



APEC CEO SUMMIT 2002 REPORT

THEME: CHALLENGES FOR DEVELOPMENT IN AN ERA OF UNCERTAINTY

OBJECTIVES AND FORMAT

The APEC 2002 CEO Summit in Mexico provided an opportunity for the top Asia-Pacific business leaders to update their knowledge of the major economic, political, social, and technological developments affecting the APEC region. They also had a chance to help set the policy agenda for the region through in depth discussions with the APEC heads of government and other key officials from such institutions as the World Trade Organization, the United Nations, the Asian Development Bank, and the International Monetary Fund. In addition, the Summit enabled business leaders to develop new business opportunities and to learn of the latest business trends through informal discussions with their colleagues and peers.

Thursday, October 24th, 2002

CONFERENCE INAUGURAL ADDRESS BY PRESIDENT OF MEXICO VICENTE FOX

Opening the 2002 APEC CEO Summit, President Fox highlighted the improved trade relations, strengthened ties, and economic growth witnessed by the APEC region. Noting that development in these areas is the best guarantee of peace, President Fox also stressed that development must be shared, or it will not survive. The problems of all societies need shared solutions, both within and among the APEC economies, and cooperation will play a large role in the protection of the more vulnerable groups in the APEC region.

The biggest challenge facing the APEC region is the need to make something happen, whether reducing subsidies, increasing transparency, or providing equitable conditions to ensure liberty. President Fox further emphasized the benefit and need of compliance with the standards of international trade. After complimenting the companies in the APEC region for playing a fundamental role in the growth of the region, a result of their drive and vision, Fox officially opened the 2002 APEC CEO Summit.

NAFTA WORKS – AND STRENGTHENS MEXICO FOR APEC COMPETITION

Session Chairman – Hon. Pierre Pettigrew, Minister of Trade, Canada

Discussants:

- Claudio X. González, Chairman, Kimberly-Clark Mexico
- Mike Ducker, CEO, FedEx International
- Larry Liebenow, Chairman, US Chamber of Commerce
- Harley Shaiken, Director, Center for Latin American Studies, University of California at Berkeley
- **Moderator** - Ángel Villalobos, Vice Minister for Intl. Trade, Mexico.

A discussion of how and why NAFTA is succeeding, its significance for Mexico's role and strategy in the APEC region, and what needs to be improved.

NAFTA has been successful for all three parties, and will continue to work well. Trade and investment have flourished: between 1993 and 2001, Mexican exports increased by 221 %; US exports by 86%, and Canadian exports by 95%. NAFTA has brought economic growth and rising standards of living to all three countries, and has served as a great example of the benefits of trade liberalization. NAFTA works because trade and investment work. Tariffs and non-tariff obstacles have been removed, but challenges remain, and companies and countries have to adapt rapidly. It will take time, and there are no magical solutions, but Mexico appears to be well on its way: It has been outperforming every other country in Latin America.

The majority of the panel agreed that NAFTA has been a significant boon to Mexico. Mexico has tried other things that haven't worked, but since NAFTA was instituted, the number of Mexican exporters has doubled. Although the numbers are great, there was some skepticism - real wages have declined, and 2/3 of US exports to Mexico are for assembly only. The panel affirmed that smaller enterprises and ordinary people need access to the benefits offered by free trade. It was noted that NAFTA is only nine years old, and it is perhaps too early to judge its results. But it has provided a model on which to build other agreements within APEC, and has established a set of rules that work.

The audience acknowledged the skepticism voiced during the session. When asked to what degree NAFTA had been successful, 48% of the audience felt that its success was "Moderate."

Q) On a scale of 1 to 5 (1 being the lowest degree of success and 5 the highest), how would you rate NAFTA's success?



Number Of Votes Received: 124 Total Number of Voting Attendees: 300

3 [Moderate success]	59	48%
4	41	33%
5 [High success]	16	13%
1 [Low success]	4	3%
2	4	3%

A CONVERSATION WITH US SECRETARY OF STATE COLIN POWELL

Secretary Powell noted that although the US is a rich and powerful country, there are still pockets of poverty. He emphasized that those creating wealth have to make sure that it benefits not just their businesses, but also the societies in which that wealth is created. If people can see a future for themselves, they will support globalization, free markets and democracy. If people do not believe that they can have the kind of future they want, they will not support these ideas. Wealth must be generated within a society to make sure that this occurs.

Secretary Powell also noted that no business or country is immune to terrorism, as has been unfortunately evident in the APCE region. But even with the aftermath of September 11, the concerns about the Korean peninsula, and problems in the Middle East, there are still several good things occurring, and we must see opportunities amidst the crises. APEC provides a very useful forum for issues regarding economics, sustainable development and free trade, and serves the region as a valuable forum for political issues.

OUTLOOK FOR LATIN AMERICA

Session Chairman - William Rhodes, Senior Vice Chairman, Citigroup and Citibank

Discussants:

- Guillermo Ortiz, Governor, Central Bank of Mexico
- Carlos Eduardo Represas, CEO, Nestle Americas
- Guillermo Perry, Chief Economist for Latin America, The World Bank
- Hernan Somerville, Director, FINTEC, Chile

In the wake of the recession in the United States, the collapse of the Argentine economy, and continuing political turmoil in some Latin countries, the region's economies have suffered significantly adverse conditions. The panel examined how they were coping and what the road ahead looked like.

The current Argentina crisis has ignited a crisis of confidence in globalization. The "Washington consensus" is being increasingly challenged, raising the risk of a return to the failed policies of the past.

