

# Rebuilding the Global Economy

Rebalance | Connectedness | Sustainability



# Foreword

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**Gautam Banerjee**  
Executive Chairman  
PricewaterhouseCoopers LLP  
Singapore

Welcome to Singapore! PricewaterhouseCoopers is honoured to be the Knowledge Partner of the APEC CEO Summit 2009.

The APEC CEO Summit 2009 agenda is an important one. The global financial crisis has brought new insights to the role of governments in addressing global and systemic risks. Businesses have to be prepared and well-equipped as we navigate a changing landscape. Political and business leaders need to find solutions together and this Summit provides the opportunity and the platform to do so.

In this new environment, what role can policy makers and businesses within the Asia-Pacific play to rebuild and revitalise the global economy? I have always been fascinated by how, in less than a generation, Asia has been transformed from a region of war-torn countries into affluent and dynamic economies. As we stand on the threshold of a post-global financial crisis era, I am even more fascinated when asked to consider the prospects for this region. Personally, I believe that the Asian momentum will continue and that the post-crisis world will be an Asia-Pacific centric world.

I am pleased to present: 'Rebuilding the Global Economy: Rebalance, Connectedness, Sustainability', a survey report conducted in collaboration with the Organising Committee of APEC CEO Summit 2009. This report reflects the views of a sample of industry leaders within the region. I believe that business and policy makers in this region have important messages and lessons that we need to hear and weave into our strategic business plans and public policies. I hope that you will take the time to read the report.

I would like to thank all the respondents for allocating their time to share their views with us, to the PricewaterhouseCoopers team led by Kyle Lee, as well as the people across the PricewaterhouseCoopers network of member firms and the APEC CEO Summit 2009 Organising Committee for making this report possible.

# Foreword

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**Chong Siak Ching**  
Chair, Organising Committee  
APEC CEO Summit 2009

It is my pleasure to welcome you to the APEC CEO Summit 2009.

Over the last 12 months, member economies have been confronted by a global recession of historic magnitude. The APEC CEO Summit 2009 provides an apt forum to discuss issues facing the world today.

We are very pleased to have PricewaterhouseCoopers as the Knowledge Partner for the APEC CEO Summit 2009. The report provides an insight into the kind of topics that will engage us throughout the CEO Summit. It builds on an online quantitative survey of 350 respondents as well as personal interviews with 24 opinion makers in the APEC region.

The prologue which follows this foreword stresses that the worst of the crisis may be over but recovery will be long drawn. The longer term challenge is how to create balanced and sustainable global economic growth when government stimulus packages are eventually withdrawn. The contributions of the respondents are organised into three broad topics; Rebalance, Connectedness and Sustainability, which taken together, can safely be called the agenda of the global economy for the next few years.

The report is recommended reading for the APEC CEO Summit 2009. I hope it is successful in raising the level of discussion at the CEO Summit and you enjoy reading it.

# Contents

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<b>Section 1 : Prologue</b>	<b>4</b>
<hr/>	
<b>Section 2 : Rebalance</b>	<b>8</b>
Section 2.1 Reworking the Global Order	10
Section 2.2 Restructuring the Global Financial Sector	11
Section 2.3 Balance between Consumption and Savings in Key Economies	16
<hr/>	
<b>Section 3 : Connectedness</b>	<b>18</b>
Section 3.1 Streamlining Regulation	19
Section 3.2 Discouraging Protectionism	20
Section 3.3 Breaking Trade Barriers	22
<hr/>	
<b>Section 4 : Sustainability</b>	<b>28</b>
Section 4.1 Managing Climate Change	29
Section 4.2 Ensuring Food Security	32
Section 4.3 Investing in Innovation	34
<hr/>	
<b>Section 5 : Epilogue</b>	<b>36</b>
<b>Acknowledgements</b>	<b>38</b>
<b>Research methodology</b>	<b>42</b>
<b>Contacts</b>	<b>42</b>
<b>Further reading</b>	<b>43</b>

## Section 1

# Prologue

On September 15, 2008 Lehman Brothers filed for bankruptcy setting off a chain reaction leading to a financial crisis. Only concerted action by governments of major economies prevented a complete meltdown of the global financial system. Despite unprecedented fiscal and monetary stimuli, major economies descended into recession and a global economic crisis of historic magnitude ensued.

In the months that followed the collapse of Lehman Brothers, the effects of the credit crunch were felt across the world. Countries with large trade deficits sought help from the International Monetary Fund (IMF) as funds took refuge in safe havens. Consumers and companies battened down the hatches to weather the credit storm. Global demand for goods and services from export-led economies, oil exporters and commodity producers around the world experienced a dramatic slump. Unemployment soared and virtually no country was spared as the carnage spread across the globe.

Unprecedented government intervention in stimulating demand and providing substantial support to the

financial sector prevented a complete meltdown of the global financial system. The scale of public spending on stimulus packages was massive. The three largest economies in APEC namely China, Japan and the United States were committed to spend, in aggregate US\$1.5 trillion to restore confidence and restart their sputtering economies.

These measures restored confidence. This is confirmed by 57.7% of the respondents who agree or strongly agree that the worst of the economic crisis is over (see figure 1.1). A further 65.6% are satisfied or very satisfied with the monetary and fiscal stimuli in their country (see figure 1.2).

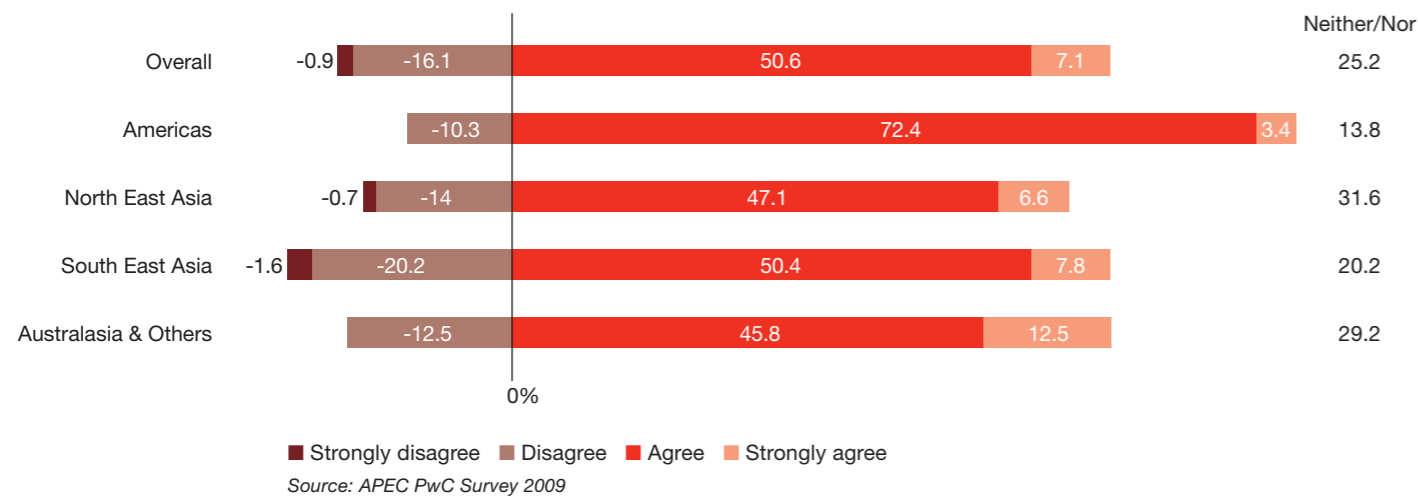
As the pall lifts over the carnage left behind by the financial crisis, many governments realise that they will soon have to start reducing the huge budget deficits and mounting public debt they incurred in order to rescue banks, absorb the social costs of recession and stimulate demand. According to the IMF, the crisis has resulted in a major increase in fiscal deficits and public debt. In the advanced G-20 economies, public sector borrowings will increase from an average of 79% of gross domestic product (GDP) before the crisis to 120% forecast for 2014 (see figure 1.3). The challenge to the governments of advanced economies is daunting and a cause for concern. Such concerns on fiscal deficits and mounting public debt are shared by 67% of our respondents (see figure 1.4).

As signs that the crisis is receding started to appear, so did suggestions on how governments of advanced economies should start the process of fiscal consolidation and withdrawal of stimuli. However, policy makers have to carefully balance the risk of premature withdrawal of stimuli against prolonging the stimuli which will only saddle the economy with more public debt.

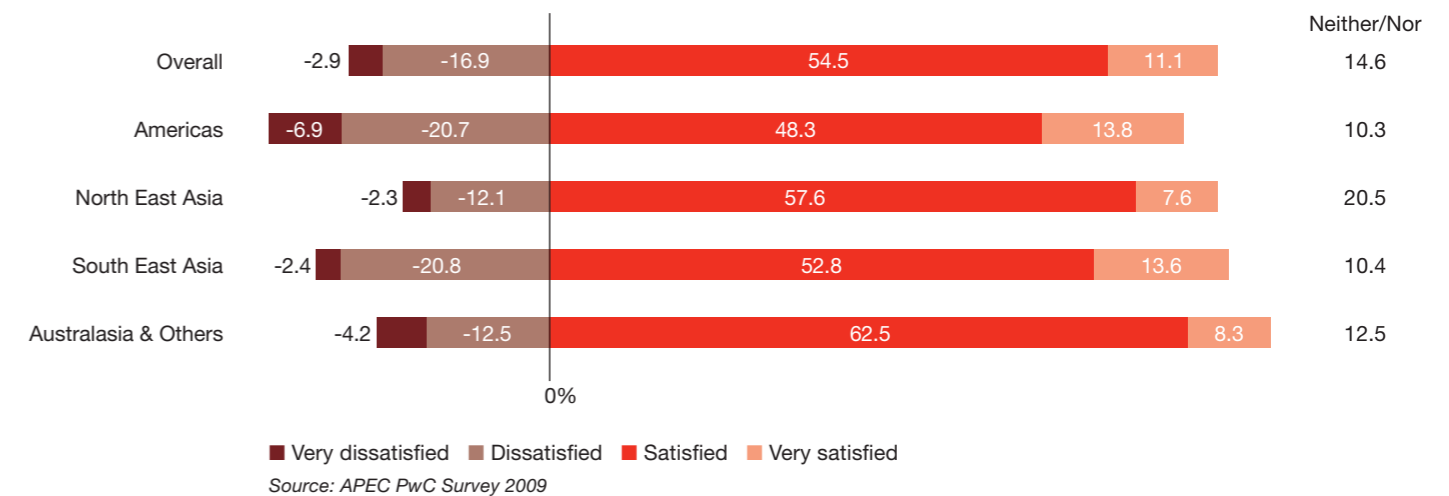
This recession has impacted all of us for sure. However, the Asian Financial Crisis (1997) changed the world of our business. It made us more cognisant of the risk of gearing, use of foreign currencies, etc. This crisis did not have the same currency shocks. Neither did we see a spike up of interest rates. The crisis of 1997 prepared us well for this crisis.

**Philip Ng**  
CEO, Far East Organization

1.1 To what extent do you agree or disagree that the worst of the economic crisis is over?



1.2 To what degree are you satisfied or dissatisfied with the monetary and fiscal stimuli in your country?



In the second quarter of 2009, green shoots appeared in the brown fields of some advanced economies; they were overshadowed by the veritable jungles sprouting in some emerging economies. Four APEC economies; China, Indonesia, South Korea and Singapore reported annualised growth of more than 10% per annum for the second quarter. Other economies in the region followed suit.

Asia's rebound has many causes. Philip Ng, CEO of the Singapore-based Far East Organization explains: 'The crisis of 1997 prepared us well for this recession.'

Another reason why domestic spending has bounced back is because Asian governments' stronger finances at the onset of the financial crisis enabled larger fiscal stimuli to be deployed quickly and to good effect.

Although it is easy to boost an economy with large government spending, this also makes an economy vulnerable to inflating credit and asset-price bubbles. The rapid rise of many Asian stock exchanges and reheating property markets are cause for concern to policy makers.

The longer term challenge is the creation of balanced and sustainable global economic growth when government fiscal stimuli are eventually withdrawn.

In this context, APEC members which constitute half of the G-20 and account for more than half of the world's economic output, have a critical role to play. Our respondents identified three key areas in which APEC could make a substantial contribution.

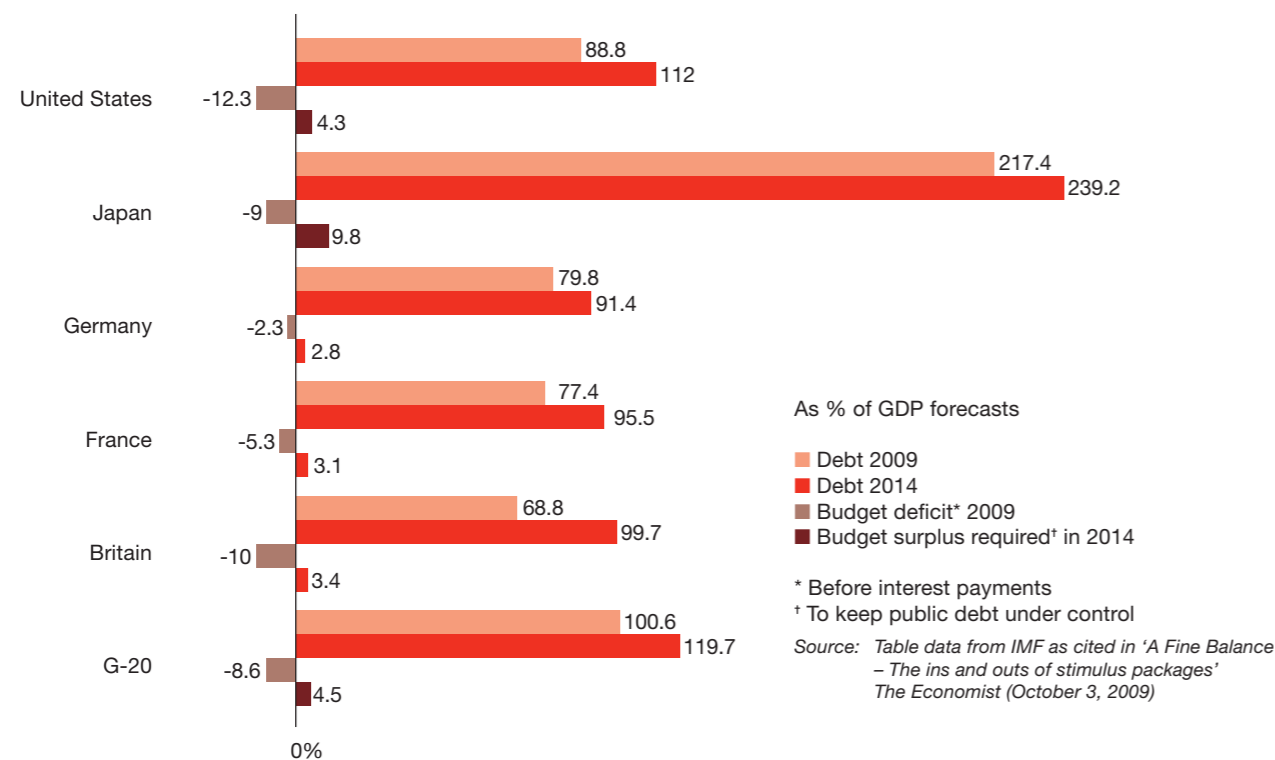
1. **Rebalancing** the global economy will require reworking the global order, restructuring the global financial sector and finding the right balance between consumption and savings in the biggest economies of the world.
2. The financial and economic crisis has starkly exposed the degree of **connectedness** in the world today. Policy makers must work collectively to streamline regulation, discourage protectionism and break trade barriers at regional as well as global levels.
3. The global economic and financial crisis as well as environmental concerns have brought **sustainability** into sharp relief. Future economic growth will have to be underpinned by managing climate change, ensuring food security and investing in innovation.

