

**State of the Region
2008-2009**

Survey Results
Provisional Release

Pacific Economic Cooperation Council

*Undertaken in cooperation with the Asian Development Bank
Office of Regional Economic Integration*

Section 1: Profile of Respondents

Number of Respondents: 483

Regional Breakdown

Australia & New Zealand	48
North America	80
Northeast Asia	147
South America	51
Southeast Asia	154
Other	3

Sectoral Breakdown

Government	85
Business	127
Academic/Research	235
Media	15
Civil Society	21

Section 2: Regional Economic Outlook

Question 2: What are your expectations for economic growth over the next 12 months compared with the past year?

	Much weaker	Somewhat weaker	About the same	Somewhat stronger	Much stronger	Don't know	Total
US economy	78%	18%	1%	3%	0%	0%	100%
Chinese economy	12%	68%	13%	6%	1%	0%	100%
Japanese economy	30%	53%	15%	2%	0%	0%	100%
ASEAN economies	16%	65%	13%	4%	0%	0%	100%
East Asia	16%	65%	14%	4%	1%	1%	100%
The Asia Pacific	18%	66%	11%	4%	0%	0%	100%
The global economy	46%	47%	4%	2%	0%	1%	100%

Responses were overwhelmingly negative indicating that the economic outlook of the Asia Pacific region has changed in the past year, contrasting sharply with the 2007 State of the Region Survey.

Ninety-three percent of respondents expect the global economy to be much weaker or somewhat weaker over the next 12 months. Over 95 percent expect the US economy to be much or somewhat weaker, of which 78 percent answered much weaker. In 2007 only one percent of survey respondents answered that the North American economic outlook to be much weaker and 38 percent answered somewhat weaker. Less than one percent of respondents expect economic growth in any of the regions to be much stronger.

Question 3: How do you rate the following risks to growth for the Asia Pacific over the next 12 months?

	1 - Very Low Risk	2	3	4	5 - Very High Risk	Don't know	Total
A health pandemic	20%	31%	31%	10%	2%	6%	100%
Natural disasters	9%	23%	37%	17%	5%	9%	100%
Water pollution and shortages	10%	23%	33%	23%	7%	4%	100%
Global warming	13%	20%	29%	28%	8%	1%	100%
High energy prices	5%	23%	37%	25%	9%	0%	100%
High food prices	2%	20%	37%	32%	8%	0%	100%
Shortage of available talent / skills	15%	31%	34%	16%	2%	1%	100%
Protectionism	3%	18%	36%	31%	11%	1%	100%
Sharp fall in asset prices	1%	9%	20%	41%	28%	1%	100%
Banking / financial sector crisis	1%	6%	15%	33%	45%	1%	100%
Current account imbalances	2%	14%	34%	35%	12%	3%	100%
Deterioration in US-China relations	18%	39%	30%	10%	2%	1%	100%
Deterioration in Cross-Strait relations	20%	41%	27%	5%	1%	5%	100%
Terrorist acts	13%	31%	36%	13%	5%	3%	100%
US recession	1%	4%	11%	26%	56%	2%	100%
Sharp slowdown in the Chinese economy	5%	25%	40%	21%	7%	1%	100%
Recession in Japan	3%	22%	34%	30%	10%	1%	100%

Consistent with the negative regional economic outlook, the risks associated with the global financial crisis are viewed as the most serious. The US recession (83 percent), banking or financial sector crisis (78 percent), and sharp fall in asset prices (69 percent) are considered the top three very serious and serious risks, with mean scores of 4.28, 4.14 and 3.81 respectively.