The panel examined the flaws in the policies followed in the last decade. It was proposed that the required institutional environment was not created to cope with the change. Many reforms were incomplete and contradictory. Argentina for example never fully reformed. It had also pegged to the wrong currency (the dollar, even though it traded more with Europe) but it could not detach itself as the economy was too dollarized. Argentina believed there was a shortcut to credibility: it did not build its institutions, and borrowed stability rather than built it.

The panel agreed on the importance of Brazil, and on the policies adopted by the Brazilian government that will be formed in the weeks following the CEO Summit. Latin America must fight "reform fatigue": Latin America needs leadership: only with more reform will it maintain its global competitiveness, in particular against Asia.

Finally, it was remarked that the "Washington consensus" is a bargain: trade against reform. But while Latin America reformed, it never got free trade (with the US).

OUTLOOK FOR JAPAN

Discussants:

- Tim Collins, Chairman, Ripplewood Holdings
- Sachio Semmoto, CEO, eAccess
- Richard Katz, Senior Editor, Oriental Economist Report
- Ryoji Musha, Chief Strategist, Deutsche Securities Ltd., Japan
- **Moderator** – Yoshihisa Komori, Columnist, Sankei Newspaper

For a decade, Japan's economy has stagnated. Recently the situation has worsened as deflationary forces have become stronger. The panel debated whether Japan is approaching a true crisis point, and what the implications of the Japanese situation are for the region and the world. They also discussed what, if anything, could be done, and what is likely to be done.

The most important element of Japan's recovery discussed by the panel was the current political situation. It was noted that several prime ministers have failed to bring about economic reform, and reform-oriented Minister Takenaka was appointed over the strong opposition of the LDP. Prime Minister Koizumi's fiscal austerity is an obstacle, as is the fact that Japan is likely to have nationalistic resistance to foreign investors.

The audience was divided between "no" and "maybe" as to whether Japan would have a major economic and financial collapse in the next 15 years. While some panelists saw a chance for tremendous growth after restructuring, one felt the situation was too precarious to judge, and that the risk of a major economic crisis was greater today than ever before. Another opinion offered was that next year, Japan will face a catastrophe in the financial industry, and that a crisis may be the result of radical bank reforms. An adequate safety net must be in place.

Overall, the panel warned that reforms in Japan must occur soon. The longer the crisis continues, companies on the margin will become bad companies and the banking system will deteriorate. The problems of Japan will become the problems of the world.

Friday, October 25th, 2002

**A CONVERSATION WITH TIGERS: Chief Executive of Hong Kong - TUNG CHEE HWA
Prime Minister of Singapore - GOH CHOK TONG
Moderator - Clyde Prestowitz, President, Economic Strategy Institute**

This conversation with Tung Chee Hwa and George Yeo highlighted the changes that have been occurring in the Southeast Asian region. Discussing Hong Kong, it was noted that although there was a great deal of skepticism over the idea of one country with two systems, it has been very successfully implemented. Capital flows are strong, and Hong Kong enjoys many comparative advantages, including human capital and geographic location. These advantages are currently enjoyed by the 3200 companies headquartered in Hong Kong.

Singapore has had to reposition itself vis-à-vis China, and provides an alternative market that is friendly to everyone. Singapore has been very active in free trade agreements, and it was estimated that there would be a free trade area between China and Southeast Asia within the next ten years.

Hong Kong and Singapore are both international cities, and attract the best and most diverse talent from around the world. Though the outlook is good, the recent tragedy in Bali reinforced the notion that the West must not single out Muslims for restrictions.

POVERTY AND GLOBALIZATION

Introduction: S.R. CHO, International Chairman, PBEC

Opening Remarks: Deputy Prime Minister of Malaysia, Hon. Abdullah Ahmad Badawi

Discussants:

- Manuel Arango, President, Mexican Center for Philanthropy
- Joseph Ha, Vice President, Nike
- Hilton Root, Former U.S. Director, Asian Development Bank
- **Moderator** – Thomas Palley, Director, Globalization Reform Project, Open Society Institute


While globalization has produced many winners and unprecedented economic growth, there are also some who wind up as losers or who never have a chance to get in the game. This has resulted in a backlash to globalization that must be addressed if the benefits of globalization are to continue.

The panel began by asking whether we could learn to bring together our strengths and weaknesses to face the challenges of mankind that are confronted by nations, organizations, and families. It was suggested that dogma should not warp our thinking, and that alternative approaches to development should not be dismissed. It was

suggested that the policies of the IMF have been damaging, and that the Washington Consensus, which drives globalization, has not taken into account the needs of developing countries. 82% of the audience felt that the anti-globalization movement did have some merit, although it was noted that globalization as a whole is not a negative phenomenon.

The most contentious issue was how to combat poverty and make globalization a force for positive change. It is an issue that society as a whole must face, and it was suggested that the method of development must be decided by individual countries at their own risk. The debate amongst the panelists highlighted the contentious issues within the globalization debate. While the majority of the audience felt that globalization was removing countries' abilities to follow alternative paths of development, half also felt that an open economy was best for development.

This dichotomy was reinforced when it was suggested that the questions posed to the panel and audience were designed to elicit responses in praise of globalization and democracy, a point that the audience agreed with through its applause. While 75% of the audience felt that democracy and human rights were necessary inputs in development, the panel had a tense debate about what type of democracy is necessary. The one point of consensus among panelists and the audience for improving globalization was to improve education, reduce poverty, and ensure political stability.