This report will discuss each of the above areas in the next three sections.

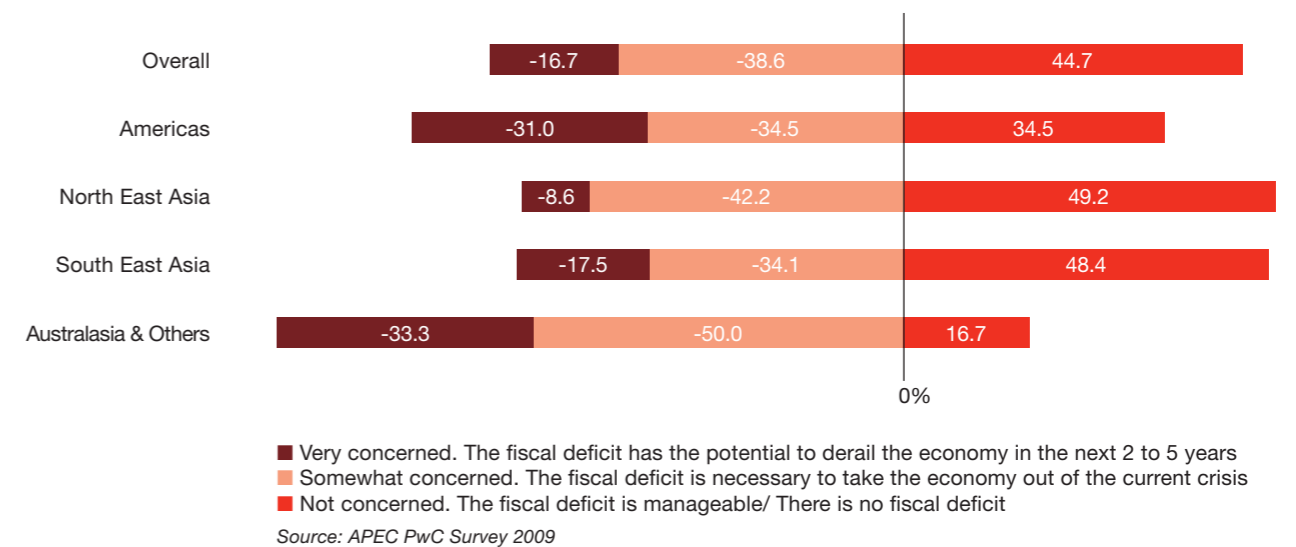
The collapse of Lehman Brothers set off a chain reaction leading to the financial crisis. However, the causes of the global recession which followed are many and deep rooted. Past remedies for cyclical economic downturn may not work this time. Both advanced and emerging economies must collaborate to find solutions to structural issues which underpin this crisis. This may result in changes to the global economic order.

**Koh Boon Hwee**  
Chairman, DBS Group Holdings

1.3 Government debt as percentage of gross domestic product



1.4 How concerned are you with the fiscal deficit of your country?



# Rebalance

Rebalancing the global economy will require reworking the global order, restructuring the global financial sector and finding the right balance between consumption and savings in the biggest economies of the world.



## Section 2

# Rebalance

The global financial and economic crisis has exposed chinks in financial systems throughout the world. It is believed that the long term implications of the crisis will take some time to unravel.

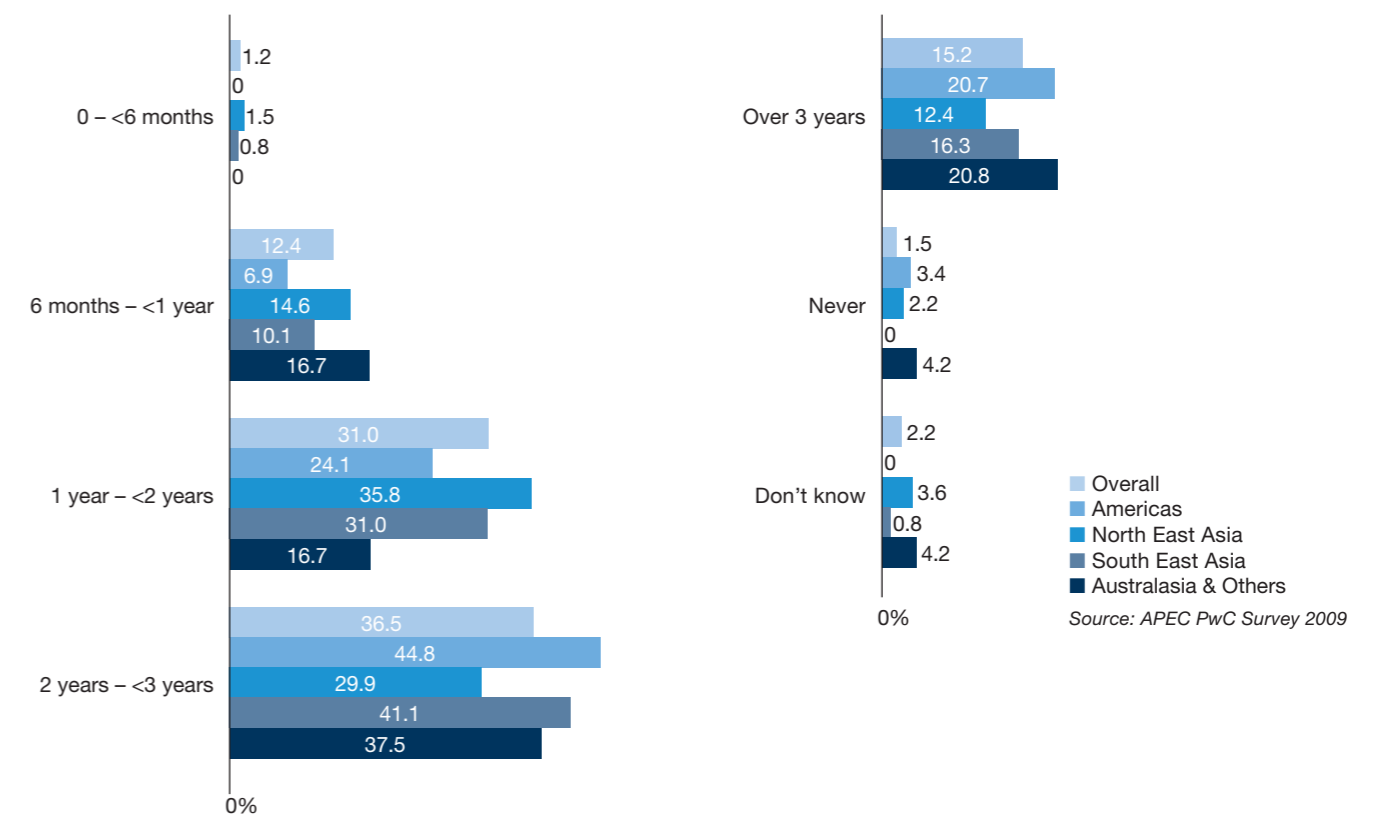
The impact of the crisis on unemployment, manufacturing and the financial system has been far reaching with certain parts of the world economy fundamentally altered. The IMF's October 2009 forecast of a lowered global output in the medium term implies a permanent loss in potential output.<sup>1</sup>

Thirty-seven percent of the respondents we interviewed believe that it will take two to three years

for the global economy to recover fully. Within regions, 45% of the respondents from the Americas believe that the global economy will take two to three years to recover. Respondents from North East Asia are more optimistic. While 35.8% of all respondents from North East Asia expect the global economy to recover within one to two years, another 14.6% expect recovery within six months to one year (see figure 2.1).

2.1

Within what timeframe do you expect to see a full recovery of the global economy?



<sup>1</sup> International Monetary Fund, 'World Economic Outlook' (October 2009). 'Potential Output' refers to the level of output that can be sustained without an increase in the rate of inflation.

Global recovery is uneven and unemployment is expected to remain high in advanced economies. According to the IMF, the Euro area will experience an unemployment rate close to 12% in 2010, which will taper down to 9.5% by 2014. The United States is expected to face an unemployment rate of 5% by 2014, down from 10% in 2010.<sup>2</sup>

Survey responses on future unemployment figures mirror the statistics above. Only 25% of all respondents agree with the statement: ‘unemployment will revert to pre-crisis levels in the next twelve months’, while another 2.5% strongly agree with the statement. Pessimism is highest in the Americas, where only 10% agree with the statement and another 10% strongly agree. Interestingly, in North East Asia, 26% of the respondents do not take a stance (see figure 2.2).

### Section 2.1 Reworking the Global Order

A tectonic shift in world economic power, which was already underway, has perhaps been hastened by the passage of the economic crisis. The global crisis provides an opportunity for world leaders to reshape global economic and financial systems in order to better

reflect a rapidly changing world order. In September 2009, the G-20 replaced the G-7 as a permanent gathering for discussion of global economic issues.<sup>3</sup> The replacement served two purposes – it helped strengthen and coordinate global initiatives in tackling the economic crisis, but more importantly, it reflected a newly emerging world economic order. World leaders have also committed to redistribute voting shares in the IMF more equitably among world economies. This initiative will go a long way in providing legitimacy to the working of the IMF and potentially help it to play a more effective role in the world.

Emerging economies witnessed a slower pace of economic growth as export markets in developed economies shrunk rapidly. Xu Heyi, Chairman, Beijing Automotive Industry Holding Co. Ltd., expects pressure on employment to remain high in China.

However, emerging economies escaped rapid shrinkage and reorientation of their financial industries, most of which employed instruments less complex than the ones used in relatively more developed economies. Indeed, some commentators find the term emerging economies a misnomer.<sup>4</sup> These economies account for

34% of the world’s GDP<sup>5</sup> and in light of the economic crisis, many of the key emerging markets provide a more stable economic environment than certain developed economies. The size of many emerging economies suggests they are not ‘emerging’ anymore and may have already found a place on the world stage. For example, China will account for almost 25% of total global growth in the period 2008-2013.<sup>6</sup> At the same time, the United States will continue to remain the largest and most important economy in the world and recovery of the global economy continues to hinge on the recovery of the US domestic economy as well as a fundamental restructuring of its financial industry.

### Section 2.2 Restructuring the Global Financial Sector

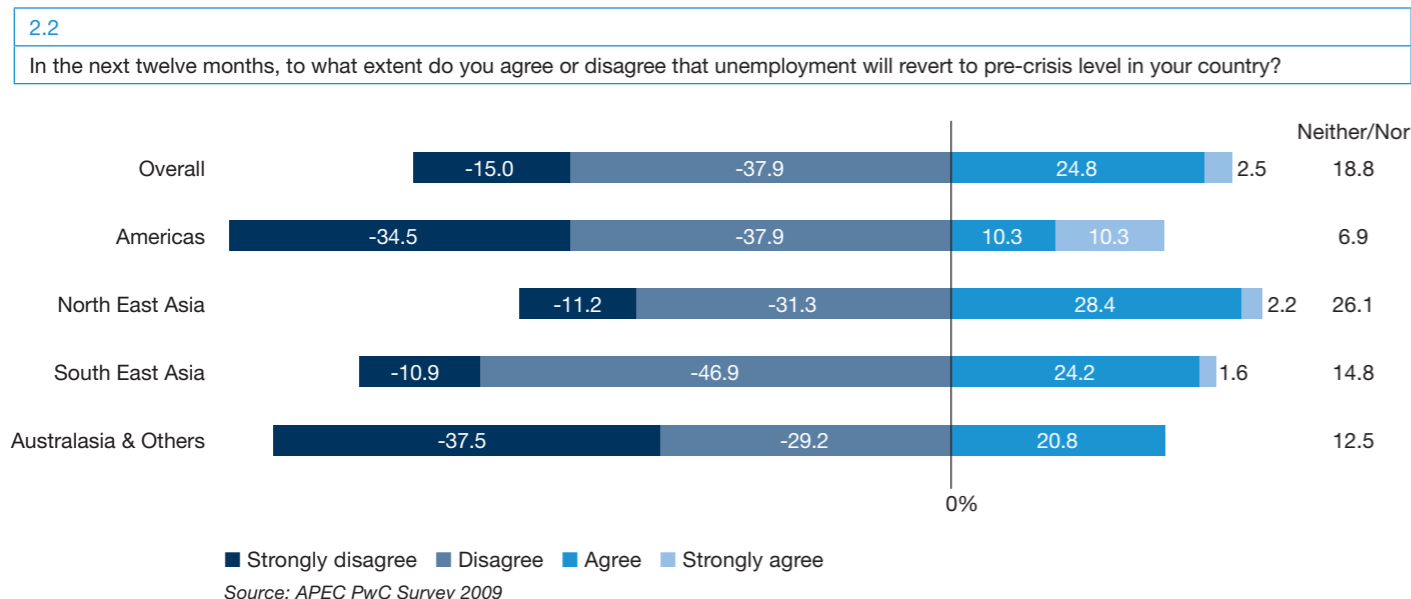
While all economies of the world were adversely affected by the crisis, the United States, the largest economy in the APEC region as well as in the world, and where the crisis germinated, faced its worst recession since the Great Depression of the 1930s.<sup>7</sup> Recovery in the United States is expected to be slow and long drawn as is reflected in the IMF’s World Economic Outlook which forecasts that the United States will face negative growth of 2.7% in 2009.<sup>8</sup> The United States has a burden of significant public debt and current account deficit. Its public debt in 2009 is estimated to be US\$12.9 trillion, or 60% of its total GDP.<sup>9</sup> Its current account deficit was US\$700 billion in 2008.<sup>10</sup> While the current account balance has improved in light of the economic crisis, it is expected to continue to remain in deficit. In the financial year ending September 2009, US budget deficit touched US\$1.42 trillion or 9.9% of GDP, the highest since 1945.<sup>11</sup> Kenneth Jarrett, Vice Chairman for Greater China in APCO Worldwide and a former U.S. Consul General in Shanghai, believes that the United States government’s capacity to do more is constrained, which provides further cause for caution.