SOTR 2008	SOTR 2007	SOTR 2006
Very Serious Risk	Very Serious Risk	Very Serious Risk
1. US recession (56%)	1. High Energy Prices (18%)	1. High Energy Prices (27%)
2. Banking / Financial sector crisis (45%)	2. Failure of Doha Development Round (12%)	2. Failure of Doha Development Round (13%) and Terrorist Acts (13%)
3. Sharp fall in asset prices (28%)	3. Global Warming (10%)	3. Avian Flu and Other Health Pandemics (12%)
Very Serious and Serious Risk	Very Serious and Serious Risk	Very Serious and Serious Risk
1. US recession (83%)	1. High Energy Prices (60%)	1. High Energy Prices (69%)
2. Banking / Financial sector crisis (78%)	2. Water Pollution and Shortages (36%), Global Warming (36%) and Failure of Doha Development Round (36%)	2. Protectionism (39%) and Financial Market Volatility (39%)
3. Sharp fall in asset prices (69%)	3. Protectionism (35%)	3. Terrorist Acts and Policy Responses to Them (37%)
Very Low and Low Risk	Very Low and Low Risk	Very Low and Low Risk
1. Deterioration in Cross-Strait relations (62%)	1. Sharp Deterioration in US-China Relations (50%)	1. Proliferation of Preferential Trade Agreements (40%)
2. Deterioration in US-China relations (57%)	2. Avian Flu and Other Health Pandemics (43%)	2. Cross-Strait Relations (32%) and Major Power Rivalries in the Region (40%)
3. A health pandemic (51%)	3. Proliferation of Preferential Trade Agreements (40%)	3. Conflict in the Korean Peninsula (29%)

The results above are considered the top three risks across the five regions, although respondents of Australia and New Zealand viewed a banking sector crisis as the number one risk (85%). In North America, 89% of respondents viewed the US Recession as the top very serious and serious risk, slightly higher than the rest of the regions and the overall.

Deterioration in Cross-Strait relations and US-China relations as well as a health pandemic are considered the lowest risk to the Asia Pacific regional outlook.

Section 3: Regional Economic Integration

Question 4: What do you think is the impact of deeper regional economic integration on the following issues?

	1 - very negative	2	3	4	5 – very positive	Don't know	Total
Local culture and identity	3%	18%	46%	22%	9%	3%	100%
Economic growth	2%	6%	14%	47%	30%	0%	100%
Access to markets outside the region	2%	9%	27%	40%	21%	1%	100%
Independence and flexibility for domestic economic policy	3%	25%	43%	23%	6%	0%	100%
Access to markets within the region	0%	3%	11%	43%	42%	0%	100%
A voice for the region in international forums	0%	4%	19%	37%	38%	1%	100%
Providing an alternative to global multilateral institutions	1%	8%	29%	37%	23%	2%	100%
Income inequality	5%	29%	40%	18%	6%	3%	100%

Respondents generally held a positive view of the impact of deeper regional economic integration citing its positive impact on accesses to markets within the region as one of its most important consequences (85%) followed by the positive impact on economic growth (77%).

Of greatest concern was the impact on income inequality with 34% viewing the impact as negative followed by the independence and flexibility for domestic economic policy (28%)

Between the sub-regions there was generally little variance in opinion on the impact of deeper regional economic integration. Respondents from Northeast Asia, however, were much more concerned than the rest of the region on the negative impact on local culture and identity. Thirty-four (34%) of respondents from Northeast Asia rated the impact of deeper regional economic integration as negative on local culture and identity compared to the region as a whole – 21%. Northeast Asia was also the least positive on the impact on economic growth (69%) while respondents from Australia and New Zealand were by far the most positive at 92%.

Question 5: Please rate the relative importance of the following liberalization measures for the Asia Pacific region:

	1 - not a priority	2	3	4	5 - very high priority	Don't know	Total
Elimination of barriers to merchandise trade	3%	7%	20%	35%	33%	1%	100%
Elimination of barriers to financial services trade	3%	9%	28%	37%	23%	1%	100%
Liberalization of cross border foreign direct investment	1%	6%	20%	42%	30%	2%	100%
Liberalization of cross border capital movements	2%	13%	32%	35%	16%	2%	100%
Harmonizing rules of origin under overlapping bilateral and regional FTAs	1%	4%	18%	42%	31%	3%	100%
Enhancement of labor mobility across borders	2%	13%	28%	37%	20%	1%	100%
Elimination of barriers to trade in other services	1%	6%	26%	43%	22%	2%	100%

The highest priority for the liberalization of trade in the region was given to harmonizing rules of origin under overlapping bilateral and regional FTAs (73%) followed by the liberalization of cross-border FDI. Respondents from South America were the most concerned about rule of origin while North Americans were the least concerned.