Q) Are human rights and democracy important for development? 



Number Of Votes Received: 136 Total Number of Voting Attendees: 300

Yes	100	74%
No	36	26%

CRISES FUTURE

Discussants:

- Clement Bezold, President, Institute for Alternative Futures
- Nafis Sadik, UN Secretary General's Special Envoy for AIDS in Asia, UNAIDS
- Paul Ehrlich, Bing Professor of Population Studies, Stanford University
- Gabriel Quadri de la Torre, General Director, Céspedes
- **Moderator** – Gareth Evans, President, International Crisis Group

Over the past decade, the world has continually been surprised by unexpected crises such as the bursting of the Japanese financial bubble, the Asian Financial crisis, the collapse of the U.S. technology bubble, and recently the terror attacks of September 11, 2001. What is there lurking over the horizon that may surprise us again? We know

that there are already severe water scarcities in much of the world. AIDS continues to march untrammelled through the world while growing populations increasingly migrate to what look like greener pastures. How will we handle these and other fundamental issues?

To open the discussion, the panel highlighted the some crises that the world is currently confronting. The number of AIDS patients continues to rise, primarily in developing countries that have limited access to pharmaceuticals. The population is growing at a rapid pace. These are both problems in and of themselves, but are exacerbated by issues such as the availability of fresh water, the rise in global temperature, and the spread of disease.

Humans have also created potential crises. The recent discovery of nuclear materials in North Korea led the panel to wonder what other countries or regions might have access to nuclear weapons. Another topic of heated international debate is that of genetically modified organisms, and panel discussed the necessity of the precautionary principle.

The environment, and the efforts made to maintain it, will play the biggest role in the future welfare of citizens in all regions. The comparison was made between the loss of a species and the loss of a rivet in an airplane. Not all of the rivets are necessary, but the more rivets you lose the sooner you will reach the tipping point. There is no way for us to know what that tipping point will be, when it will occur, or what the result will be. What is known is that by attempting to prevent crises now, we may significantly lessen crises of the future.

SECURITY AND APEC

Session Chairman: Dr. Nur Hassan Wirajuda, Minister of Foreign Affairs, Indonesia

Discussants:

- William Perry, Senior Fellow, Institute for International Studies, Stanford University
- Eduardo Medina Mora, General Director, Mexican Intelligence Agency (CISEN)
- Hisashi Owada, President, Japan Institute of International Affairs
- Jacques Payer, President & CEO, EADS Telecom
- **Moderator** – Robert G. Lees, Executive Advisor, Asia & the Pacific KPMG Consulting

Security has always been a major issue in the APEC region, but in the wake of September 11, and the war on terrorism, it has come even more to the fore. How will we deal with terrorism in the APEC region? What is happening to old and new alliances? What are the implications of missile defense? Can the APEC countries assure continued security and stability in the region? These are the questions to be addressed.

The panel noted that APEC has not, until 9.11, focused on security issues, but that it changed with the realization that 9.11 was as much an attack against the economy as it was against people. Besides, security and prosperity are interdependent and mutually reinforcing.

The United States opposes North Korea's nuclear program because it weakens deterrence in the region; has a domino effect; increases the probability that terrorists will obtain nuclear weapons. North Korea is therefore everyone's problem, just like terrorism is everyone's problem. The appropriate approach to deal with North Korea is one that combines extreme firmness on the principles with calm, patience and flexibility to avoid inflaming the situation. The United States is ready to take strong actions to prevent the development of North Korea's nuclear potential. If it acts in concert with Japan and South Korea, it will be more effective.

It was argued that Japan can keep its goals of promoting peace, stability and prosperity in the region through new means, and a more active role - without touching article 9 of its Constitution, which limits its ability to act militarily.

The war against terrorism is very different from traditional warfare. In traditional wars, one has a good understanding of the capabilities of the enemy, but little understanding of the enemy's intentions. With terrorism, we have the reverse situation: a good understanding of the intentions of the enemy, but little understanding of their capabilities. This is remedied through increased intelligence sharing between national intelligence agencies, bilaterally and through networks.

The costs of increased security (insurance premiums, transport security) cannot be borne exclusively by the business community, but they cannot be borne exclusively by the government either. They must be shared between both.

Q) What is the greatest potential security threat for the future?



Number Of Votes Received: 59 Total Number of Voting Attendees: 200

Terrorism	37	63%
U.S. Hegemony	14	24%
Mass cross border people movement	4	7%
None of the above	2	3%
Rising China	2	3%
North Korea	0	0%
Japan remilitarization	0	0%

WHITHER THE WTO AND THE NEW ROUND

Session Chairman: Hon. Mark Vaile, Minister of Trade, Australia

Discussants:

- Tadakatsu Sano, Vice-Minister for International Affairs, Ministry of Economy, Trade and Industry, Japan
- Amb. David Aaron, Senior Adviser, Dorsey and Whitney and former Undersecretary of Commerce
- Stuart Harbinson, Director of the Office of the Director General, World Trade Organization
- **Moderator** – Eduardo Pérez Mota, Permanent Ambassador of Mexico at the WTO

The World Trade Organization has recently succeeded in launching a new round of multi-lateral negotiations after a great effort. The panel discussed how will it now proceed, whether it will be able to succeed, and whether the age of rounds is over. Panelists also discussed whether the WTO could be overtaken by regional trade agreements, or if they are part of the same effort.