The export-led economic model is responsible for lifting hundreds of millions of East Asians out of poverty in the last fifty years. It is a great success story. However, the global financial crisis has highlighted the need to modify the economic model’s heavy focus on manufacturing for export which is achieved at the expense of domestic demand. With increasing national income, East Asians will demand a higher quality of life. As such, value-added industries in services will develop and the proportion of domestic demand in the economy will gradually increase.

**Dongsoo Kim**  
Chairman and President, The Export Import Bank of Korea

The Chinese government faces several challenges. One of them is employment, which in my opinion, will be an issue that China will face for a long period of time. Influenced by the global economy where demand has weakened, China’s export oriented enterprises have fallen in scale and number, leading to a decline in demand for labour. This is being exacerbated by new entrants into the job market, especially from people born in the 1980s and 1990s. Employment pressure will remain high in China, both in rural and urban areas.

**Xu Heyi**  
Chairman, Beijing Automotive Industry Holding Co. Ltd.



<sup>2</sup> International Monetary Fund, ‘World Economic Outlook’ (October 2009)  
<sup>3</sup> Andrews Edmund L., ‘Leaders of the G-20 Vow to Reshape the Global Economy’ *The New York Times* (October 4, 2009) and Dougherty Carter ‘Group of 7 Begins Slow Fade’, *The New York Times* (September 25, 2009)  
<sup>4</sup> Dimitrijevic Marko, ‘Insight: Emerging Market Label is Obsolete’, *The Financial Times* (September 28, 2009)

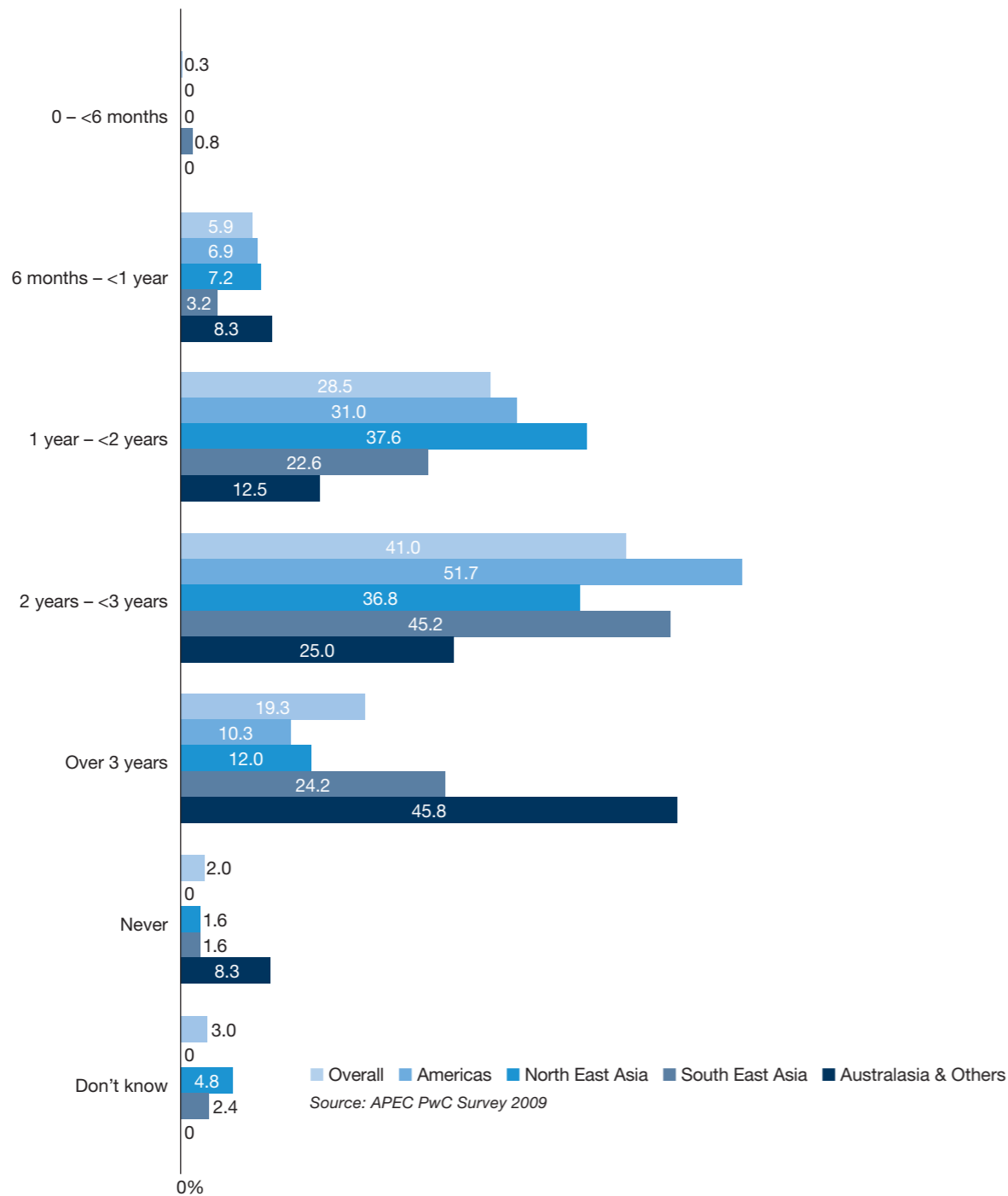
<sup>5</sup> Ousmene Mandeng, Deputy Division Chief, IMF quoted in *The Financial Times* (September 23, 2009)  
<sup>6</sup> Chandy Lawrence, Gertz Geoffrey, Linn Johannes ‘Tracking the Global Financial Crisis: An Analysis of the IMF’s World Economic Outlook’, Wolfensohn Centre for Development at Brookings (May 2009)  
<sup>7</sup> News report on a speech by Dr. Ben Bernanke, Chairman of the US Board of Governors of the Federal Reserve System to the Council on Foreign Relations, ‘Worst crisis since 1930s, says Fed’, *BBC* (March 10, 2009)  
<sup>8</sup> International Monetary Fund, ‘World Economic Outlook’ (October 2009)  
<sup>9</sup> Office of Management and Budget, Executive Office of the President of the United States, ‘Historical Tables Budget of the US Government: Fiscal Year 2010’ (February 26, 2009)  
<sup>10</sup> Bureau of Economic Analysis, US Department of Commerce, ‘US International Transactions, 2nd Quarter 2009, Current Account’ (September 16, 2009)  
<sup>11</sup> ‘Final Estimate for US Budget Deficit: \$1.4 Trillion’, *Reuters* (October 7, 2009)

Expectedly, 41% of all respondents believe it will take at least two to three years for the United States to recover from the economic crisis. Respondents from South East Asia are the most pessimistic. Forty-five percent of all respondents from South East Asia expect recovery in the US economy to take two to three years, while another 24% expect recovery to take more than

three years. In contrast, half of all respondents from the Americas (51.7%) hope to see a recovery within two to three years (see figure 2.3).

Respondents recognise that the leadership of the United States will continue to be critical in overhauling global economic and financial systems.

2.3  
Within what timeframe do you expect the US economy to recover from the global economic crisis?



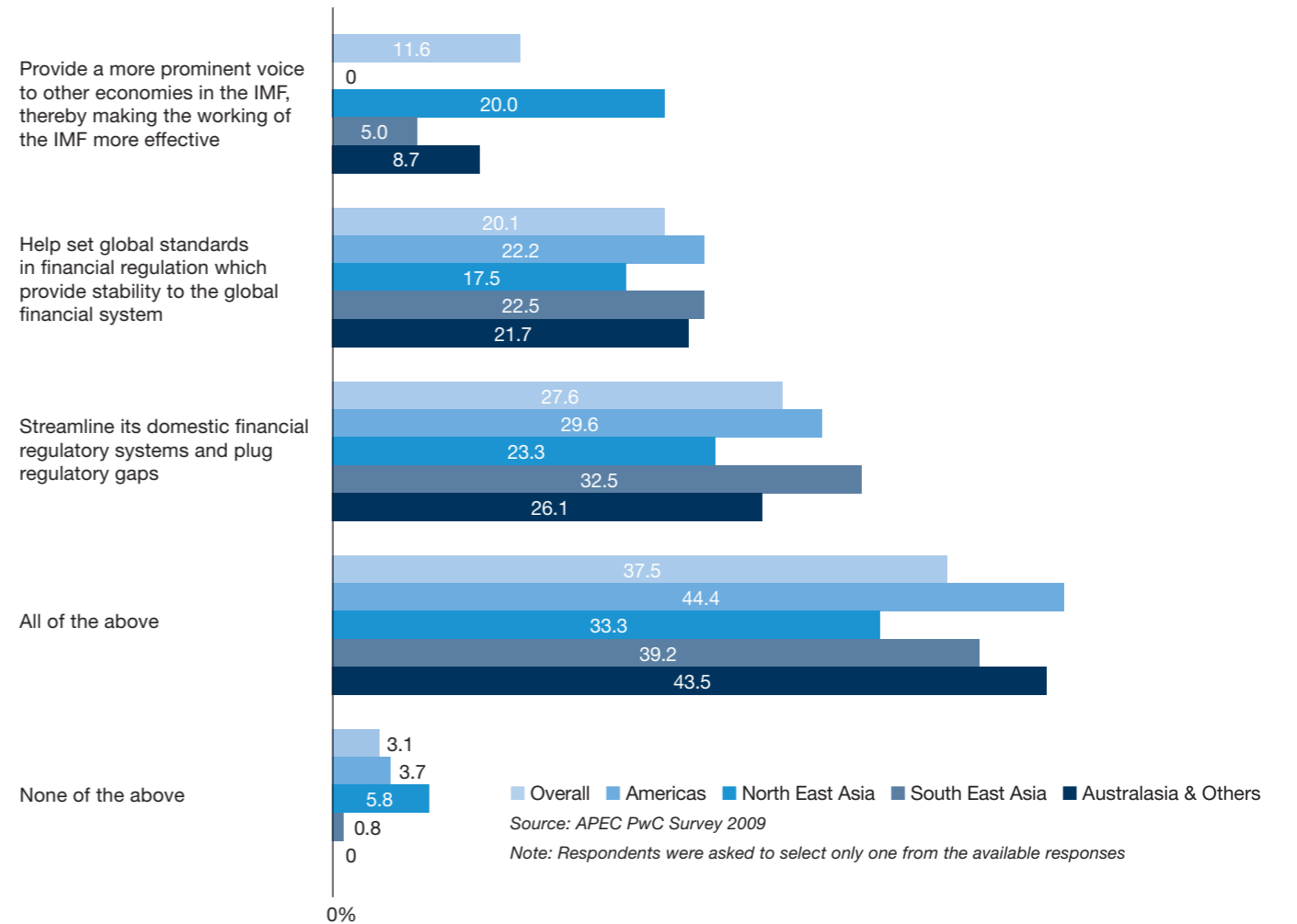
Ninety-seven percent of all respondents believe that there is a role for the United States in steering the enhancement of the global financial architecture. This role could be either through providing a prominent voice to other economies in the world, helping set global standards in financial regulation or streamlining its own domestic financial regulatory systems.

Respondents from the Americas are also concerned with seeing continuity in the prominence of the role of the United States in the global financial architecture. Ninety-six percent of the respondents from the Americas expect the United States to continue to play some kind of global role in the international financial arena (see figure 2.4).

In the United States, confidence is a major issue as a result of the global financial crisis. People simply don't have the same level of confidence in key institutions. US consumers are saving more but high levels of consumer debt remain a danger. While there are signs of positive growth, I am less optimistic about the strength of the recovery. Some parts of the economy remain stagnant. In addition, the government's capacity to do more is constrained, due to deficits having reached historic levels and the potential cost of healthcare reform, which adds further cause for caution. The high cost of healthcare in the United States is one reason why some companies have become uncompetitive. If the government can reform healthcare, that will have a tremendous positive long-term impact.

**Kenneth Jarrett**  
Vice Chairman for Greater China, APCO Worldwide, and former U.S. Consul General in Shanghai

2.4  
What do you believe the role of the United States is in enhancing global financial architecture in the international financial arena?



The crisis has brought into focus the pre-eminent position of the US dollar. By any measure, it is the de-facto reserve currency of the world, accounting for approximately two-thirds of total foreign exchange reserves. China and Japan together hold in aggregate more than US\$3 trillion in dollar-denominated foreign exchange reserves.

The current weakness of the US economy has fuelled talks of reserve diversification giving rise to concerns on the exchange value of the US dollar and its stability in financial markets.

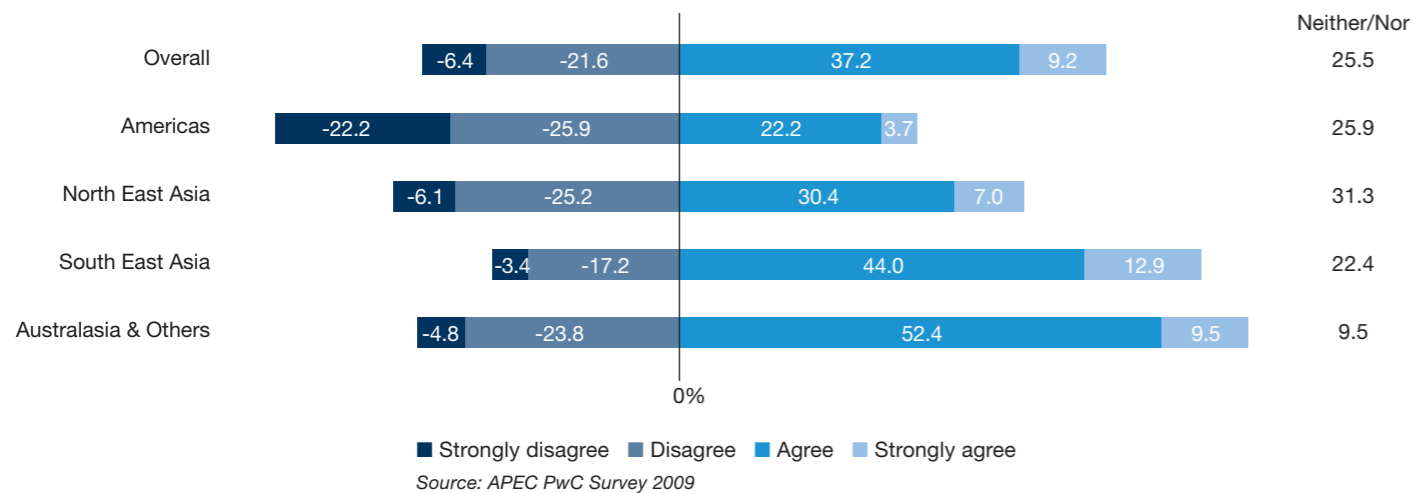
The Euro and the Japanese yen, which are distant second and third placed reserve currencies, have their limitations and are unlikely to be viable alternatives in

the short term. Though the use of a currency like the Euro may increase over the coming years, alternative global currencies would need to provide deep and free financial markets and be traded freely. However, in the long run, alternative currencies may develop. As the President of the World Bank, Robert B. Zoellick, said recently, 'Looking forward, there will increasingly be other options to the dollar'.<sup>12</sup>

While development of alternative currencies is uncertain, 37% of all respondents agree and another 9% strongly agree that 'there will be an alternative global currency to the US dollar in the next ten years'. Among respondents from the Americas, only 22% agree with the statement, and another 4% strongly agree (see figure 2.5).