There was considerable divergence between sub-regions in their priorities for liberalization, especially views on the importance of the elimination of barriers to trade in services. Respondents from North America and Australia and New Zealand tended to prioritize liberalization of trade in other services while respondents from East Asia placed a much lower priority on this item.

Question 6: How would you rate the suitability of the following groups of economies for the creation of a free trade and investment area?

	1 - Not suitable	2	3	4	5 - Very suitable	Don't know	Total
All ASEAN members	3%	11%	20%	30%	33%	4%	100%
China, Japan, Korea	6%	15%	32%	26%	16%	5%	100%
ASEAN+3	3%	8%	27%	35%	23%	4%	100%
All APEC members	9%	19%	27%	22%	20%	3%	100%
All East Asian Summit members	5%	14%	34%	28%	13%	6%	100%

Respondents favored ASEAN and ASEAN Plus Three when asked what economies would be most suitable for the creation of a free trade and investment area (63% and 58% of respondents thought they were suitable to very suitable for the creation of a free trade area respectively).

How would you rate the suitability of the following groups of economies for the creation of a free trade and investment area? (% respondents by sub-region who thought the following groupings were suitable to very suitable for the creation of a free trade and investment area)

	All ASEAN members	China, Japan, Korea	ASEAN+3	All APEC members	All East Asia Summit members
All	63%	42%	58%	42%	41%
Australia-New Zealand	56%	38%	54%	46%	40%
North America	59%	40%	50%	31%	31%
Northeast Asia	54%	42%	51%	40%	36%
South America	65%	43%	51%	53%	51%
Southeast Asia	75%	45%	73%	44%	49%

The five regions represented in the survey have similar perspectives of regional economic integration, rating ASEAN as the best suited grouping for a free trade and investment area. However, there was variation as to the next best suited grouping, with most sub-regions ranking ASEAN+3 second with the exception of South Americans who ranked APEC second. Interestingly North American respondents did not share this view with a significant proportion who thought that the ASEAN+3 grouping was better suited to a creation of a free trade area and still ranked the East Asia Summit membership better suited than APEC's membership.

Question 7: Please rate the importance of strengthening regional cooperation in the Asia Pacific region on the following issues:

	1 - not at all important	2	3	4	5 – very important	Don't know	Total
Provision of liquidity support in the event of financial crises	1%	5%	14%	34%	43%	2%	100%
Reducing the cost of doing business	2%	4%	17%	33%	43%	1%	100%
Protecting the environment	0%	5%	18%	34%	42%	1%	100%
Improving food security	1%	6%	18%	35%	40%	1%	100%
Improving energy security	0%	5%	18%	38%	37%	1%	100%
Reducing tariff barriers	2%	4%	17%	41%	36%	1%	100%
Reducing the risk of military conflict	2%	9%	23%	28%	36%	1%	100%
Establishment of a dispute settlement mechanism on intl trade and investment	3%	6%	20%	36%	35%	1%	100%
Protecting intellectual property rights	2%	8%	21%	35%	34%	1%	100%
Macroeconomic surveillance and economic policy dialogue	2%	7%	20%	37%	34%	1%	100%
Enhancing the safety and security of trade	2%	4%	24%	39%	31%	1%	100%
Investment in physical infrastructure	2%	8%	20%	39%	30%	1%	100%
Preparing for disease pandemics	1%	11%	29%	31%	27%	1%	100%
Development of regional financial markets	2%	5%	20%	46%	25%	2%	100%
Exchange rate and monetary policy coordination	2%	10%	21%	40%	25%	1%	100%
Providing support to those disadvantaged by trade and investment liberalization	3%	8%	28%	36%	24%	1%	100%
Counter-terrorism initiatives	3%	16%	33%	26%	22%	1%	100%
Reducing barriers to the movement of labor	2%	10%	31%	35%	21%	1%	100%
Fiscal policy coordination	4%	13%	35%	30%	16%	3%	100%