The panel began by observing the approaching one-year anniversary of the launch of the Doha round. Doha confirmed the important role of the WTO in establishing a rules-based trading system committed to further trade liberalization, and has established an ambitious agenda for the WTO's 145 members. Of critical importance is the role of the developing world within the WTO, especially with regard to agriculture, access to pharmaceuticals, and

their ability to fully implement the Uruguay Round. Another issue addressed was that of the role of the business community in the WTO, and their need to sell the benefits of trade liberalization and respond to the concerns of those who oppose globalization. Many issues will not get resolved without input from the business sector.

The biggest topic of discussion was the accession of China to the WTO. Though stating that it was too early to tell what the political effects within the WTO would be, China has been a constructive player and has confirmed its dedication to the WTO agenda. Over half of the audience felt that China would significantly strengthen the role of developing countries in Geneva.

In answer to whether the WTO's future was uncertain, the panel thought that the facts spoke for themselves. Countries are queuing up to join, and more are using the WTO dispute settlement mechanism. The audience agreed, with the majority agreeing that the WTO, as opposed to individual trade agreements, would be the most effective tool to increase and improve trade.

Q) How will China's WTO accession affect the developing countries bloc in WTO negotiations?



Number Of Votes Received: 36 Total Number of Voting Attendees: 200

Significantly strengthen it	19	53%
Marginally weaken it	7	19%
Marginally strengthen it	6	17%
No impact	2	6%

OUTLOOK FOR FINANCIAL MARKETS AND EXCHANGE RATES

Session Chairman: Francisco Gil Díaz, Minister of Finance, Mexico

Discussants:

- David Robinson, Deputy Director of Research, IMF
- Yoshihiro Sakai, Fellow, Center for Strategic and International Studies
- **Moderator** – Gerard Baker, Chief US Commentator and Associate Editor, Financial Times

Financial market turmoil and volatile exchange rates can play havoc with the best-laid economic plans. What can we expect from the markets in the near to medium future and how can we avoid crises and achieve reasonable stability?

One major topic of concern was the US trade deficit, which has ballooned since the 1980s with no apparent end in sight. The panel discussed the sustainability of such a large deficit, and commented that the US economy has been running out of steam.

The Japanese market was of equal concern. The meltdown that has occurred is due primarily to a loss of confidence. The panel suggested that ideally the yen should be at 180 or 200, but that that level would be difficult to support. The panel further predicted that both the yen and the dollar would depreciate, and warned that pegging currencies to the dollar was a bad idea.

Even though there have been crises in Latin America (Argentina, Mexico), the panel suggested that the threat of major crises in the region has decreased due to changes in policies. This will further be accomplished by maintaining a balance sheet on the international level (foreign debt) and on the domestic level (larger reserves). The panel warned that countries must be able match reserves to their liabilities. It was also noted that while the IMF has responded to crises, most countries in financial turmoil are unable to implement the formulas the IMF suggests.

A CONVERSATION WITH AUSTRALIAN PRIME MINISTER, JOHN HOWARD

APEC this year meets under the shadow of the outrage caused by the terrorist attack in Bali on October 12, just like it met last year under the shadow of the outrage caused by the terrorist attack in the United States on September 11. This year just like last year, APEC has to fight terrorism as well as it promotes economic cooperation and development. The Bali attack was not an attack on Australians, but on Westerners in general, and it was meant also to destabilize the government of Indonesia.

The original goals of APEC remain desirable, achievable and must be achieved. The lesson of the last years is that open markets lead to strong, sustainable growth. Australia, for example, has reduced its tariffs by 80%, diversified its export base and adopted a flexible exchange rate. These measures have allowed it to weather the storm of the Asian financial crisis of 1997.

The Doha WTO round remains central to the Australian trade agenda. A reduction in protectionism, in particular agricultural protectionism, would bring enormous economic benefits. Unfortunately, high levels of agricultural protectionism persist in the US, EU and Japan. The Prime Minister announced that Australia would grant duty-free market access to the world's 49 least developed countries. A lack of real reforms in the Doha round on agriculture would significantly weaken faith in the WTO.

OUTLOOK FOR THE U.S. AND APEC ECONOMIES – RECOVERY? HOW STRONG?

Session Chairman: Luis Ernesto Derbez, Minister of Commerce, Mexico

Discussants:

- Martin Feldstein, President, National Bureau of Economic Research
- Hubert Neiss, Chairman, Deutsche Bank Asia
- David Murray, Managing Director, Commonwealth Bank of Australia
- **Moderator** – Mustafa Mohatarem, Chief Economist, General Motors Corporation

In view of the continuing weakness of the Japanese economy, the key to renewed growth in the APEC region is what happens to the U.S. economy. While it appears to be recovering, the question is how strong that movement will be and what impact it will have on the rest of the region.

The slowdown in the US has changed the world, and terror has exacerbated an already difficult world economic situation. Three conditions were considered to be necessary to ensure growth in the APEC region: the US must be able to sustain its economic recovery; any potential war in Iraq must be short, and disruption of oil and financial markets temporary; and there must be no major new terrorist attack. Any of these changes would drastically change outlook of the market.

A key question for APEC is the US as the engine of growth. Though growth is slow, it is on course (with the exception of the stock market); real growth of 2.5 to 3.5% is expected in 2003. Key determinants in US recovery will be business investment and the behavior of consumers, which is difficult to predict. China was also discussed

as a potential engine of economic growth in the APEC region, and the panel agreed that it is already important to the region, and important for the expansion of trade within Asia. As this occurs, Asia will become less dependent on the US as an engine of growth.

