



Asia-Pacific  
Economic Cooperation

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Session: Shaping APEC – Regional Impacts

1.3.2

## **Where Commerce Meets Community – Standards, Security and Sustaining Knowledge Flows in APEC**

Purpose: Information

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## **Abstract:**

The competition among regional trade arrangements intensified at the Hanoi Leaders' Summit with new support for an APEC-wide FTA. One can distinguish between the Asian-Pacific alternative (FTAAP), and the Asian or "ASEAN +" proposals (EAFTA and CEPEA) along two dimensions – community and commerce. The review highlights the fact that despite the wider scale of APEC commerce, it does not address the need for cultural and geographical community promoted in ASEAN +3 or ASEAN +6 alternatives. I then look more closely to the link between community and commerce in APEC, highlighting the flow of knowledge among production/consumption chains across member states. I conclude with a recommendation for strengthening both protection of proprietary knowledge or IPR, and for enhancing the flow of technology through Ecotech and other programs.

## **Where Commerce Meets Community – Fostering Knowledge Flows in APEC**

*Commerce* and *Community* signal two contrasting approaches to regional integration. The former conveys a more limited, market approach, the latter a more comprehensive, political and even cultural linkage. *Commerce* and *Community* also neatly distinguish regional organizations: commerce or "economic cooperation" in APEC, versus the "East Asian Community" in ASEAN + 3 or ASEAN +6. The contrast sheds light on the competition between an APEC-wide FTA (hereafter, "FTAAP") and the inner-regional ASEAN + 3 or ASEAN + 6 (hereafter, "APS").

I first look to directions of trade to compare the two regional trade alternatives. I then look more closely to the APEC networks of production and consumption or "value chains," particularly the flows of knowledge critical for the transition from labor-intensive production. Policy proposals for strengthening these flows highlight the critical bases for a knowledge community: protection of proprietary knowledge, and technology transfer.

But why return to the FTAAP proposal after Charles Morrison and others concluded recently, "an FTAAP is not politically viable?"<sup>i</sup> I believe that since political viability is indeed malleable, it is more useful to look at what might promote the political prospects of such an effort. I argue that the APEC potential for shaping a knowledge community may enhance such viability.

## **Commerce**

The term *commerce* does not capture imaginations or emotions as much as *community* might, but nonetheless commerce has been the driver of regional prosperity and has long served as the basis for regional integration despite cultural differences, historical enmities and the occasional misgivings of states. Industrialization in the West in the 18<sup>th</sup> and 19<sup>th</sup> century drove populations from settled agrarian communities to anomic urban life, leaving some to lament the loss of community in the rush to modernize. Some of their 20<sup>th</sup> century counterparts in the newly industrializing nations of East Asia continue the lament over what Charles Tilly terms, the "Paradigm Lost."<sup>ii</sup> Tilly looks more concretely to *community* as bounded networks with an emphasis on interactions rather than individuals or social systems. Interactive, bounded networks then can include such diverse interactive groups as trading systems, military hierarchies, or even job-seeking networks all fall within the term, *community*. Of particular interest is the interplay of communities or bounded networks, and nation-states. Trans-state and interstate communities have long moved across the relatively recent borders of nation-states, particularly in Asia with its strong ethnic networks.

## Value-Chains

Among the most significant of trans-national networks in the Asian-Pacific region today is the skein of production lines which fuels increasing volumes of regional commerce. Hopkins and Wallerstein singled out production sequences or “commodity chains” as the “warp and woof” of production within the capitalist world-economy. Chains represent socially determined “networks of labor and production processes whose end result is a finished commodity.”<sup>iii</sup> Value chains or streams of production, distribution, and marketing provide a window on globalization.<sup>iv</sup> Porter explained how one company’s value chain must be embedded in a larger value system including suppliers, distributors, and even buyers.<sup>v</sup> Chains refer to “inter-organizational networks, clustered around one commodity, linking households, enterprises, and states within the world-economy.”<sup>vi</sup> Others have distinguished between chains and networks. For instance, Sturgeon argued that *chains* “map the vertical sequence of events leading to the delivery, consumption and maintenance of goods and services.” He singled out features of chain organization such as fluidity and a diverse community of economic actors. Meanwhile, the term *network* was reserved for a more fundamental linking of “sets of firms into larger economic groupings,” with emphasis on the “nature and extent of inter-firm relationships.” *Networks* link firms and groups of firms, while *chains* link nodes.