Given the financial market turmoil it should come as no surprise that the top area for strengthening regional cooperation was provision of liquidity support in the event of financial crises. Tariff barriers ranked second highest followed by the environment, then reducing the cost of doing business, with the top five issues rounded off by energy security and food security equally. Generally, this matches the results in question 12 on priorities for APEC Leaders with the exception of strengthening the APEC institution which does not appear in this list.

Section 4: Regional Institutions

Question 8: How would you rate the importance of the following measures for enhancing regional cooperation?

	1 - not important	2	3	4	5 – very important	don't know	Total
Strengthen existing institutions such as ASEAN and APEC by giving them additional staff resources	4%	8%	24%	35%	27%	2%	100%
Expand the scope of intergovernmental cooperation on a case by case basis	2%	8%	25%	36%	26%	2%	100%
Enlarge the scope of existing institutions such as APEC and ASEAN	6%	10%	24%	38%	21%	2%	100%
Create new regional institutions with qualified staff	24%	27%	20%	15%	10%	3%	100%

Respondents strongly favored strengthening existing institutions rather than creating new ones to enhance regional cooperation. The most favored route for enhancing regional cooperation was to give existing additional staff resources to existing institutions such as APEC and ASEAN (62%). Opinion-leaders were largely skeptical about creating new institutions with less than 25% of respondents rating this as an important measure.

Question 9: Please indicate your agreement or disagreement with the following statements:

	Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree	Don't know	Total
The East Asia Summit Process will eventually overshadow APEC	7%	31%	28%	19%	5%	10%	100%
APEC is as important today as it was in 1989	7%	29%	19%	32%	10%	4%	100%
India should be a member of APEC	4%	12%	22%	44%	13%	5%	100%
Asian economies should create a region-wide institution to promote financial stability	1%	9%	15%	47%	26%	2%	100%
Asian economies should create a region-wide institution for economic policy coordination and cooperation	1%	10%	20%	40%	27%	1%	100%
A free trade area for Asian economies should be negotiated as soon as possible	2%	12%	22%	41%	20%	2%	100%
A free trade area for the Asia-Pacific region should be negotiated as soon as possible	3%	11%	24%	37%	24%	1%	100%

	Total Agree		
	SOTR 2008	SOTR 2007	SOTR 2006
The East Asian Summit process will eventually overshadow APEC	24%	34%	27%
APEC is as important today as it was in 1989	42%	48%	42%
India should be a member of APEC	57%	60%	61%

Overall 72 percent of responses agreed or strongly agreed that Asian economies should create a region-wide institution to promote financial stability, 67 percent for economic policy coordination and cooperation, and 62 percent that a free trade area for Asian economies should be negotiated as soon as possible. Furthermore, 57 percent agree that India should be a member of APEC.

The three questions that are comparable across the three years of the survey show little difference in the responses, with slightly fewer respondents see the East Asian Summit as a threat to APEC.

Slight differences present themselves when viewing the role for regional institutions across regions. There was high support from South American respondents with 86 percent agreement that a free trade area for the Asia Pacific

region should be negotiated, but only 63 percent of South American respondents agree that an FTA should be created for Asian economies. Of North American respondents, 55 percent strongly disagree or disagree with the statement that APEC is as important today as it was at its start in 1989, while 70 percent agree that Asian economies should create a region-wide institution to promote financial stability. In contrast, 52 percent of Australian and New Zealand respondents agree or strongly agree that APEC is as important today as it was at its start in 1989, while 44 percent think Asian economies should create a region wide institution to promote financial stability. Of Northeast Asia respondents, 51 percent disagree that the East Asian Summit will eventually overshadow APEC.