The panel also discussed how to foster cooperation and/or competition within the region. APEC needs to look seriously at eliminating rules and regulations and promoting strategic alliances that bring about increases in productivity. Policies need to be implemented that will make the region more efficient, improve the logistic structure, and reduce transaction costs. APEC must also be ready to handle to challenges to developing countries in the region, particularly with the growing investment in China.

HEALTH AND ECONOMIC DEVELOPMENT

Session Chairman: Julio Frenk, Minister of Health, Mexico

Discussants:

- William Haseltine, CEO, Human Genome Sciences
- Manuel Martínez Domínguez, President, Columbia Laboratories
- Seth Berkeley, President, International AIDS Vaccine Initiative
- **Moderator** – Maureen Lewis, Chief Economist for Human Development, The World Bank

The issue of health is integrally intertwined with economic development, both at the emerging stage and at the frontier stage. Countries whose working populations are devastated by diseases are unlikely to attract investment and achieve economic take off. Providing basic health care becomes the top economic policy priority. At the same time, new genetic technology provides incomparable opportunities as well as refund moral and policy challenges.

The panel generally agreed that good public health is not merely a result of economic development (economic development generating the revenue required to fund health); it is actually also a condition of economic growth. Studies by the World Health Organization have shown that economic growth can be boosted by good public health, as good public health increases labor productivity and educational performance, enhances the investment climate (investors preferring countries with healthy populations), increases the level of savings (people save for retirement as they know they will reach old age), etc.

Mankind's life expectancy has increased more in the last few years than at any time other time in history. Chile's per capita income today is equivalent to that of the US in 1900, but life expectancy is about 30 years greater because of accumulated public health knowledge. In particular, preventive medicine plays a critical role and requires much more attention.

On the issue of intellectual property rights over patented medicines that developing countries need to fight pandemics such as AIDS and tuberculosis, it was acknowledged that incentives for innovation must be preserved. An international framework could prevent violations of patents while providing access to drugs in the developing countries. Another incentive could be to create a global fund that would pay e.g. US\$ 2 billion per year for 10 years to the company that will find a cure for malaria (a disease that otherwise offers little economic incentives for funding R&D into a cure).

Finally, the panel discussed the possibility of pricing the same drugs differently in developed and developing countries, as purchasing powers are different. While it is politically unacceptable today and would risk being bypassed by parallel imports from the markets of the South into the markets of the North, it would make it economically profitable for pharmaceutical companies to serve the markets of the South that they do not serve today.

TRANSPARENCY AND GOVERNANCE

Discussants:

- Juan Salles, President, Academia Mexicana Auditoría Integral
- Samuel A. DiPiazza, Jr., Global CEO, PricewaterhouseCoopers
- Linda Tsao Yang, Chairwoman, Asian Corporate Governance Assoc.
- Jusuf Wanandi, Chairman, CSIS Indonesia
- Thomas J. Donohue, President, US Chamber of Commerce
- **Moderator** – Winston Wallin, Chairman, Caux Round Table

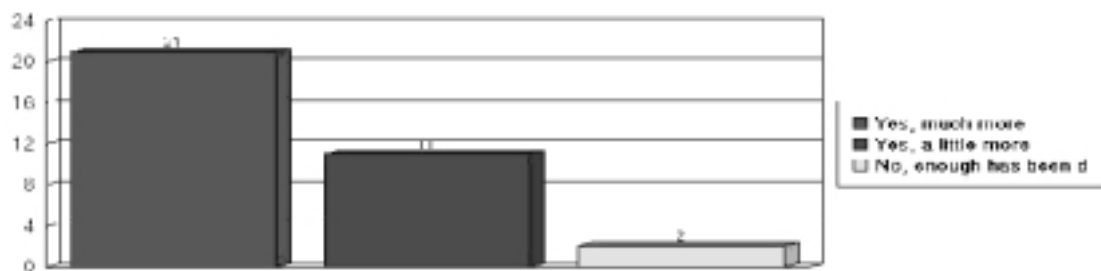
In the wake of the Asian financial crisis, the Enron scandal, and the bursting of the U.S. technology bubble, the issues of transparency and governance have come to the fore as being at the heart of healthy economic growth. How to deal with them and to achieve acceptable global standards is a matter at the top of the APEC agenda.

The panel began that stating that transparency and governance are issues that affect both the public and private sectors. They are complex issues that effect markets all over the world, especially with regard to consumer confidence. On the private sector side, it was noted that business is the force in the world that creates wealth and can solve problems, but that we need a better system than we have now. Corporations need self-discipline, and people such as CEOs need to be held accountable by those who put them in that position – boards of directors cannot be passive. Greater transparency will lead to greater investor confidence, which will be better for companies.

With regard to the public sector, the issue that concerned the panel most was investment in developing countries. Poor nations need access to capital, and the panel agreed that the creation of rules, institutions, and an enforcement system was imperative to attracting investment. Certain basic political stability is important, but long-term stability can only come about with certain democratic rules. It was also remarked that what is good for international investors is doubly good for domestic investors. Furthermore, though people may not like the rules, they need to know what they are and that they will be enforced impartially. Once confidence and trust are built, money will come.

While many panelists questioned the idea that there was one best governance system, it was suggested that there is a universal standard – honesty is honesty everywhere.

Q) Should the APEC region further reduce government ownership & control over corporations?