2.5

To what extent do you agree that there will be an alternative global currency to the US dollar in the next ten years?



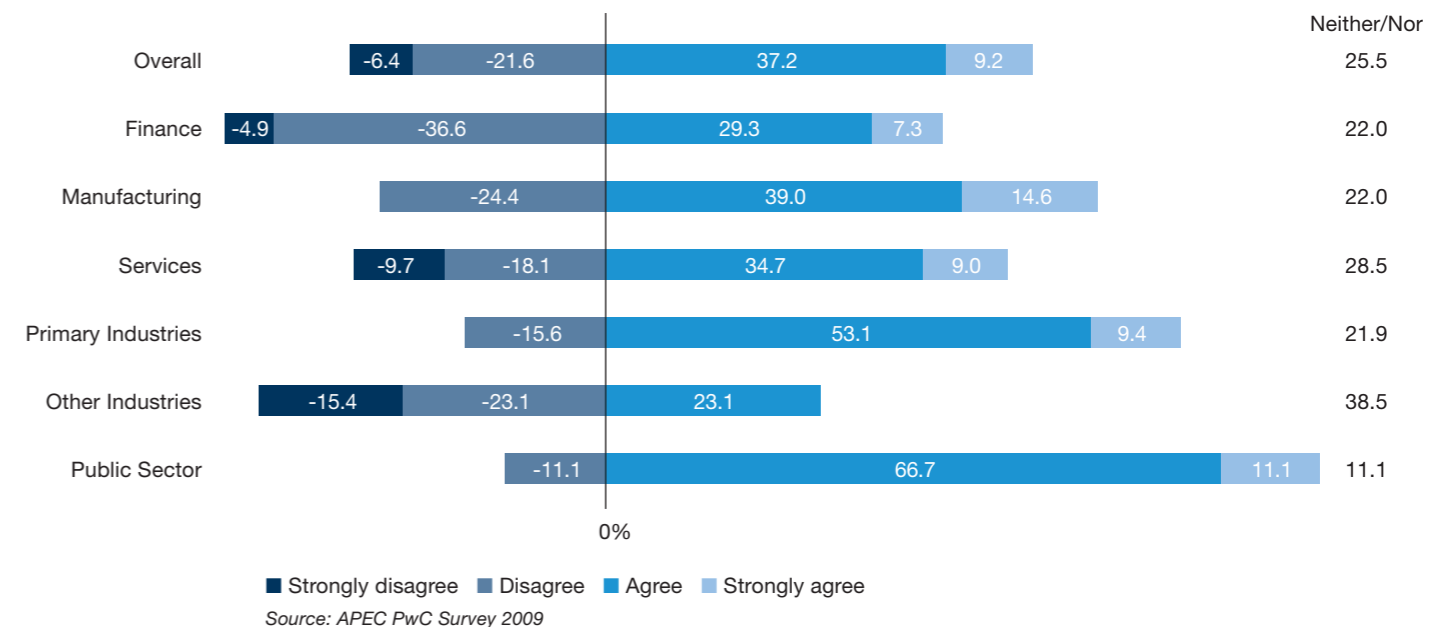
From an industry perspective, respondents from the public sector are most confident with 67% agreeing with the statement: 'there will be an alternative global currency to the US dollar in the next ten years' and another 9% strongly agreeing with the statement. Respondents from the finance sector are less sanguine with 29% agreeing and 7% strongly agreeing with the statement. Perhaps the latter believe that the US dollar has achieved the status of "too big to be replaced" (see figure 2.6). Anthony Nightingale, Managing Director of Jardine Matheson Group believes there is nothing in the immediate future that is going to change the importance of the US dollar.

A number of trial balloons have been floated on alternatives to the US dollar for trade settlement and other international transactions. While we can see a gradual increase in the use of other currencies including the Euro and the Yen and, in time, the RMB, there is nothing in the immediate future that is going to change the importance of the US dollar.

**Anthony Nightingale**  
Managing Director, Jardine Matheson Group

2.6

To what extent do you agree that there will be an alternative global currency to the US dollar in the next ten years?  
Response analysed by industry



<sup>12</sup> Andrews Edmund, 'World Bank's Head Sees Dollar's Role Diminishing', *The New York Times* (29 September, 2009)

### Section 2.3 Balance between Consumption and Savings in Key Economies

There needs to be a balance between savings and consumption in various parts of the world. Economies which have followed an export-led model of economic growth will need to build on domestic demand. According to the IMF, 'This will help offset subdued domestic demand in economies that have typically run current account deficits and have experienced asset price (stock or housing) busts, including the United States, the United Kingdom, parts of the Euro area, and many emerging European economies. In these economies, private consumption and investment are unlikely to pick up the slack that will be left by diminishing fiscal stimulus, given that household incomes and corporate profits will be subdued and balance sheet repair will be underway for some time, implying higher saving rates. Hence, these economies' imports will be sluggish and their current account deficits will narrow. In addition, there will need to be sectoral shifts of resources on the supply side to accommodate shifts in demand.'<sup>13</sup>

Research has shown that unemployment rates tend to rise for many years after an initial financial shock and in the present crisis as well, rising unemployment will be a key challenge in many advanced economies.<sup>14</sup>

According to *The New York Times*, consumer credit in the US economy in August 2009 was lower than end of 2008, business financing in September 2009 was lower than the year before and commercial paper issued by non-financial businesses in 2009 has reduced by 40% as compared to the previous year.<sup>15</sup>

In light of the above, export driven economies in the APEC region will need to re-orient themselves towards increasing domestic consumption and investment and decreasing savings. Policies in emerging economies will need to work towards building financial markets, providing viable avenues for domestic investment, dis-incentivising corporate savings and providing social safety nets to discourage household savings. Kannikar Chalitaporn, President, Siam Commercial Bank, says that while Thailand depends on exports to advanced economies in the West, the country needs to increase domestic consumption and begin exploring export markets in Asia.

However, a fundamental restructuring of economies will take political will, commitment and time. As Gong Li, Chairman for Accenture Greater China says, 'The Chinese culture of thrift is difficult to change and an increase in consumption will take time.'

In China, private household consumption constitutes approximately one-third of total GDP. China's economic growth model has traditionally favoured infrastructure investment over consumption. While its US\$586 billion stimulus package has ensured that the Chinese economy leads the world in economic growth, 89% of the stimulus is targeted at infrastructure investment. The stimulus does not solve the long term issue of fundamentally changing the character of the Chinese economy by making it more self-sufficient in raising the consumption level of the domestic population. Though the Chinese government has recognised the importance of domestic consumption as a key pillar for sustainable economic growth in the long term, it will take several years and concerted public and private effort to ensure that the Chinese economy has a mature financial sector and a bigger share of the services sector. Government policies on social welfare and consumer credit would have to be over-hauled in order to change the spending pattern of the Chinese consumer.

A significant percentage of respondents believe that the current account surplus needs to be reduced through higher spending in economies comprising 'APEC ex-USA'. Fifty-three percent of all respondents agree or strongly agree that 'APEC ex-USA' economies need to increase domestic consumption. Further support is found among respondents from the Americas. Sixty-eight percent of all respondents from the Americas agree or strongly agree that economies in 'APEC ex-USA' need to spend more. Respondents from North East Asia are least agreeable with 29.4% of them preferring not to take a stance (see figure 2.7).

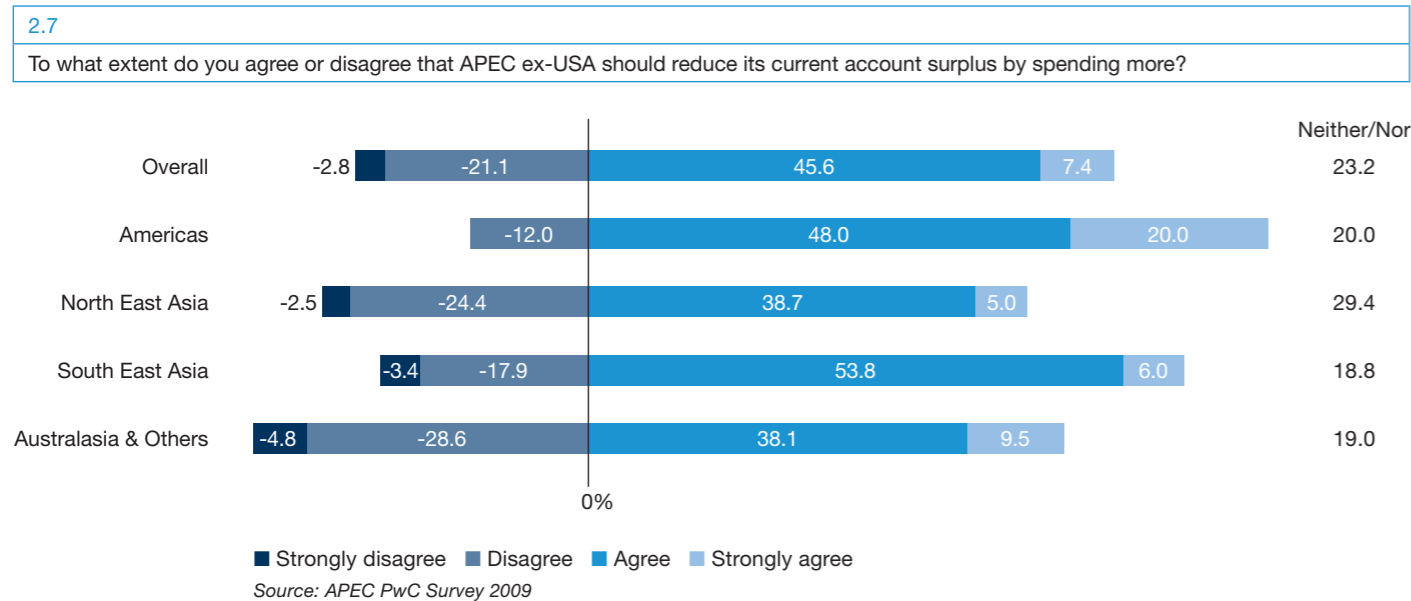
In light of the global economic crisis, rebalancing in the world requires policy makers and private sector leaders to orient public policies towards finding the right balance between consumption and savings and adapt to a new global political and economic order.

The financial crisis has driven home the message that China cannot indefinitely enjoy export-led economic growth. The Chinese government stimulus package has incentivised Chinese domestic consumption. However, the Chinese culture of thrift is difficult to change and an increase in consumption will take time. Additionally, the stimulus package has attracted investments in clean and renewable energy such as solar and wind. Much of the technologies and raw material required in the green sector will be imported and with Chinese industries moving up the value chain, I believe the crisis has brought about a fundamental restructuring of the Chinese economy which will be beneficial to the world.

**Gong Li**  
Chairman, Accenture Greater China

Thailand's economy depends on exports. However, this reliance on exports is not sustainable on account of the fact that the countries we export to are still facing slow consumption. We should therefore increase internal consumption and export more within Asia. This is easier said than done. We will need to build capabilities. Asia, in particular Thailand is not good at building brands. I think brand building is very important as it differentiates us from others, affording some protection from messy price wars. The emphasis for economic growth in the next five years will be a shift towards Thailand and Asia. We are very fortunate that we are geographically close to China and we should take advantage of that.

**Kannikar Chalitaporn**  
President, Siam Commercial Bank



<sup>13</sup> International Monetary Fund, 'World Economic Outlook' (October 2009)  
<sup>14</sup> International Monetary Fund, 'World Economic Outlook – Chapter 4' (October 2009)  
<sup>15</sup> Editorial, 'Ongoing Agony of the Banks', *The New York Times* (October 28, 2009)

# Connectedness

The financial and economic crisis has starkly exposed the degree of connectedness in the world today. Policy makers must work collectively to streamline regulation, discourage protectionism, and break trade barriers at regional as well as global levels.

## Section 3

### Connectedness

World economies are now linked inextricably, spreading wealth further and faster than ever before. There is no turning back on global connectedness; we must learn to deal with crises collectively by strengthening global and regional relationships.

The crisis that originated in one part of the world reduced the value of global shares by US\$30 trillion and the value of global homes by US\$11 trillion within the first few months of 2008 and mid 2009.<sup>16</sup> The crisis signifies that economies and special-interest groups cannot act in isolation and cannot take steps without losing sight of the impact their decisions may have on the rest of humanity.

#### Section 3.1 Streamlining Regulation

According to John Lipsky of the IMF, 'It was the flawed strategies and inadequate risk management of some institutions that were at the heart of the financial turmoil. Moreover, poor regulation and/or inadequate supervision did not cause the crisis, but both regulation and supervision were inadequate to prevent those firms from putting at risk both themselves and systemic stability.'<sup>17</sup>

The crisis demonstrated how weak, inadequate and piecemeal regulation in some parts of the world led to ripple effects throughout the globe, re-emphasising how inter-dependent the world is today. There is a need to strengthen both regulation and supervisory standards. It is expected that regulation will be more stringent and globally coordinated in a post-crisis environment.

As the banking industry looks to itself on a global basis, I would imagine that regulators will insist on having capital locally, not just for domestic purposes but for international branch banking. I think having made the point that capital should be in the country of risk, they will also insist that the deposits should also be in that country and that will create quite significant strains for the developed world that will have to finance its debt.

**Michael Geoghegan**  
Group Chief Executive, HSBC Holdings plc

<sup>16</sup> Goldman Sachs, quoted in 'The Long Climb', *The Economist* (October 1, 2009)

<sup>17</sup> Lipsky John 'Finance and Economic Growth'. Remarks delivered at the Bank of Mexico Conference, "Challenges and Strategies for Promoting Economic Growth" Mexico City, Mexico (October 19, 2009)

At the G-20 Summit in September 2009, world leaders agreed to coordinate their economic policies, cooperate for the regulation of the world financial sector and submit their policies for 'peer review' by other governments and the IMF.<sup>18</sup> Michael Geoghegan, Group Chief Executive, HSBC Holdings plc, believes new regulations, while essential, might create strains for developed economies in financing their debt.