APEC is as important today as it was in 1989

	Agree	Disagree
All	42%	36%
Australia-New Zealand	52%	29%
North America	26%	55%
Northeast Asia	46%	33%
South America	43%	35%
Southeast Asia	42%	31%

A free trade area for the Asia-Pacific region should be negotiated as soon as possible

	Agree	Disagree
All	61%	14%
Australia-New Zealand	69%	17%
North America	56%	15%
Northeast Asia	55%	12%
South America	86%	2%
Southeast Asia	56%	19%

Question 10: When do you think the following regional institutions will be created?

	by 2010	by 2015	by 2020	by 2030	Never	Don't know	Total
An Asian institution to promote financial stability	27%	33%	15%	6%	5%	13%	100%
A secretariat for economic policy cooperation	24%	34%	18%	6%	5%	14%	100%
A pan-Asian free trade and investment area	6%	26%	36%	14%	4%	13%	100%
An Asian currency unit	1%	5%	20%	22%	31%	21%	100%
A common Asian currency	1%	2%	10%	26%	40%	21%	100%

There does not appear to be strong agreement on a timeframe for any of the institutions. A majority of respondents thought that an Asian institution to promote financial stability, a secretariat for economic policy cooperation and a pan-Asian free trade and investment area would be created by 2020 (75%, 76% and 68% respectively). However, respondents were much less sure about the creation of an Asian currency unit or an Asian common currency with 40 percent of total respondents indicated that a common Asian currency will never be created and 31 percent that an Asian currency unit will never be created.

Section 5: APEC

Question 11: What are the most important challenges facing APEC?

	1 - Not at all important	2	3	4	5 - Very important	Don't know	Total
Lack of focus on relevant issues	2%	9%	23%	31%	31%	5%	100%
Competition from Asia-only groupings such as ASEAN+3 and the East Asia Summit	4%	14%	24%	34%	20%	4%	100%
Weak international secretariat	3%	12%	26%	31%	21%	7%	100%
Lack of commitment from key member economies	1%	3%	16%	36%	39%	4%	100%
Lack of relevance to issues facing ordinary citizens	2%	12%	25%	34%	23%	4%	100%
Excessive number of meetings	6%	20%	31%	19%	11%	12%	100%
Limited central budget for APEC activities	3%	12%	29%	27%	18%	11%	100%

When asked what the most important challenges facing APEC, 76 percent of survey respondents viewed a lack of commitment from key member economies as a very important or important challenge. Lack of focus on relevant issues and lack of relevance to issues facing ordinary citizens are also viewed as the top challenges.

Survey respondents do not consider excessive number of meetings, competition from Asia-only groupings or a weak international secretariat and limited central budget as important or very important challenges. Regional responses to the question were also similar, with each region considering a lack of commitment from key member economies as the most important challenges facing APEC. Over the past three years of survey data, the percentage of respondents citing "lack of commitment from key member economies" as an important or very important challenge for APEC has increased from 63 percent in 2006 to 67 percent in 2007 and 76 percent this year..