Number Of Votes Received: 34 Total Number of Voting Attendees: 300

Yes, much more	21	62%
Yes, a little more	11	32%
No, enough has been done	2	6%

CHALLENGES FOR DEVELOPING COUNTRIES

Opening Remarks: Yuan Tseh Lee, President, Academia Sinica, Chinese Taipei

Session Chairman: David de Ferranti, Vice President, Latin America & Caribbean, The World Bank

Discussants:

- Il SaKong, President, Institute for Global Economics
- Lorenzo H. Zambrano, Chairman & CEO, CEMEX
- T.N. Srinivasan, Professor of Economics, Yale University
- John Tsagronis, Senior Policy Adviser, US Agency for International Development
- **Moderator** – Robert Bartley, Vice President & Editor, The Wall Street Journal

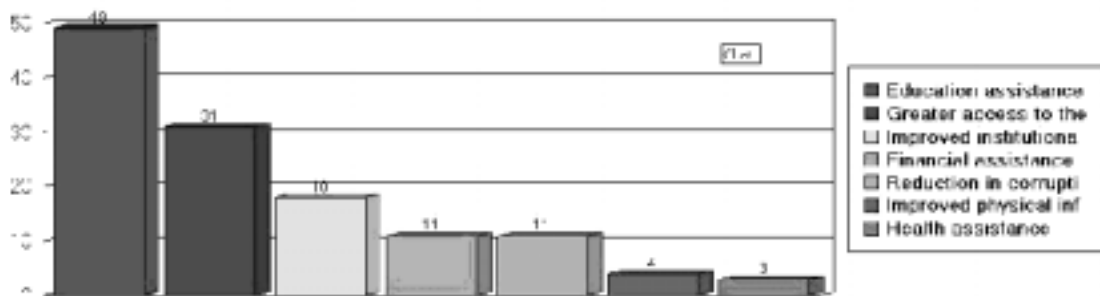
Most of the APEC members are emerging market countries. The challenges they face economically, politically, socially, and culturally are enormous. For APEC to succeed these challenges must be recognized and the developed country members must take steps to facilitate development. What are they and how should they be taken?

The panel began by discussing where APEC countries should seek inspiration to chart their development course. It was noted that previous models, like Argentina and the Asian Tigers, have experienced tremendous difficulties. Panelists also suggested that the developed world must encourage the development plans and economic growth of developing countries, and acknowledge that there is not one best plan for all countries to follow.

The challenges faced by developing countries encompass all aspects of society: economic, political, social, and cultural. But one issue that the panel, and the audience, felt would provide the greatest benefit to the developing world is education. Further improvements suggested included capacity building, particularly that of infrastructure, in order to provide clean water, transportation, and energy. Progress in these areas will help to combat disease, improve health and general welfare, and increase trade.

APEC can play a positive role in the region, and needs to focus on capacity building. This focus must include institutions. The income gap must be addressed, and democracy and human rights are issues that cannot be ignored. The developed economies of APEC must encourage the developing economies along these lines, but keep in mind that all countries develop in unique ways.

Q) What do developing countries need most?



Number Of Votes Received: 103 Total Number of Voting Attendees: 300

Education assistance	49	48%
Greater access to the markets of developed countries	31	30%
Improved institutional capacity	18	17%
Financial assistance	11	11%

Saturday, October 26th, 2002

A CONVERSATION WITH LEADERS:

- **President of Indonesia - MEGAWATI SOEKARNOPUTRI**
- **President of the Philippines - GLORIA MACAPAGAL-ARROYO**
- **Prime Minister of New Zealand – HELEN CLARK**
- **Moderator – Lorraine Hahn, CNN Asia**

The three leaders emphasized the importance of effectively fighting terrorism, and they pointed to the strong actions their countries had taken already before the terrorist attack in Bali on October 12. But they refused to allow the fight against terrorism to shift the focus away from or to inhibit economic development, as they agreed that underdevelopment fuels terrorism.

They called upon the developed nations of the world and of the APEC region to make good on their repeated commitments to increase development assistance. For them, this requires firstly that they fulfill the promises of greater financial aid made at the Monterrey Summit.

Equally importantly, the leaders asked that developed nations allow developing countries to grow their economies by removing trade barriers, in particular in the form of agricultural subsidies and tariffs in the US, Japan and Europe. They repeatedly stated that many “developed nations preach development, but practice protectionism”, and that they would use the Doha WTO round as the prime vehicle for ensuring that trade liberalization spurs shared economic development.

OUTLOOK FOR CHINA

Discussants:

- Jean-Christophe Iseux, Member, China People’s Political Consultative Committee, China.
- David Eldon, Chairman, Hong Kong & Shanghai Banking Corporation, Ltd

- Fan Gang, Director, China Reform Foundation
- Yu Xiaosong, Chairman, China Council for the Promotion of International Trade (CCPIT)
- **Moderator** - Fred Hu, Managing Director, Goldman Sachs Asia

China has been the outstanding growth story of the APEC region for the past decade. Will it continue and what are the vulnerabilities?

The panel expressed optimism in the sustainability of China’s economic growth in the foreseeable future, as it is fueled by a strong and sustainable internal demand, an increasing FDI inflow, and a global growth expected to increase. It was suggested that foreign investors should move into China with an eye for long-term returns, not short-term benefits.

The “4th generation” of leaders slated to take over soon will adopt the same controlled-pace of transition and keep the same direction for reforms. They are very supportive of the rule of law and will contribute to a further reduction of corruption, which is not a widespread phenomenon when compared to many other countries, such as e.g. Russia. These new leaders will provide a smooth transition, not a rupture.