Gereffi described a value-added chain of products, services, and resources. Of particular significance here is how the chain integrates or isolates, adapts to or changes local production systems. Other dimensions include geographically dispersed locations for manufacture and marketing, a governance structure, and an institutional framework.<sup>vii</sup> Each of these dimensions tells us of power among lead firms on the one hand, and growth or development among their networks of offshore affiliates and sub-contractors on the other. On the one hand, the term *power* suggests both corporate power, and the institutional power of state and affiliated business associations and labor groups. On the other hand, the term *development* refers to industrial upgrading associated with transfer of technology, resulting in upward mobility to more “technologically sophisticated capital and skill-intensive economic niches.” On a broader level, upgrading demands integration into an intra-regional division of labor at levels of firm, industry, and societal systems of production.<sup>viii</sup> I look to global value chains to learn of inclusion or exclusion, of how networks become integrated into nodes along the ladder of production and consumption in industrial sectors.

## Production-sharing

Value-chains or production-sharing networks, then, can be viewed as a trading or producing community within the region promoting commerce. The dual emphasis on geographical location as well as flows across space of knowledge and technology also permits a dual focus on “value-added” important to investing firms seeking profits on their technology, and to “development” among local firms hoping to gain a place in the network.<sup>ix</sup> The body of scholarship on production-sharing chains within the region continues to grow, particularly with growing attention to bilateral preferential trade agreements (“PTAs”). Bilateral PTAs have spawned a great deal of research on comparative advantage among industries, and on complementarities, usually resulting from a division of labor within production networks. Others have focused on production networks within industries, particularly the electronics and automobile industries.<sup>x</sup>

Production networks contribute mightily to growing commerce, which provides one driver for regional trade arrangements facilitating trade. Directions of trade offer some contrasts in commerce between the FTAAP and the inner-region proposals, whether ASEAN + 3 (APT) or ASEAN + 6 (APS). I will use the latter (i.e., APS) for comparison, since it comprises a larger trade area. Data in Tables A & B below summarize directions of Trade for two of the Asian region’s major economies, China and Japan. The data highlight the fact that trade volumes are growing for both APEC and APS, but that the APEC group of member markets

remains far larger than those of APS. If trade volumes or “commerce” is one driver for regional trade agreements, FTAAP certainly should command our interest. Let me add I believe APS and APEC both play very constructive roles in the region, and a variety of institutional avenues to trade liberalization, and indeed competition among them, bodes well for the future of the member economies.<sup>xi</sup>

## **Community**

The Track II Dialogue in ASEAN + 3 devotes a fair amount of attention to the topic of *community*. Commentators distinguish two quite discrepant approaches to the concept. Some would promote an economic community, with economic integration the goal of community-building efforts. Others propose a far more ambitious political or even cultural grouping.<sup>xii</sup> The NEAT (Northeast Asian Think-tanks) Track II group plans to address the topic in detail in their upcoming June 2007 meeting in Tokyo.<sup>xiii</sup> APT is the proper forum for a discussion of “Asian community” and perhaps even “Asian identity,” given its intra-Asian membership. What I suggest here is only that APEC may well be the proper forum for another very critical type of network or community supporting the deepening of value-chains across the Asia-Pacific. I am not looking to a community of standards, though certainly APEC can lay claim to advancing standardization of procedures in trade among its members. Nor am I looking to another very important community of trade security, which has likewise found congenial ground in the APEC process.