### Section 3.2 Discouraging Protectionism

History has shown how the Great Depression of the 1930s was exacerbated by protectionist measures taken by important world economies. There is a fear that like all economic crises, the current crisis will spur protectionist measures meant to cater to a domestic audience as economies face high unemployment and several months of low economic growth. While this may serve short term political needs, it could further weaken economies already burdened with long term structural problems. Andreas Sohmen-Pao, Group CEO, BW Maritime, hopes that in light of the crisis, policy makers do not resort to subversive protectionism.

Fortunately, in the current economic crisis, policy makers are sensitive to the extent of global inter-dependence and the fact that unilateral protectionist measures can lead to reciprocal measures by other economies, thereby initiating repercussions that can systematically tighten borders and restrict international trade.

It has been shown that trade is affected not only by the drying up of trade finance, but also the drying up of working capital and long term investment financing.<sup>19</sup> The economic and financial crisis dried up credit, adversely affecting trade throughout the world.

Although international trade did not cause the current crisis, it can help the global economy recover faster. The positive gains of more open trade are so significant that world economies should see the current crisis as an opportunity to give global trade an impetus. According to the Organisation for Economic Co-operation and Development (OECD), a 10% increase in trade is related to a 4% increase in per capita income, while more efficient customs procedures could improve global welfare by US\$100 billion.<sup>20</sup>

In this light, the success of the World Trade Organization's Doha Development Round becomes significant for businesses all over the world. A successful Doha Round has the potential to re-invigorate world trade and allow countries to exploit their competitive advantage. It would imply a global tax cut of US\$150 billion and could provide an important stimulus to the world economy.<sup>21</sup> Scott Miller, Director, for Global Trade Policy at Procter & Gamble, told us that a successful Doha Development Agenda would be vital for his business. David Eldon, Chairman of Noble Group believes that the Doha Round is almost dead and that resultant bilateral trade agreements may lead to selective protectionism.

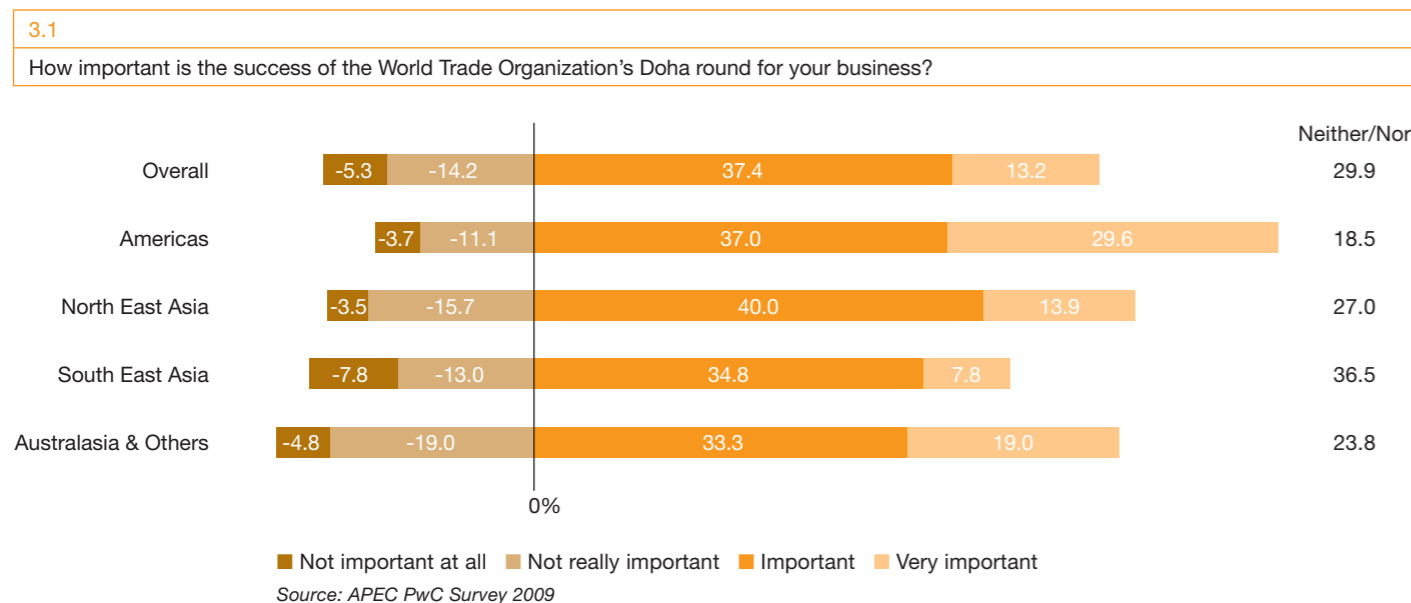
High expectations from a successful multilateral trade round is reflected among our respondents. Just over half (50.6%) of the respondents believe that the success of the Doha Round is important or very important for their business. Expectations from the Doha Round are particularly high in the Americas where 66.6% believe the Doha Round is important or very important for their business. In North East Asia, 53.9% believe the Doha Round is important or very important (see figure 3.1).

What I worry about is protectionism of the subversive kind, where governments intervene to subsidise failing businesses. This kind of protectionism may be less visible than trade restrictions, but it distorts the normal workings of the market, penalises responsible companies and encourages moral hazard.

**Andreas Sohmen-Pao**  
Group CEO, BW Maritime

We've talked for years about the Doha Round and where it's likely to go. Sadly, it's almost dead. Nobody seemed willing to reach a final agreement and as a result, it spawned a whole lot of bilateral trade agreements between countries. These are none other than a term for a sort of selective protectionism. Bilaterals are much easier to develop because you can then exclude what you want to exclude from a particular country. Protectionism, which everyone says is unhealthy, is not actually something we want to see and multilateral agreements as envisioned by Doha normally help do away with all of that.

**David Eldon**  
Chairman, Noble Group Limited



### The Doha Development Round<sup>22</sup>

In November 2001, the World Trade Organization's Fourth Ministerial Conference held in Doha, Qatar, provided the mandate for negotiations on a number of subjects including agriculture and services. After eight years of negotiations, an agreement between advanced and developing economies has been stalled on the issues of agricultural subsidies and non-agriculture market access (NAMA).

At the G-20 meeting in Pittsburgh in September 2009, the G-20 countries pledged to work quickly for a settlement of the deal.

The multilateral trading system – the rule set, mutually agreed and fairly applied – is vital to our business. We support the conclusion of the Doha Development Agenda because it would modernise the rules and improve the value of our brands to consumers.

**Scott Miller**  
Director, Global Trade Policy, Procter & Gamble

<sup>18</sup> Andrews Edmund L., 'Leaders of the G-20 Vow to Reshape Global Economy', *The New York Times* (September 25, 2009)

<sup>19</sup> Thomas Alun, 'Financial Crises and Emerging Market Trade' International Monetary Fund Staff Position Note SPN/09/04 (March 2009)

<sup>20</sup> Quoted from OECD, 'Keeping Markets Open at Times of Economic Crisis' Policy Brief prepared for distribution at the G-20 Meeting on 2 April 2009 in London, United Kingdom (April 2009)

<sup>21</sup> World Trade Organization spokesman Keith Rockwell quoted by Schlein Lisa, 'WTO says Global Crisis will Boost Doha Round', *Deutsche Welle* (July 29, 2009)

<sup>22</sup> World Trade Organization website: wto.org

### Section 3.3 Breaking Trade Barriers

As the Doha Development Round is currently stalled, other kinds of agreements have become important for businesses. Trade reform is being undertaken through alternative routes such as bilateral, trilateral and regional agreements. However, it may be incorrect to view regional agreements as counter-productive to global agreements. Global trade agreements and regional trade agreements serve different purposes and can be complementary. Regional trade agreements, when implemented well, can help an economy build capacities in the region and improve competitiveness, which in turn helps it to compete in the global trade arena.<sup>23</sup> Anthony Nightingale,

Managing Director of Jardine Matheson Group believes that a Free Trade Area of the Asia-Pacific (FTAAP) would be excellent for business.

Respondents from the Americas look to free trade agreements with key global economies to give an impetus to their businesses (76.9%), while respondents from South East Asia expect bilateral agreements with regional economies to give a boost to their businesses (58.7%) (see figure 3.2).

Businesses continue to see the importance of free trade agreements within the APEC region. For example, Nazir Razak, Group Chief Executive of CIMB Group believes that there is huge potential for the Association

of Southeast Asian Nations (ASEAN) as an asset class on its own and that the integration of the ASEAN markets is crucial to spur it as a world-class region for investment. Tony Fernandes, CEO of AirAsia Berhad also believes in the potential of ASEAN.

The majority (71.8%) of the respondents believe that the development of free trade agreements within APEC are important or very important for their business. Support from the Americas is particularly high with 92.6% of the respondents believing that free trade agreements within APEC are important or very important for their business (see figure 3.3).

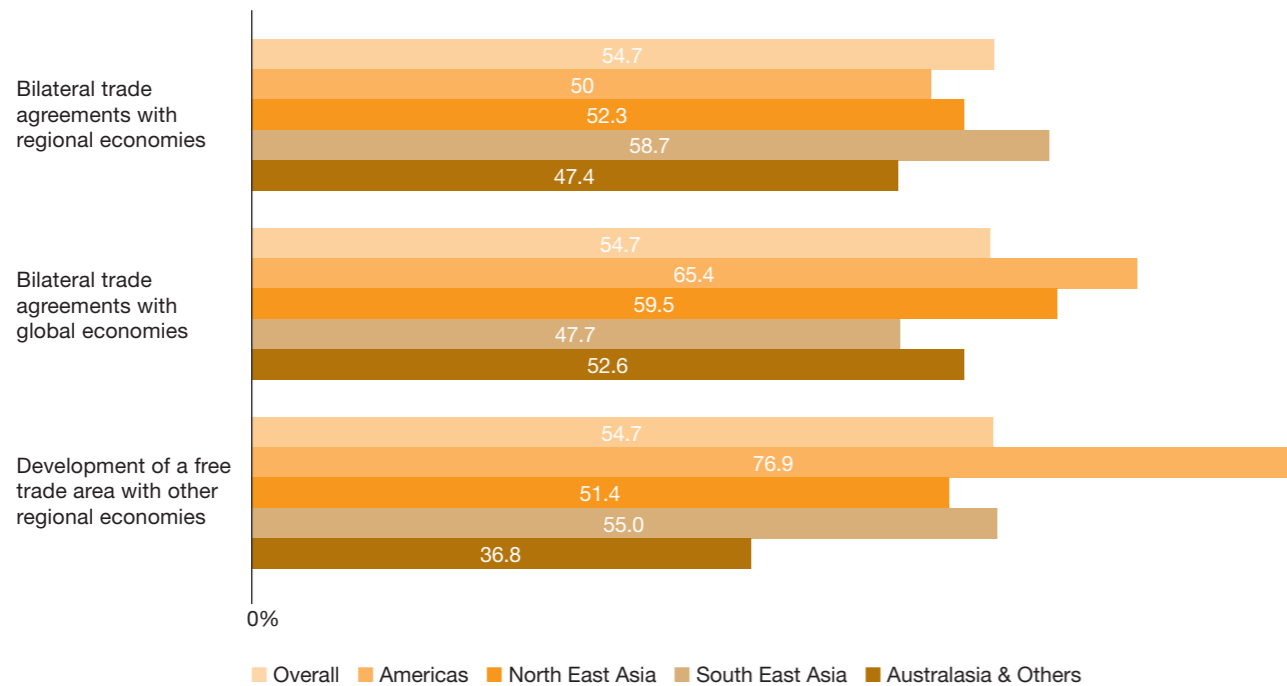
I believe there is huge potential for ASEAN as an asset class on its own. The integration of the ASEAN markets is crucial. This will help spur ASEAN as a world-class region for investment. We hope our governments can make it happen and I believe that at the top levels of governments there is a true desire to get this going. However, it is the execution at the ground level that will prove difficult.

**Nazir Razak**  
Group Chief Executive, CIMB Group

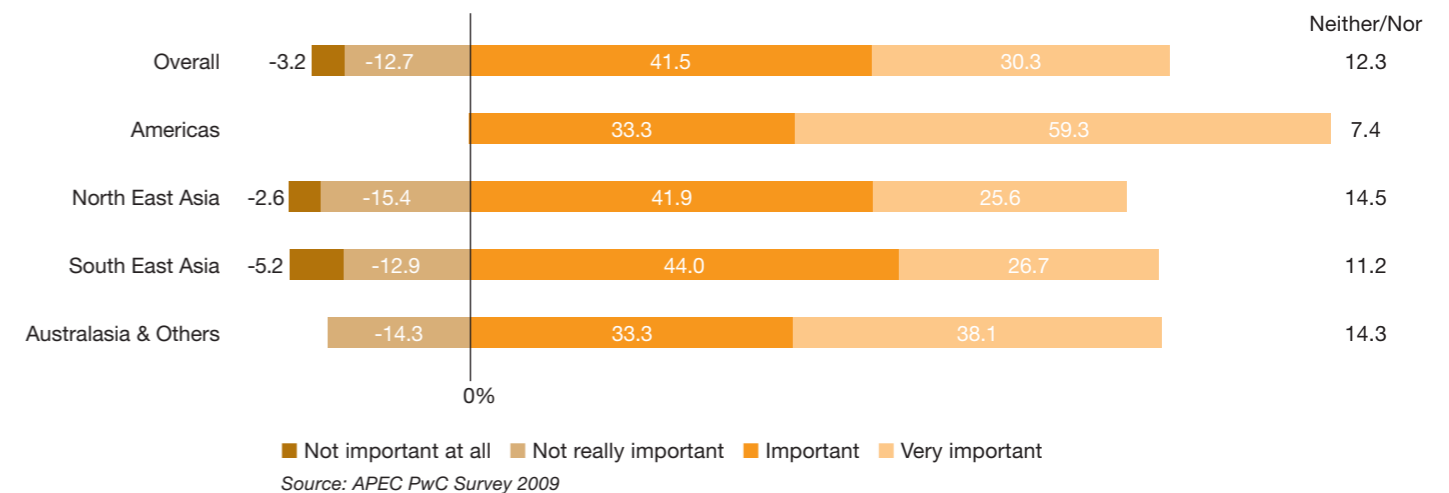
It is time for ASEAN to move from a political organisation to a social and economic powerhouse – one where we put our fears behind, work together, and utilise each other's resources. Only then will we increase the size of the pie for all ASEAN nations.

