiatives that might represent important ongoing engagement, a kind of continuing harvest from APEC that hopefully will happen next year and then can occur year in year out. Kurt Tong, the U.S. Senior Official for APEC, is working very hard with his Japanese counterparts to line up support for initiatives that would carry over in APEC 2011.

IZVORSKI: On the question of migration and labor flows, the World Bank has been engaged over the last year or so in commissioning papers from the various ASEAN countries that will be included in a comprehensive report published in September. Clearly, this is a very crucial issue for the region itself.

Most of the migration in East Asia takes place within the region. At least 20 million are officially migrants and many more work throughout the region unofficially. Countries like Singapore, Malaysia, and Thailand are very concerned about how to manage expectations, how to manage flows, and how to manage remittances.

CHAN: I’ll answer the women’s question first. It’s Peter Petri’s dream to have the spotlight on women in the APEC meetings. In fact, there was. Last year I addressed the APEC Women’s Conference in Singapore. Some 700 women attended and the report of the Women’s Conference was presented at the Leaders’ Meeting. The APEC leaders promised to weave some of the recommendations into their final statement.

This was a great opportunity for women to network. They talked a great deal about financing, finding credit for women’s businesses and really encouraging women entrepreneurs. The Japanese said they will continue the

One of those initiatives is a Women’s Entrepreneurship Summit. It’s a very important, not just an important piece of social agenda but it’s enormously important for the regional economy to include more women in the labor force.

Investment pathfinders are the way that one might be able to integrate bits into a more coherent whole. There are now more investors as well as more sources and destinations for investment in Asia, making it all the more urgent to establish a more integrated and more transparent process.

Finally, on people flows, certainly as we think about rebalancing issues both people and capital flows associated with demographics are at the heart of some of the policy decisions we will have to make. It would be very useful to have an ongoing and deep dialogue on these matters. All of our economies are struggling with understanding how to change the profile of very expensive and maybe unviable pension and health care systems. Maybe we can get mutual support from engaging these collectively.

As we think about rebalancing issues, capital flows associated with demographics are at the heart of some of the policy decisions we will have to make
Women’s Conference during their host year in 2010. As Peter said, during the U.S. host year, there will be a similar conference to explore women’s issues.

Concerning labor flows, this becomes a very sensitive issue during an economic downturn. Singapore is one country in the ASEAN region that has said it is very open to migration because we are “manpower challenged.” But this year—which is an election year for us—immigration also has become sensitive in Singapore.

My government leaders are trying to say that Singapore will remain open, but we will be accepting fewer numbers of immigrants so we can absorb them into the workforce more effectively and the population can deal with the inflow. But this is not an easy matter to handle and, in reality, there isn’t really free flow of labor within ASEAN.

Finally, an important thing to bear in mind about APEC is that nine of its members also participate in the G20. The idea was that somehow the agenda of the G20 could carry over into APEC, particularly the focus on reforming financial markets, retuning economies, and realizing sustainable and inclusive growth. And, indeed, in APEC we’re thinking through ways are realizing structural reform and changing our pension systems and managing debt. So hopefully this will carry on, but it depends on the political will to bring this discussion into the agenda of each of the APEC conferences.

MORRISON: Thank you very much. Just in closing I’ll comment that this year I went to the first APEC Senior Officials Meeting—the so-called SOM I—in Hiroshima, Japan. I was sitting around the square table and I counted at one point the heads of the delegations and a substantial majority of those were women, about 60 percent. But in any case this is the public sector and the advances there are definitely ahead of the private sectors.

I think what we saw in 2009 was this extraordinary crisis and an extraordinary response by Asia Pacific countries and North American countries in terms of implementing stimulus plans. The Great Depression did not happen.

What was underscored by this panel is that we still face the formidable challenge of implementing structural changes and political sensitivities connected with realizing balanced, sustainable, both in the economic and in the environmental sense, and inclusive growth. I want to thank the panel for a really rich discussion of this topic. ♦