I am looking rather to a community of knowledge, sometimes termed “technology transfer,” sometimes termed a community of property rights. This community highlights both a central tension in the APEC organization between the stronger and weaker economies, and a central promise of APEC efforts to both procure property protections, as well as promote development through Ecotech. I first look to the transfer or flow of knowledge in value-chains as the central challenge for sustaining the competitiveness of manufacture in the region, and then turn back to how APEC might play a role in enhancing these flows.

If capital and information move along a flow of space, the flow of place remains embedded in the social fabric and institutions that shape our identities as the people or nation of a particular locale. Jeffery Henderson highlighted the dialectical relationship between flows and locales in the shaping and operation of global supply or “value” chains (2004). Others appear less sanguine. Castells cited the discrepancy between power and wealth projected across the world in a space of flows on the one hand, and individual experience rooted in histories and cultures on the other.<sup>xiv</sup> The effect on organizations is likewise daunting. As a-historical flows of capital and information gradually condition and perhaps supersede the logic of locally embedded institutions, the “logic of global power” may well supplant local control.

Economic geographers look to an intermediate space of local systems between national institutions and the individual economic actor. Yeung wrote of such systems evident in institutional relations among “business organizations, local institutions, trade associations, and research institutes.”<sup>xv</sup> Looking to the “learning economy,” Conti defined the local system as “a place of integration between contextual knowledge and codified knowledge,” linking transferable knowledge to manufacturing, while adapting such expertise to the local context.<sup>xvi</sup> Linking place to innovation, Porter emphasized the national roots of a changing or dynamic comparative advantage.<sup>xvii</sup> He later wrote of the critical role of industrial clusters where local engagement permits “access to important resources and information (1998b:88).” Asheim and Isaksen argued that the flexibility demanded in the less standardized and predictable Post-Fordist economy demands constant innovation based on interactive learning and co-operation qualitatively different than the hierarchical control of the earlier coordination.<sup>xviii</sup> Their intriguing conclusion that “an important part” of even codified knowledge results only from localized learning remains to be tested. What is clear however,

is the significance of the interplay among place, learning, and dynamic comparative advantage for offshore investment.<sup>xix</sup>

### **Conclusion – the APEC Knowledge Community**

The challenge for production/consumption chains of APEC member economies then, is to enhance flows of codified and tacit knowledge with the support of intellectual property protections, and a common commitment to constant upgrading of the network. If one can contrast vertical production networks within Asia differ from their horizontal counterparts in Europe, the hierarchy appears perhaps more distinct when you join the Pacific partners to their Asian trade partners in APEC. Such diversity may well doom a knowledge community due to IPR concerns on the one side, or development program demands on the other side. Yet the diversity also suggests the complementary strengths within APEC, or dynamic comparative advantage within the proposed FTAAP.

Development of information technologies in APEC '05 under Korean leadership was a promising initiative toward building such a community. Further efforts need to be pursued within APEC to insure confidence in Intellectual Property protections across borders. Yet at the same time the growing APEC value chains will demand upgrading of production, as well as the tapping of local resources of knowledge of markets, labor, government policies, and even cultural tastes. It seems clear that apart from targeted strategies for knowledge flows in APEC Working Groups, the epistemic community represented here in the APEC Academic Centers Consortium can play a major role in helping to design more effective flows of knowledge both within and beyond the academic and research structures of their individual societies.