**Tony Fernandes**  
CEO, AirAsia Berhad

3.2 Which of the following are important for your business?



3.3 How important is the development of free trade agreements within APEC for your business?



<sup>23</sup> Deichmann Uwe, Gill Indermit, 'The Economic Geography of Regional Integration' *Finance and Development Volume 45*, Number 4, IMF (December 2008)

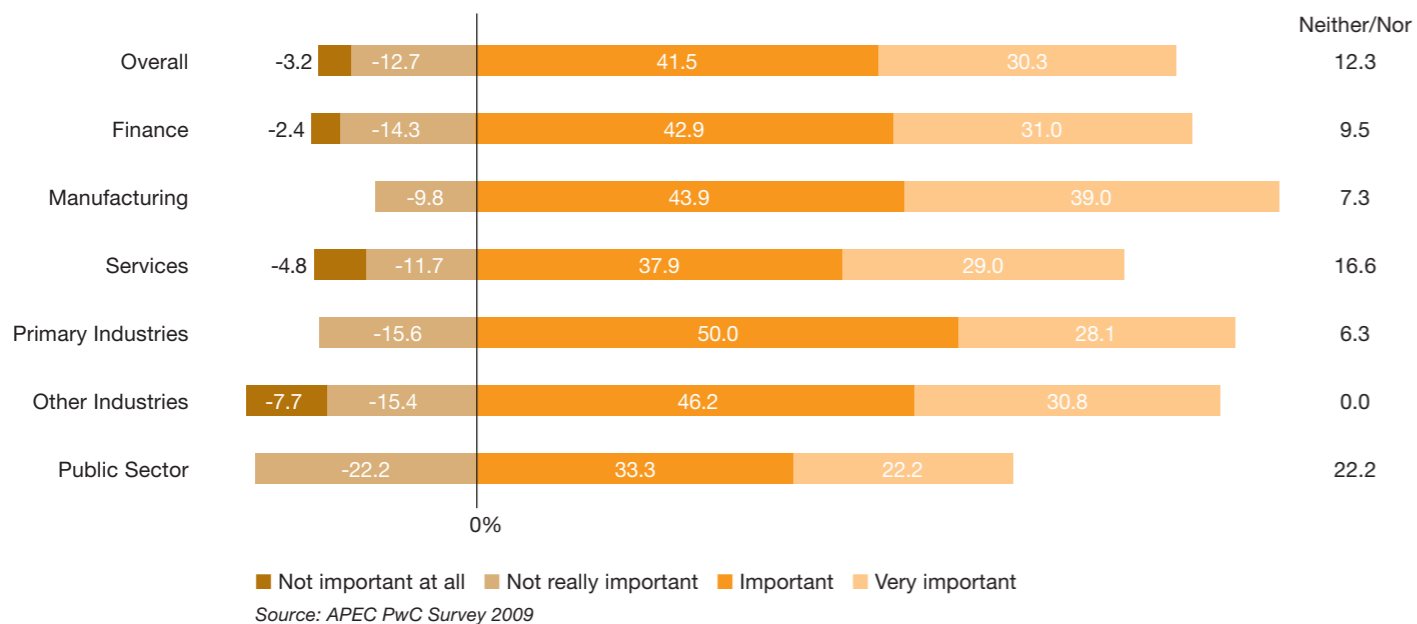
When responses are analysed by industry, most respondents from primary industries and manufacturing look to the development of free trade agreements within APEC to boost their business. Respondents from the public sector and services have lowest expectations from free trade agreements within APEC (see figure 3.4).

Regional trade is the first step towards regional integration. Regional integration would include initiatives such as investment in regional infrastructure, building regionally integrated financial markets and allowing free movement of labour. Businesses recognise the fillip that opening up regional trade barriers provides to them. Within the APEC region, as China continues to build its domestic infrastructure and fuels the domestic economy, businesses in APEC are expected to benefit. As Pierre Cohade, President for the Asia Pacific region

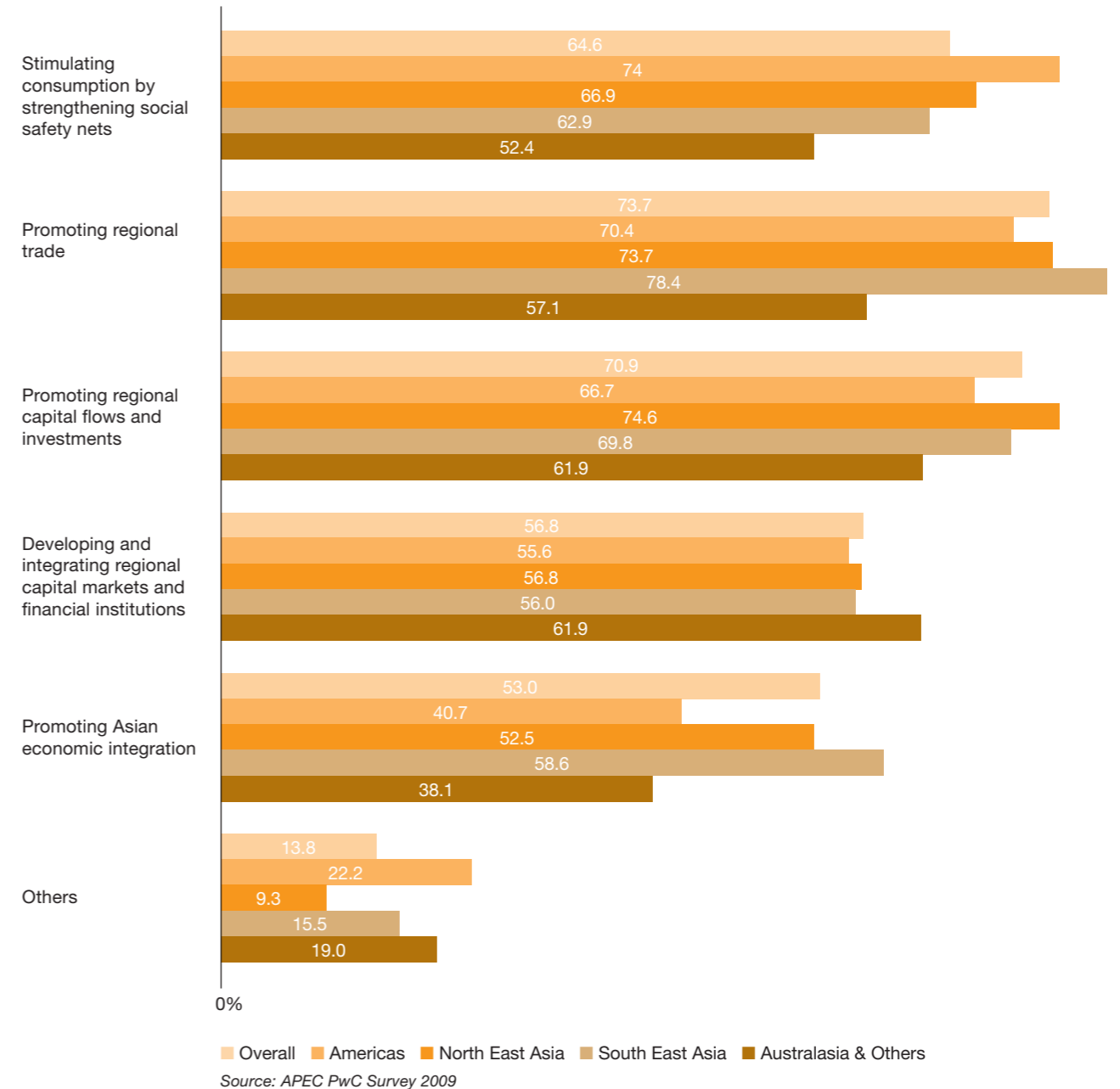
at The Goodyear Tire & Rubber Company, says, 'I believe the economic recovery of China is sustainable and I believe it will play an important role in developing other economies in the APEC region'.

Among the various measures that 'APEC ex-USA' economies could take to have sustainable current account balances, respondents identify promotion of regional trade as the most important measure (73.7%). Differences in perception of priorities are evident within regions. Respondents from the Americas believe that 'stimulating consumption by strengthening social safety nets' is more important than 'promoting regional trade' while respondents from North East Asia give the most importance to 'promoting regional capital flows and investments' (see figure 3.5).

**3.4**  
How important is the development of free trade agreements within APEC for your business?  
Response analysed by industry



**3.5**  
Which of the following directives should APEC ex-USA focus on, in order to redirect its current account surplus?



Respondents also expect 'intra APEC ex-USA' trade to increase in the near future. Nearly all respondents (84.3%) believe there will be an increase or significant increase in trade within the region. Respondents from the Americas have the highest expectations from trade among 'intra APEC ex-USA' economies (see figure 3.6).

People in the APEC region are aware of the complex interconnectedness between economies and are eager to grow through these connections. The crisis has highlighted the need for global co-ordination and co-operation in regulation among policy makers. Historically, economic crises increase unemployment and contract demand in the domestic economy, leading to increasing cries for protectionist measures. Fortunately, today's global leaders are aware of the negative impact that taking protectionist measures can have on the domestic economy. As a global trade agreement remains inconclusive,

bilateral trade agreements have spawned in the region. However provisions of bilateral agreements are rarely used by companies operating within these member economies due to high paperwork, bureaucracy and rules peculiar to each trade agreement.<sup>24</sup> Hence, a global trade agreement needs to be pursued continuously.

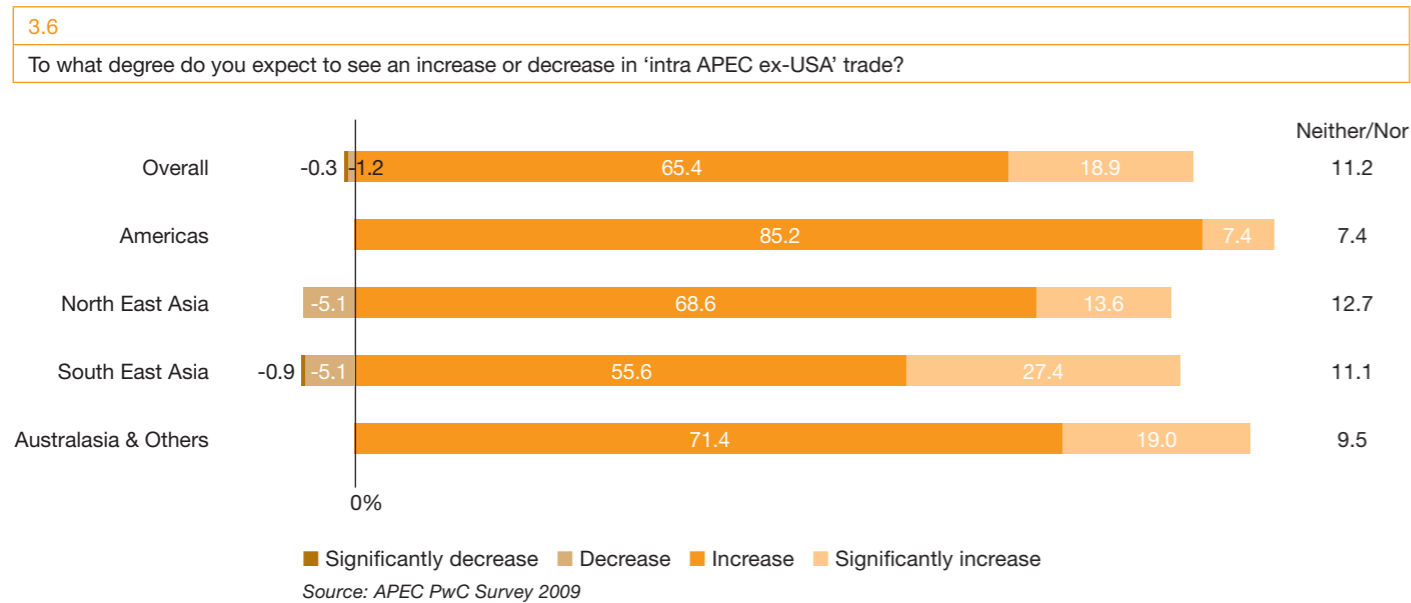
At this point in time, world economies are so inter-dependent that world leaders, opinion makers and other stakeholders are responsible not only to their direct constituents but to the rest of the world as well.

China will be a significant contributor to the global economic recovery but only because of knock-on effects following the rebuilding of their own economy. I believe the economy of China is sustainable and I believe it will play an important role in developing other economies in the APEC region. They will do this by buying more raw materials from South East Asia and Australia and bringing it to China to assemble products that will be used domestically. I also think China is genuinely interested in providing funding to the world economy via the IMF which is the best way to show that you are concerned about the rest of the world.

**Pierre Cohade**  
President, Asia Pacific, The Goodyear Tire & Rubber Company

APEC and ABAC<sup>25</sup> have a significant initiative to develop a regional free trade agreement under the concept of a Free Trade Area of the Asia Pacific, or FTAAP. This will embrace all the economies of APEC. Were that to be achievable, it would be excellent from a business point of view. More intra-regional trade in goods and services as well as investments will strengthen the APEC economies and their role in expanding the global economy.

**Anthony Nightingale**  
Managing Director, Jardine Matheson Group



<sup>24</sup> 'Doing Doha Down', *The Economist* (September 3, 2009)

<sup>25</sup> ABAC refers to the APEC Business Advisory Council.

# Sustainability

The global economic and financial crisis as well as environmental concerns have brought sustainability into sharp relief. Future economic growth will have to be underpinned by managing climate change, ensuring food security and investing in innovation.

## Section 4

### Sustainability

Since the end of the last ice age more than 11,000 years ago, the Earth has experienced the temperate climate of an interglacial.<sup>26</sup> The current one is known as Holocene. As the Earth's climate is powered by the Sun, solar activities among others bring natural variations to our climate.

However, human activities are increasingly changing how our climate systems work. Professor Brian Hoskins, Director of the Grantham Institute for Climate Change at Imperial College London explains, 'What we're now doing to the Earth means that we're actually changing how the climate would have naturally varied. We're still seeing some natural variability, but some of it is due to what humans have done to the climate system and, increasingly, what humans are doing will dominate.'<sup>27</sup>

#### Section 4.1 Managing Climate Change

Coincident with economic growth in the world, carbon emissions have increased substantially to the extent that they now cause a danger to ecology, with far reaching impact on human life. As the world population continues to grow, demand for food and clean water will increase and put increasing pressure on the limited natural resources of the world. According to Sunny Verghese, Group Managing Director and CEO of Olam International, the change in climate as a result of human activity may precipitate the next global crisis.

The earth has been heating up at a faster rate than ever before as a result of carbon emissions caused by extensive use of fossil fuels and environmentally-insensitive manufacturing practices as well as human lifestyle choices. The G-20 economies have pledged to ensure that global temperatures do not rise by more than two degrees Celsius by the middle of the century as any further rise could lead to increase in occurrence of natural calamities such as droughts and floods. This pledge would imply that global emissions peak by 2015 and then begin reducing.<sup>28</sup>

Climate change may precipitate the next global crisis. One which may be bigger and its impact on humanity more profound than the global financial crisis. Concerted action by major governments prevented a complete meltdown of the global financial system. No lesser action by governments is needed to avert the natural disasters spawned by changes to our climate system. I hope that the climate change conference in Copenhagen in December 2009 is the beginning of a global concerted effort to address the issue.