The issue of cohesive economic development in China was also addressed. China has to make great efforts to maintain social and regional cohesion: 40 million workers have been laid-off in recent years as a result of restructuring in State-owned businesses, and there are great disparities between the cities and the country-side, and between the inner provinces and the coastal ones. The government however is tackling the problem, in particular with a “Go West!” policy.

Finally, the troubles in the banking sector, over-burdened with as much as 40% of non-performing loans. To address this risk, holding entities have been created to take on these loans and avoid that their settlement lead to massive lay-offs. The banks also receive technical assistance to ensure that they do not take bad loans in the future.

Q) Do you believe that China’s economic growth is sustainable? 



Number Of Votes Received: 119 Total Number of Voting Attendees: 300

Yes	94	78.99%
No	25	21.01%

OUTLOOK FOR ASEAN

Discussants:

- Roberto Romulo, President, Equitable Card Corp., Philippines
- Rodolfo C. Severino Jr., Secretary General, ASEAN
- Frank-Jürgen Richter, Director Asia, World Economic Forum
- Nayan Chanda, Director Yale University, Globalization Center
- **Moderator** – Michael Mullen, Director, US National Center for APEC

Can ASEAN get back on the high growth path? Will it be able to compete with an increasingly powerful China? Can it achieve greater internal integration as a means of becoming more competitive?

The panel began by mentioning four items on which the outlook for ASEAN depends: 1) the pace and success of internal domestic reforms the member countries undertake; 2) terrorism, and what the ASEAN countries do to respond to it and prevent it; 3) what happens to the global economy; and 4) how deeply and rapidly ASEAN proceeds with the integration of the regional market.

China has a tremendous impact on investment in ASEAN, and that impact will continue to increase. Some panelists felt that ASEAN would never be competitive with China, but must be complementary to China. ASEAN does have advantages – there are agricultural opportunities, especially for the Philippines and Indonesia, as China builds more factories, and ASEAN has a very important role to play with regard to technology both regionally and globally. Though investors pay more attention to China and Japan, there is no need for a doomsday outlook; however, regional integration is key.

Inter-ASEAN trade comprises over 25% of all ASEAN trade, but is essentially trade in pre-processed goods or components. Ultimately, both ASEAN and China are dependent on the external market. The ASEAN business sector needs to push regional integration

ENERGY FUTURE

Session Chairman: Raúl Muñoz Leos, CEO, PEMEX

Discussants:

- Lim Man Onn, CEO, PEG Gas Asian Grid
- Robert Van Adel, CEO, Atomic Energy of Canada
- Jeremy Rifkin, President, Foundation on Economic Trends
- **Moderator** - Timothy Ong, Publisher, Asia Inc.; Member of the Board, Singapore Petroleum

The world economy runs on energy. Not only the price of oil, but also the availability of natural gas, the adequacy of electric power generating capacity, and the potential of nuclear energy are critical to our future. What are the trends and what unexpected crises are waiting for us?

Economic expansion will result in more energy consumption. There have been great developments in the past 50 years, but the oil crises of the 1970s compelled us to make economic growth less dependent on the use of hydrocarbons. The panel agreed that we are moving into the sunset era of fossil fuels, and must think where we will head after oil. Although the prospect of war in the Middle East came up, the panel agreed that it's less what happens in the next 3 or 4 months, but what the key energies of the future will be.

The APEC region needs to discuss alternative futures, and the panel dealt with several questions, including the impact war in the Middle East would have on the cost and availability of oil to economies in the APEC region. It was further discussed what APEC can do as individual economies and as a region.

Of additional concern was what the energy trends of the future will be. Nuclear energy is a controversial international issue, and was also controversial within the panel; some panelists felt that nuclear should remain an option, while others warned that it was expensive and a security concern. It was also suggested that we could be moving into a hydrogen era, which is both renewable and eliminates waste.

A CONVERSATION WITH PRESIDENT OF CHINA, JIANG ZEMIN

President Jiang reminded the attendees that the road has been bumpy for China in the last few years, with financial and economic turmoil surrounding it throughout the APEC region. China's economic performance has nevertheless been excellent, with very high and sustained annual growth rates for a decade. China's economic growth will nevertheless be dependent on that of the world at large and the Pacific basin in particular, said President Jiang, and vice-versa. He underlined that China's unprecedented and unmatched growth was not the result of favorable short-term circumstances, but of long-term sustainable factors.

Less than a year after China's accession to the WTO, President Jiang pledged that his country would make good on the promises it has made and will play an active role in future WTO negotiations. China's trade policy is that of liberalized trade with any country that is interested in genuinely opening its market on a reciprocity basis. In particular, President Jiang pointed to the excellent trade relationship between China and Mexico: he assured that this relationship would remain strong and fruitful in the long run as the economies of the two countries are highly complementary.

A CONVERSATION WITH PRESIDENT OF PERU, ALEJANDRO TOLEDO

In the midst of a period of turbulence, President Toledo pointed to Peru as a success story in the making. Peru, he said, is a unique gateway to the Americas and the Pacific basin. It strongly supports free-market economics and privatization, and is committed to preserve and increase its political, economic, legal and social stability. All political parties and provincial governments have also signed an unprecedented pledge to the stability of their policies for the next twenty years, giving investors unparalleled predictability to their business environment.