<p>SOTR 2008 Very important 1. Lack of commitment from key member economies (39%) 2. Lack of focus on relevant issues (31%) 3. Lack of relevance to issues facing ordinary citizens (23%)</p>	<p>SOTR 2007 Very important 1. Lack of commitment from key member economies (26%) 2. Lack of relevance to issues facing ordinary citizens (21%) 3. Weak international secretariat (16%)</p>	<p>SOTR 2006 Very important 1. Lack of commitment from key member economies (28%) 2. Lack of focus on relevant issues (25%) 3. Lack of relevance to issues facing ordinary citizens (25%)</p>
<p>Very important and important 1. Lack of commitment from key member economies (76%) 2. Lack of focus on relevant issues (62%) 3. Lack of relevance to issues facing ordinary citizens (57%)</p>	<p>Very important and important 1. Lack of commitment from key member economies (67%) 2. Lack of relevance to issues facing ordinary citizens (48%) 3. Weak international secretariat (47%)</p>	<p>Very important and important 1. Lack of commitment from key member economies (63%) 2. Lack of focus on relevant issues (55%) 3. Lack of relevance to issues facing ordinary citizens (43%)</p>
<p>Not important and not very important 1. Excessive number of meetings (27%) 2. Competition from Asia-only groupings such as ASEAN+3 and the East Asia Summit (18%) 3. Weak international secretariat (15%) and Limited central budget for APEC activities (15%)</p>	<p>Not important and not very important 1. Excessive number of meetings (31%) 2. Competition from East Asian Summit (27%) 3. Lack of relevance to issues facing ordinary citizens (19%)</p>	<p>Not important and not very important 1. Competition from East Asian Summit (25%) 2. Excessive number of meetings (24%) 3. Lack of relevance to issues facing ordinary citizens (18%)</p>

Question 12: What do you think should be the top five priorities for APEC Leaders to discuss at their upcoming meeting in Lima?

	% total
1. The US financial crisis and its global impact	24%
2. A Free Trade Area of the Asia Pacific	9%
3. The WTO Doha Development Round	8%
4. Energy security	8%
5. APEC reform / institutional strengthening	7%
6. Food security	6%
7. Climate change	6%
8. Managing the proliferation of preferential trade agreements	4%
9. Reducing costs of business by cutting red tape	4%
10. Reducing corruption	4%
11. Investment in physical infrastructure to facilitate trade	3%
12. Trans-Pacific imbalances and exchange rate adjustments	3%
13. Labor mobility	3%
14. Inflation	2%
15. Protecting intellectual property rights	2%
16. Emergency preparedness	2%
17. Corporate social responsibility	1%
18. Terrorism	1%
19. Expansion of APEC membership	1%

By far the top priority for the APEC Leaders' meeting was the US Financial Crisis and its global impact, followed by the Free Trade Area of the Asia Pacific, the WTO DDA, energy security, and APEC reform. That the ongoing financial crisis should be top should come of no surprise, however, that the proposed FTAAP has now overtaken the WTO as priority area of discussion demonstrates increasing skepticism over the likelihood of a breakthrough in the global trade talks being reached. Moreover, only respondents from the non-government sector still ranked the WTO DDA negotiations as a higher priority than the FTAAP. Amongst the sub-regions only one, Australia-New Zealand ranked the WTO above the FTAAP.

SOTR 2008 (weighted)	SOTR 2007 (weighted)	SOTR 2006 (weighted)
Respondents were asked to rank the top 5 of 19 priorities for APEC Leaders to discuss in Lima	Respondents were asked to rank the top 5 of 16 priorities for APEC Leaders to discuss in Sydney	Respondents were asked to rate the importance of 12 policy priorities on a scale of 1-5
Top 5 Policy Priorities	Top 5 Policy Priorities	Top 5 Policy Priorities
1. The US financial crisis and its global impact	1. WTO Doha Round	1. Reducing tariff barriers
2. A Free Trade Area of the Asia Pacific	2. FTAAP	2. Counter-terrorism
3. The WTO Doha Development Round	3. Energy security	3. Investment in physical infrastructure to facilitate trade
4. Energy security	4. Strengthening the APEC organization	4. Preparing for disease pandemics
5. APEC reform / institutional strengthening	5. Climate change	5. Reducing corruption and increasing transparency

Climate change, such a big issue for the Sydney Summit last year still ranked highly but is down in the list of priorities. While it is still a top 5 issue for most of the sub-regions including Northeast Asia, North America and Australia-New Zealand, only Southeast Asia and South America did not have climate change as a top 5 priority issue.