**Sunny Verghese**  
Group Managing Director and CEO, Olam International

<sup>26</sup> Interglacial is an interval between two glacials. Glacial periods are cold periods, while interglacials, which are intervals of several thousand years, are marked by relatively warmer climate.

<sup>27</sup> Perkins Zoe, 'It's Not Too Late', Imperial College, London, *Imperial Matters* (Summer 2009)

<sup>28</sup> 'Interview with Rajendra Pachauri, Chairman of the Intergovernmental Panel on Climate Change', *UN News Centre* (September 10, 2009)

Figure 4.1 shows the per capita as well as total carbon dioxide emissions of the biggest economies in the world. The data show that there is a huge gap in per capita emissions between advanced economies and emerging economies. This huge gap is a subject of negotiations between the leading economies of the world and there has been little progress in finding a consensus.

The international climate change conference to be held in Copenhagen in December 2009 among the economies

of the world is expected to result in incremental steps towards a global treaty, but a new global treaty on climate change is not likely to be concluded soon.<sup>29</sup> A significant obstacle to a global treaty on climate change is the extent of ability of key economies to pass legislation regulating actions that affect the climate adversely. Andrew Brandler, CEO of CLP Holdings Limited, hopes that the European Union's policy initiative on mitigating climate change will help spur other big economies of the world to take further action.

**Ten Key Things To Know About Climate Change<sup>30</sup>**

**1** Warming of the climate system is unequivocal, as is evident **from increases in atmospheric greenhouse gas concentrations and global average temperature, dwindling high altitude and latitude snow and ice, and sea level rise.**

**2** Most of the observed increase in global average temperatures since the mid-20th century **is very likely due to the observed increase in anthropogenic (human-induced) greenhouse gas emissions.**

**3** The scientific evidence points to **increasing risks of abrupt or irreversible impacts from climate change** associated with business-as-usual (BAU) paths for emissions.

**4** Under a BAU scenario, greenhouse gas emissions could more than triple from pre-industrial levels by the end of this century, resulting in a 50% risk of exceeding **5°C global average temperature change.**

**5** Climate change can alter the **frequency and severity of many extreme weather events**, such as floods, droughts and hurricanes.

**6** These present **major disruptions in socio-economic** terms. For example, about 40 million people could be exposed to coastal

flooding, with half of these residing in ten major cities, including New York, Mumbai, Shanghai, Osaka-Kobe and others. Agricultural systems could be severely disrupted, affecting food supplies and economic livelihoods, and extreme weather patterns could present health complications particularly in children and the elderly.

**7** It is predicted that a **2 to 3 degree rise in temperature could slow global economic output by 3% per year**, and poor countries would be hit hardest.

**8** To avoid the risks of dangerous climate change, climate scientists predicted that **global greenhouse gas emissions need to peak within the next fifteen years, and be halved relative to 1990 levels by 2050.**

**9** Achieving these deep cuts in emissions is estimated to **cost around 1% of GDP by 2050** – a level that is significant but manageable relative to the cost of inaction.

**10** A long-term binding **global climate change regime** is expected to be agreed at Copenhagen in December 2009 to provide the international framework for climate actions.

The burning of fossil fuels is the principal source of the current state of the climate. Demand for energy in the world is expected to grow by 45% by 2030, fuelled by rising demands from populations in emerging economies. As Prasert Bunsumpun, President and CEO of PTT Public Company Limited says, 'You cannot have sustainable development without sustainable energy development.'

In order to stall climate change on the one hand and meet increasing demand for energy on the other, public policy steps such as disincentives for carbon emissions and incentives for building commercially viable alternative sources of energy are important.

I think all economies have a responsibility to try to ensure that climate change does not become the death knell of this world that we live in. Every economy is different. What's the solution? Maybe there's an argument for some of the richer economies to help out the poorer economies, to enable them to develop and practise good, green, development in whatever they do. It's hugely important for the world.

**David Eldon**  
Chairman, Noble Group Limited

If you look at China's five-year plan and energy reduction targets and the development of the clean energy sector, it is evident that the Chinese government is emphasising this in a significant way. China's targets in wind power and solar energy are ambitious and even exceeded US goals. Solar energy manufacturing is also developing very quickly so we should recognise that China is doing a lot in the clean energy sector.

**Kenneth Jarrett**  
Vice Chairman for Greater China, APCO Worldwide, and former U.S. Consul General in Shanghai

The EU initiative of identifying the funding needs of developing nations to tackle climate change is a step in the right direction. The amount mentioned, 100 billion Euros needed by 2020, would have to be shared by other leading economies and is a potential source of friction. Additionally, it could also give rise to green protectionism if other leading economies refuse to play ball. Domestic pressure to slap import duties on carbon content of imports from countries which are seen as free riders will grow. Hopefully governments and policy makers can achieve consensus in Copenhagen.

**Andrew Brandler**  
CEO, CLP Holdings Limited

4.1 CO <sub>2</sub> Emissions for Key Economies in the World		
	Per Capita (metric ton of Carbon Dioxide)	Total (millions of metric ton of Carbon Dioxide)
	2007	2007
US	19.10	5,853.50
Australia	18.75	380.36
Germany	9.71	801.51
Japan	9.68	1,235.08
UK	8.60	533.29
EU	7.92	3,971.13
France	5.81	368.75
China	4.58	6,083.02
Brazil	1.81	350.08
India	1.18	1,369.93

Source: CO<sub>2</sub> Emissions from Fuel Combustion (2009 Edition), International Energy Agency, Paris.

<sup>29</sup> Broder John M., 'As Time Runs Short for Global Climate Treaty, Nations May Settle for Interim Steps' *The New York Times* (October 20, 2009)  
<sup>30</sup> DiPiazza Samuel A. Jr., 'Risk, Responsibility & Opportunity: The CEO's guide to climate action', *The Copenhagen Climate Council Thought Leadership Series* (2009)

### Section 4.2 Ensuring Food Security

The Asia-Pacific region has 1.2 billion poor people. They spend on average 60% of their income on food alone.<sup>31</sup> Food prices have been rising steadily since mid-2007. Factors that have led to an increase in food prices include economic growth of markets like China and India, production of bio-fuels at the cost of food crops, the decline in the value of the dollar and high fuel prices. Incidences of regional drought further exacerbated the situation.<sup>32</sup> The Green Revolution that governments in much of the developing world adopted some decades ago, helped increase productivity dramatically and fight poverty and hunger in some of the poorest parts of the world. As a result, the world witnessed several years of food surpluses with food prices in real terms declining rapidly. Unfortunately, this positive development gradually reduced public spending in agricultural research and led to the current crisis of increasing food prices and decreasing growth rates of agricultural productivity. Investment in agricultural research is a critical component of public

policy as it has been shown to have higher, positive effects in poverty reduction than investments in other kinds of public investment such as education and roads.<sup>33</sup> The world needs to double food production by 2040 to meet the needs of a growing population as well as demands of millions of people that are coming out of poverty in emerging economies like China and India. Fortunately, key world economies have realised the gravity of the crisis and positive steps are being taken. The G-20 meeting of the top twenty economies in the world held in Pittsburgh in September 2009 reiterated its commitment for a US\$20 billion food security initiative.<sup>34</sup>

While emerging economies need to balance the need for development with the need for sustainability, advanced economies need to be able to maintain their lifestyles without damage to the environment. Businesses in the APEC region expect policy in sustainability to be led by their respective governments. As Nick Reilly, President, GM International Operations and GM Executive

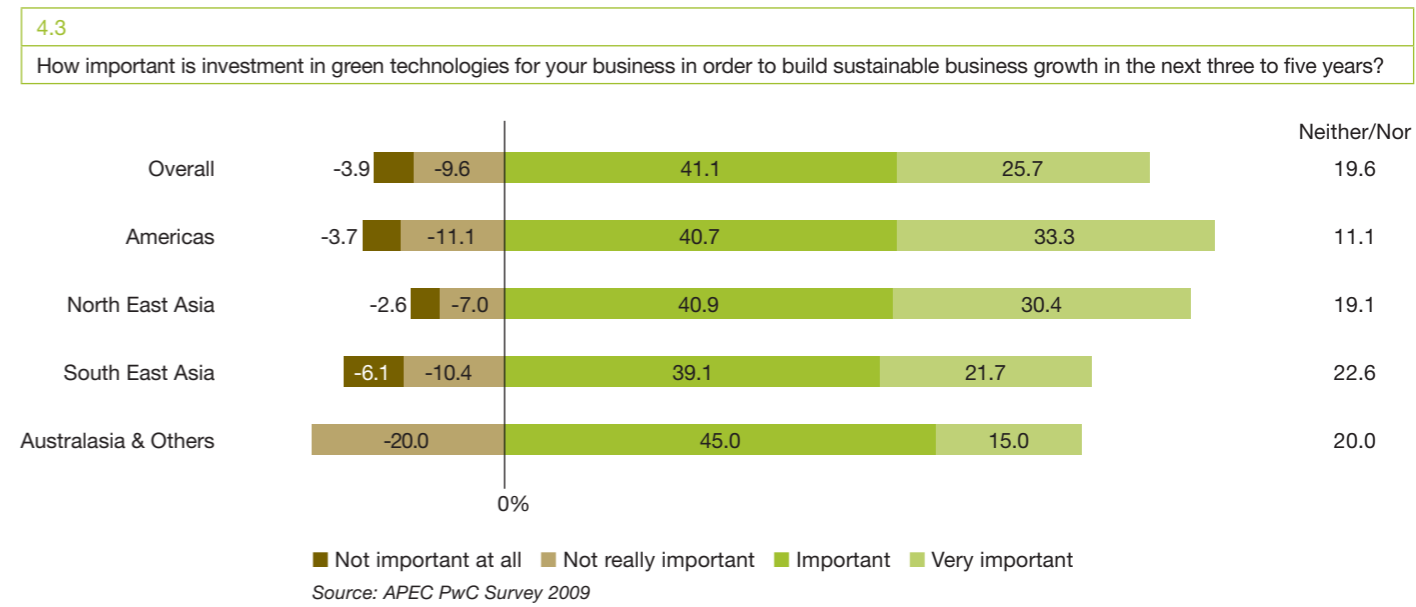
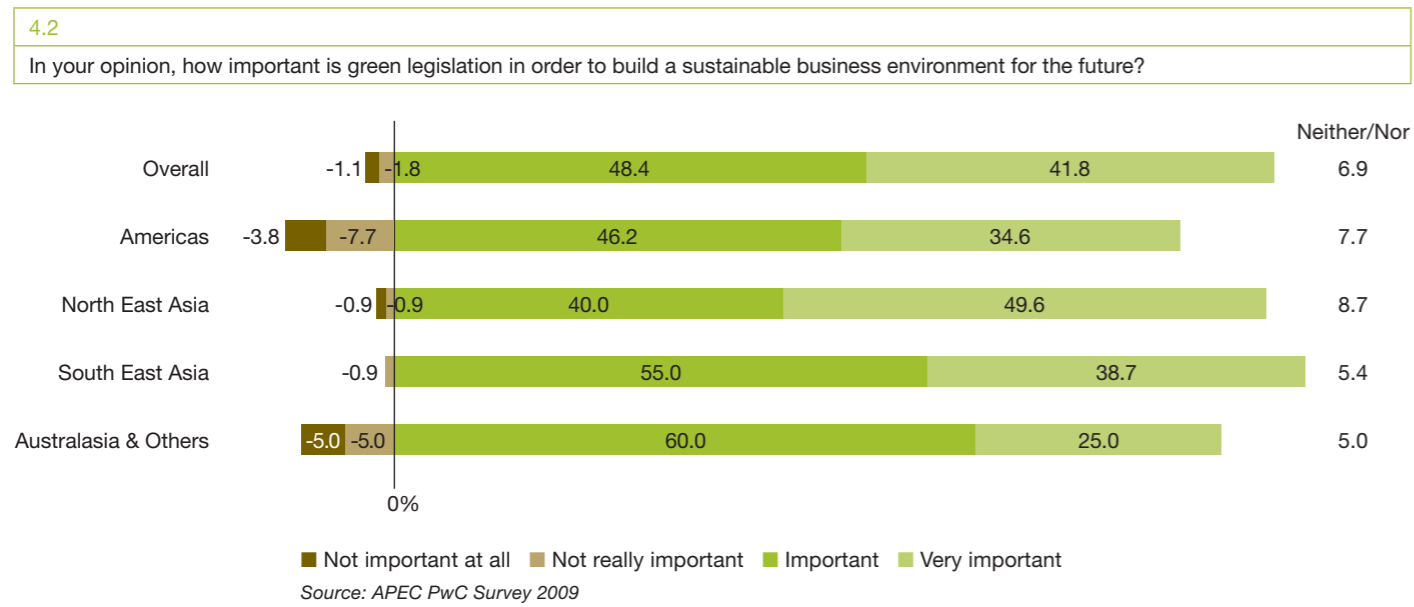
Vice President, says, 'There is ample opportunity for innovation but it's going to take a partnership between public and private sectors and clear policies to accelerate it.'

The role of legislation is considered important or very important by nearly all survey respondents in creating a sustainable business environment for the future (90.2%). Expectations from legislation are highest in South East Asia where 93.7% consider green legislation important or very important for building a sustainable business environment for the future (see figure 4.2).

Though businesses look to their governments for policy direction, they recognise the importance of green technologies in the twenty-first century. Two-thirds of all respondents (66.7%) believe that investment in green technologies is important or very important for their business. Two regions, North East Asia and the Americas, give relatively higher importance to green technologies than other regions (see figure 4.3).

The issue with innovation is that the investments are needed before you get a return. With the car industry there are many innovative solutions to the green question. If governments make clear their preferences, the industry will be able to respond. Some solutions require new investments by governments in infrastructure if for example gasoline is replaced by electricity as a source of power. There is ample opportunity for innovation but it's going to take a partnership between public and private sectors and clear policies to accelerate it.

**Nick Reilly**  
President, GM International Operations and GM Executive Vice President



<sup>31</sup> Asian Development Bank, 'Food Price Crisis' (May 19, 2009)  
<sup>32</sup> Timmer Peter C., 'Causes of High Food Prices' ADB Economics Working Paper Series No. 128 (October 2008)  
<sup>33</sup> World Bank, 'The Road to 2050 – Sustainable Development for the 21st Century' (2006)  
<sup>34</sup> Robert B. Zoellick in a speech given at the Annual Meeting of the World Bank and International Monetary Fund at Istanbul, Turkey 'The World Bank Beyond the Crisis' (October 6, 2009)

**Section 4.3 Investing in Innovation**

Similar to sustainability, innovation has become an essential value for setting up strategy for businesses with a long-term perspective. Investment in innovation has not taken a back-seat in the current global economic and financial crisis. A majority of respondents (58.1%) have a higher or significantly higher forecast for R&D expenditure in the next twelve months when compared to the previous twelve months. North East Asia is the region with most respondents expecting an increase or significant increase in investment in R&D (65.8%), while nearly half of the respondents from

the Americas do not expect any change in their R&D budgets (48.1%) (see figure 4.4).