After less than two years in office, President Toledo remarked how his country had turned the page of four years of recession to register around 4% growth in 2001 and 2002. This growth is also not exclusively dependent anymore on the mineral and natural resources sector. Peru has its arms wide-open for foreign investors who would want to take advantage of Peru's preferential trade agreement with the US. Peru has also a vast and untapped tourism potential.

A CONVERSATION WITH PRIME MINISTER OF CANADA, JEAN CHRETIEN

Prime Minister Chrétien began by commenting on the enduring strength and dynamism of the Canadian economy and its solid foundation for prosperity and growth. Canada is expecting the strongest growth among the G7 countries, and is also the only country in the G7 expected to balance its books. He also made that comment that you need to be responsible with your economy to encourage investment, and that the mood for investment in Canada is good.

The Prime Minister also mentioned the recent one-year anniversary of September 11, which struck close to home for Canadians – it was a threat to the largest trading relationship in the world and Canada's closest friend and ally, and was a comprehensive test of people and their spirit.

While September 11 exacerbated a global economic slowdown, Canada took major steps toward maintaining its economy. It is an economy that has shown extraordinary resilience; Canada did not fall into a recession and has increased employment. Canada has implemented a comprehensive and balanced agenda that invests in people, and is making great strides in advancing education, research and infrastructure. It further plans to be one of the top 5 countries in R&D by 2010.

STATEMENT BY NAFTA PARTNERS WITHIN APEC AND WTO

- Juan Gallardo Thurlow, Mexican Business Council
- Thomas d'Aquino, Canadian Council of Chief Executives
- Sy Sternberg, US Business Roundtable

Policies of good government are essential in order to attract investment. These include respect for the rule of law, protection of private property and intellectual property, enforcement of laws, and an independent judicial system. While rules are necessary, sound principles are imperative. It is also of critical importance that deals be kept and that there be no excuses. Countries must participate actively in the structures put in place after negotiations.

APEC has contributed to progress, but can and must do better. Two examples of issues that must be addressed are customs procedures and the mobility of businesses within the region. The business roundtable has endorsed the idea of reducing transaction costs by 5% by 2006. It further recommends that transparency agreements within APEC should go beyond WTO rules, and urges completion of the Doha Round negotiations by January 1, 2005. APEC will then be a powerful catalyst for the upcoming ministerial meeting in Cancun.

TECHNOLOGY DRIVES THE FUTURE

Session Chairman: Carleton S. Fiorina, Chairman & CEO, Hewlett Packard

Discussants:

- Emilio Azcárraga Jean, Chairman & CEO, Grupo Televisa
- Craig Mundie, Senior Vice President & Chief Technical Officer, Advanced Strategies and Policies, Microsoft
- Pei Gang, Director, Shanghai Institutes for Biological Sciences
- J. T. Battenberg, Chairman, President & CEO, Delphi
- **Moderator** – Charles Vest, President, Massachusetts Institute of Technology

Despite recent difficulties in the technology arena, its potential for driving growth has barely been scratched. What can technology do and how can we remove the roadblocks that are preventing us from realizing the full potential of new technology?

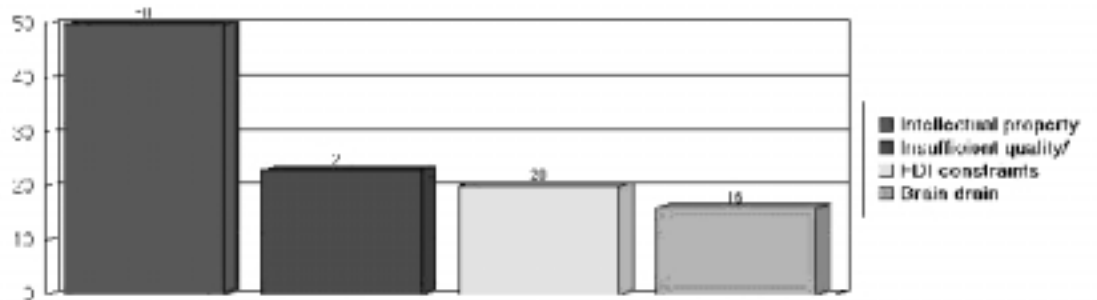
The panel discussed the need to remove standardization roadblocks. While it agreed on the need for standards to ensure the interoperability of technology platforms and to help them reach a critical mass, it also underlined the danger of elaborating standards at the national rather than international level, as national standards represent rigid barriers to trade and to the spread of interoperable technologies worldwide. Standards should also not become constraints on the evolution of technology products: they should be a floor giving all products a common base from which to operate, rather than a ceiling constraining the operation and evolution.

The panel agreed that technology will indeed drive the future, but that the issue would be who participates in that future and how. It was felt that the key to the spread of technology innovation resided primarily in education, the necessary seed for research into and use of technology.

One panelist remarked that a common policy mistake is to see technology as a silver bullet. It is actually the application of technology that is critical, how the community receives it: it is a change and program management challenge.

A poll of the audience showed that 60% thought that China would have a negative impact on technology investment in the APEC region. One panelist argued that this seemed logical, but was actually true only on the surface: technology investment is not a fixed amount, but is destined to grow. Besides, China's growth is likely to have a spillover effect in the region and China itself will become an outward investor.

Q) Which is the most significant roadblock to the spread of technology?



Number Of Votes Received: 109 Total Number of Voting Attendees: 300

Intellectual property rights	50	45.87%
Insufficient quality/quantity of engineers	23	21.10%
FDI constraints	20	18.35%
Brain drain	16	14.68%