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## **A sensible but revolutionary notion**

By Wendy Dobson  
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### **Canada has a role to play in this weekend's complex APEC gamesmanship**

Prime Minister Stephen Harper's attendance at the APEC leaders' meeting in Singapore this weekend shouldn't be treated with a yawn - the meetings are part of a complex game in which our ideas, as co-chair with South Korea of the G7/G20 process in 2010, will count.

Asia Pacific Economic Co-operation could evolve significantly in the next few years. The unique region has the world's four largest economies: China, India, Japan and the United States. China and India, the world's most populous countries, are currently its most dynamic economies. Japan, with Australia's help, has pushed for regional trade and financial institutions to attract the two increasingly important emerging giants into co-operating on regional projects, rather than pursuing rivalries.

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Competition behind the scenes explains the region's alphabet soup of organizations, as China, which sees itself as Asia's natural leader, supports ASEAN's Asians-only initiatives. As Asians often say, "Don't treat China as a threat - but don't forget China is a threat."

APEC's potential lies in how it balances economic and political influence in the region. With the United States distracted by its own foreign policy and domestic challenges in recent years, APEC's progress has been incremental and ad hoc. This year, President Barack Obama's willingness to re-engage will have a major impact on APEC's future. India, not yet a member, wants to join when a 10-year membership moratorium expires in 2010. It is already a member of the East Asia Summit, along with Australia and New Zealand, and of the G20.

The Singapore APEC marks a new trajectory as countries sympathetic to transpacific ties host subsequent summits: Japan in 2010, the U.S. in 2011 and Indonesia in 2013. This sequence could set the stage for deeper economic co-operation and security, and political dialogues that dovetail with global talks in the G20. A transpacific free-trade area, which China has resisted, will return to the agenda. Beyond competition for influence, close intergovernmental co-operation on domestic reforms is required to meet the collective challenges of climate change, manage fallout from the global financial crisis and restore trade-liberalizing momentum.

Asian exporters were hit hard by the global financial crisis when consumers in advanced countries stopped shopping and started saving; the drop in imports cascaded through regional

production networks. China and India were unique in that they continued to grow throughout the crisis. Now, their neighbours expect them to help restore growth as they shift to strategies encouraging domestic and regional demand.

Here, China has a strong hand to play. It is financing new infrastructure links with Southeast Asia and already has a strategy to rebalance its lopsided investment-driven economy. China is shifting its growth away from investment toward consumption, services and less energy and capital-intensive production. With a less capital-intensive industrial structure, growth will rely more on productivity than investment in physical capital. The shift requires complex changes in incentives: to households to consume more; to China's myriad job-creating small private businesses to diversify into services; and to reduce the policy bias favouring polluting, export-oriented state enterprises.

To become a credible counterbalance, India will have to find the political will for labour-market reforms that would facilitate its participation in East Asia's dynamic production networks and open new modern-sector jobs for people trapped in agriculture. Japan must restore its tattered credibility in regional trade by tackling its agricultural trade protection.

U.S. re-engagement will be a source of new vigour, if it is willing to take initiatives on trade and security. APEC's long-term prospects will also be influenced by Chinese-Indian co-operation. The two have recently found common cause in the climate-change negotiations. Their formal agreement to co-operate in negotiating and mitigation could be a template for the future (although five years of bilateral free-trade discussions have led nowhere).

A reinvigorated APEC agenda should also have a more strategic focus. As membership expands, a steering group should be created - of the four giants and the five G20 members (Australia, Canada, Indonesia, South Korea and Mexico) - to ensure coherence between regional and global priorities and initiatives. Canada should push such a sensible but revolutionary idea in Singapore.

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