When responses are analysed by sector, manufacturing and other industries are most likely to expect an increase in their R&D budget compared with the budget of the past twelve months (see figure 4.5).

Investment in R&D in North East Asia is marked by a sense of realism in terms of the role the region can play in the world of innovation. According to Xu Heyi, Chairman, Beijing Automotive Industry Holding Co. Ltd., 'It will take a long time to accumulate the talent

and resources needed to transform China's role from a 'Made in China' to a 'Created in China' economy.'

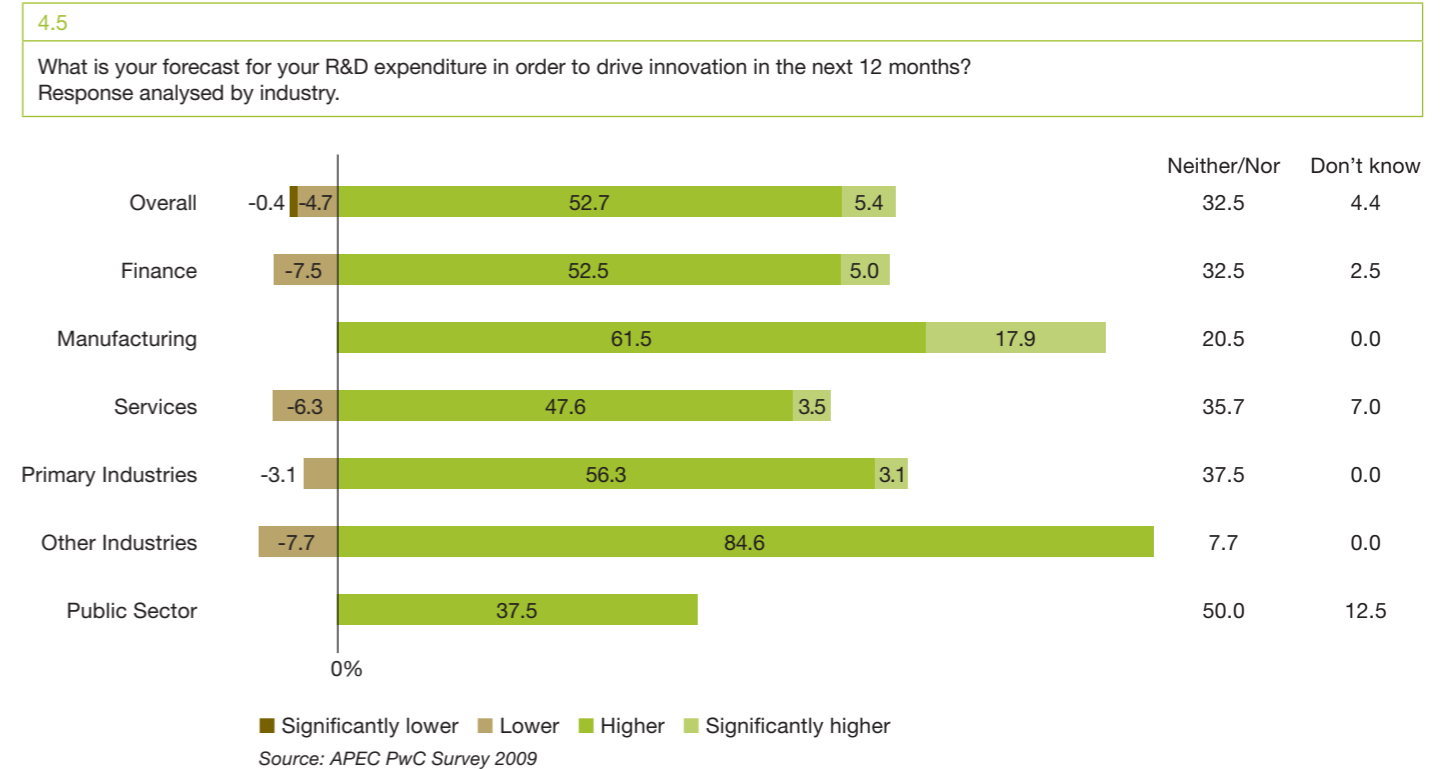
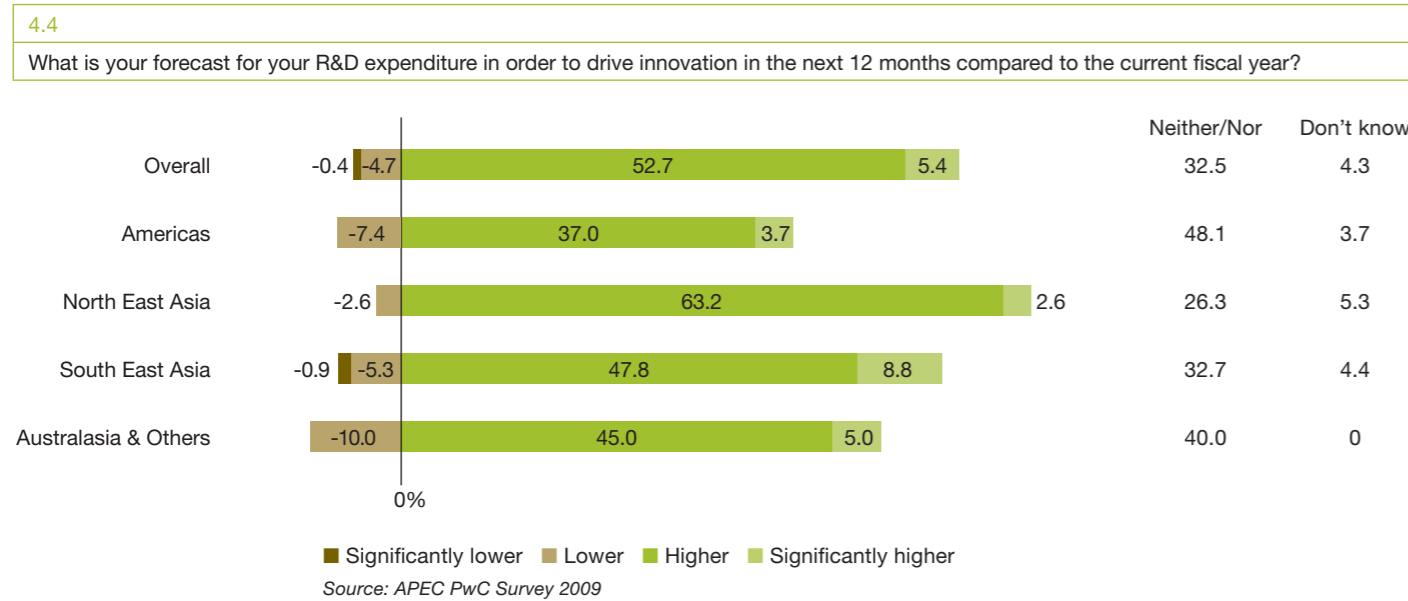
Although businesses recognise the importance of investing in sustainable growth and innovation, they are wary of being trapped in a 'prisoner's dilemma'. Businesses all over the world will initiate investments in sustainability and innovation as long as a level playing field is ensured and intellectual property rights are protected. As Michael Chan, Chairman of Café de Coral Holdings Limited says, '...the most important issue is that we have a 'level playing field'. Everyone is obliged to build the field.'

China will continue to play the role of a 'Made in China' nation for a long time to come, and we should continue to play the role seriously. It is short sighted to foresee China turning the corner and transforming its economic structure simply because of the recent financial crisis. It will take a long time to accumulate the talent and resources needed to transform China's role from a 'Made in China' to a 'Created in China' economy.

**Xu Heyi**  
Chairman, Beijing Automotive Industry Holding Co. Ltd.

'Social Responsibility' is a commitment that enterprises must undertake – either a minimum wage system or environmental protection. Our costs will certainly increase. But the most important issue is that we have a 'level playing field'. Everyone is obliged to build the field.

**Michael Chan**  
Chairman, Café de Coral Holdings Limited



# Epilogue

*In the depths of winter I finally learned  
there was in me an invincible summer.*

– Albert Camus

## Section 5

### Epilogue

The US Commerce Department announced on October 29, 2009 that the US GDP rose by a seasonally adjusted annual rate of 3.5% for the quarter from July to September 2009. There is optimism that the announcement may mark the end of the recession in the US which began in December 2007.<sup>35</sup>

The global economic crisis has not been caused by a single event. Years of economic change, policy decisions, investors' errors and over confident consumers, among others, are responsible for pushing economies to the chasm. The proverbial straw that broke the camel's back was the Lehman Brothers collapse on September 15, 2008. With the US economy joining others in APEC in a growth mode, there is cautious optimism that the worst is now behind us.

The journey to restoring the global economy is likely to be long and arduous. Our respondents told us that economies of the world are now inextricably linked. Governments and businesses have to work collaboratively to deal with the current and future crises. Where should the focus be? This is what they said:

Firstly, management of global institutions like the IMF and the World Bank should change to reflect the ever increasing importance of emerging economies. The over reliance on consumption by advanced economies to drive economic growth has to change. The importance of the US economy to global economic health remains, even as it undergoes restructuring. However, emerging economies will have to restructure too in order to attain balanced economic growth. The fulcrum is shifting in search of equilibrium in a new global economic order.

Secondly, the financial crisis highlighted the need for comprehensive review of regulatory and

supervisory aspects of the global financial system. As unemployment remains high and domestic demand contracts, an upsurge in protectionist moves may follow. Bilateral and multilateral agreements have mitigated some aspects of rising protectionism. Ultimately, a global trade agreement as envisioned by the Doha Development Round is a better solution.

Thirdly, climate change may precipitate the next global crisis with more profound consequences than humanity has ever known. Governments must take the lead in laying down a framework to restore the balance between consumption and replenishment of the Earth's resources and limit the damage to the environment. With clarity of direction and purpose backed by legislation, businesses will respond with determination, creativity and innovation.

Finally, as recognition of Asia's role in rebuilding the global economy grows, so has the importance of APEC. By all accounts, the achievements of APEC over the past 20 years are considerable. APEC member economies comprise half of the G-20 and virtually all of them are members of the World Trade Organization. In addition to strengthening free trade and investment flows among APEC economies, there is high expectation that APEC will take a lead in crucial discussions in the Copenhagen Climate Change Conference in December 2009 and push for the conclusion of the Doha Development Round in 2010.

<sup>35</sup> Dougherty Conor 'Economy Snaps Long Slump' *The Wall Street Journal* (October 30, 2009)

## Acknowledgements

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To understand the views and insights of opinion leaders from APEC economies, we interviewed 24 industry leaders. We are honoured that they gave us their valuable time and would like to acknowledge their contribution to the report.



**Andrew Brandler**  
CEO  
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## Research methodology and key contacts

PricewaterhouseCoopers (PwC) is the Knowledge Partner for the APEC CEO Summit 2009. This report is intended to provide a background to the issues that will be discussed at the Summit.

The report is a culmination of a three-month long project carried out between August 2009 and November 2009 by PwC Singapore with backend support provided by PwC International Survey Unit. A quantitative survey was carried out among 350 respondents working and living in the APEC region. The survey was administered online in three languages: Chinese, English and Japanese. About 7% of the survey respondents completed a paper questionnaire. In addition, 24 industry leaders in the APEC region were personally interviewed by partners of PwC. Results were collated and analysed by a core team at PwC Singapore.

For the purpose of analysis, all APEC and non-APEC economies have been divided under the following regions:

**Americas:** Canada; Chile; Mexico; Peru; United States of America

**North East Asia:** Chinese Taipei; Hong Kong, China; Japan; People's Republic of China; Republic of Korea; The Russian Federation

**South East Asia:** Brunei Darussalam; Indonesia; Malaysia; Singapore; The Republic of the Philippines; Thailand; Vietnam

**Australasia and Others:** Australia; New Zealand; Papua New Guinea and non-APEC economies

PricewaterhouseCoopers' extensive network of experts and specialists has provided its input into the analysis of the survey. Our experts span many countries and industries.

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## Further reading



**12th Annual Global CEO Survey (2009)**



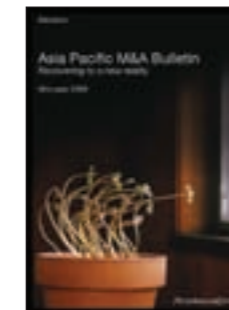
**Government and the Global CEO (2009)**



**World Business Summit on Climate Change**



**The China Greentech Report 2009**



**Asia Pacific M&A Bulletin (2009)**



**Seizing opportunity: Linking risk and performance**



**Tackling emissions growth: The role of markets and government regulation**



**Risk, responsibility & opportunity: The CEO's guide to climate action**



**World Watch (2009)**

## Further reading



**Entertainment and Media**  
Global entertainment and media outlook 2009–2013



**Pharmaceutical**  
Biotech: Lifting big pharma's prospects with biologics



**Retail and Consumer**  
Building to win



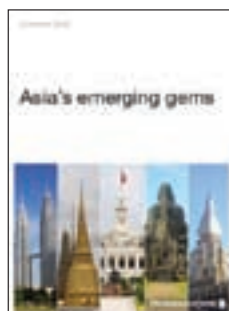
**Financial Services**  
The day after tomorrow for financial services



**Mining**  
Review of the global trends in the mining industry



**Re-engineering the Organisation:**  
Managing talent in the day after tomorrow



**Asia's Emerging Gems**  
Investment brief 2009



**Transportation & Logistics**  
Delivering solutions – first class



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Transportation & logistics 2030

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“PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

### About Asia-Pacific Economic Cooperation (APEC)

Asia-Pacific Economic Cooperation, or APEC, is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region.

APEC is the only inter-governmental grouping in the world operating on the basis of nonbinding commitments, open dialogue and equal respect for the views of all participants. APEC's 21 Member Economies account for approximately 40.5% of the world's population, approximately 54.2% of world GDP and about 43.7% of world trade.

APEC's Member Economies are Australia; Brunei Darussalam; Canada; Chile; People's Republic of China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Republic of the Philippines; The Russian Federation; Singapore; Chinese Taipei; Thailand; United States of America; Vietnam.

### About APEC Business Advisory Council (ABAC)

The APEC Business Advisory Council, or ABAC, was created by the APEC Economic Leaders in November 1995 with the aim of providing recommendations and advice to the APEC Economic Leaders on ways to achieve regional trade and investment liberalization, improve the business environment, outline views about priority regional issues and other specific business sector priorities, and to provide the business perspective on specific areas of cooperation.

Each economy nominates up to three members from the private sector to ABAC. These business leaders represent a wide range of industry sectors. ABAC is also the only non-governmental organization that is on the official agenda of the APEC Economic Leaders' Meeting.