**Table A: China Directions of Trade, Imports and Exports, 2004-2006**  
Unit: Billions of U.S. dollars

China Imports from	2004	'04/'03 % Change	2005	'05/'04 % Change	2006	'06/'05 % change
World	561B	35	660B	17	791B	19%
APEC 21	419B/74%	34%	493B/74%	17	582B/ 73.6%	+18%
10+6	278/ 53	37	334/ 49	20	399b/ 50.4%	+19%
China Exports						
World	593B	35	762B	28	969B	27%
APEC 21	416/70%	34	523/72	25	6454b/ 66%**	+23%
10 + 6	160B/26	32	196/25	22	237b/ 24%	+27%
Total Trade	1154B		1422B		1760	
APEC	835B/72		1016B/71		1227B/69%	
10+6	438B/37%		530B/37		636B/36%	

Source: Global Trade Information Service. *World Trade Analyzer*

**Table B: Japan Directions of Trade, Imports and Exports, 2004-2006**  
**Unit: Billions of U.S. dollars**

Japan Imports from	2004	'04/'03 % Change	2005	'05/'04 % Change	2006	'06/'05 % Change
World	455B	13	516B	18	577B	12%
APEC 21	309B/68%	18	341B/66%	10	373B/65%	9%
10+6	208B/46%	21	235B/46%	13	259b/45%	10%
ASEAN 10	67B/15		72B/14		79B/14%	10
Japan Exports						
World	566	19	595	5	646	8.6%
APEC 21	428B/76%	19	454B/76%	5	489B/76%	7.7
10 + 6	208B/37	24	220/37	5	238/37%	8
Total Trade	1021B		1111B		1223B	
APEC	737B/72		795B/71		871B/71%	
10+6	416B/40%		455B/40%		497B/40%	

Source: Global Trade Information Service. *World Trade Analyzer*.

### Notes:

<sup>i</sup> ABAC & PECC, compil. *An APEC Trade Agenda? The Political Economy of a Free Trade Area of the Asia Pacific*. Melbourne: Monash APEC Centre, 2006.

[http://www.apec.org.au/docs/06\\_PrelimConf](http://www.apec.org.au/docs/06_PrelimConf)

<sup>ii</sup> Tilly, Charles. "International Communities, Secure or Otherwise." Pp. 397-412 in *Security Communities*, edited by Emanuel Adler and Michael Barnett. Cambridge: Cambridge University Press, 1998.

<sup>iii</sup> Hopkins, T. K., and Immanuel Wallerstein. "Commodity Chains: Construct and Research." Pp. 17-20 in Gary Gereffi and Miguel Korzeniewicz, eds. *Commodity Chains and Global Capitalism*. Westport, CN: Greenwood Press, 1994. p. 17.

<sup>iv</sup> "Gereffi and others used the term "global commodity chains" to refer to these linkages. At a workshop in Bellagio in September 2000, Gereffi and other researchers working in this area agreed to use the new term "global value chains."

<sup>v</sup> Michael Porter, *The Competitive Advantage of Nations* (London: Macmillan, 1990). p. 42.

<sup>vi</sup> Gary Gereffi et Migel Korzeniewicz, eds., *Commodity Chains and Global Development* (Westport, Praeger:1999) 1994, p. 2

<sup>vii</sup> Gereffi, Gary. "Global Production Systems and Third World Development." Pp. 100-142 in Barbara Stallings, ed., *Global Change, Regional Response: the New International Context of Development*. New York: Cambridge University Press, 1995. Gereffi, Gary. "Shifting Governance Structures in Global Commodity Chains, with Special Reference to the Internet." *American Behavioral Scientist* 44, 10 (June 2001): 1616-1637.

<sup>viii</sup> Gereffi, Gary. "International Trade and Industrial Upgrading in the Apparel Commodity Chain." *Journal of International Economics* 48 (1999): 37-70. P. 52.

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<sup>ix</sup> Humphrey, John, and Hubert Schmitz. "Developing Country Firms in the World Economy: Governance and Upgrading in Global Value Chains." Section I, "Governance in Global Value Chains," pp. 1-17, and Section II, "How Does Insertion in Global Value Chains Affect Upgrading in Industrial Clusters," pp. 18-35. *INEF Report*, No. 61 (2002). Duisburg, Germany: INEF [Institute for Development and Peace, University of Duisburg], 2002. Fn 2, p. 18.  
<http://www.ids.ac.uk/ids/global/vw.html>.

<sup>x</sup> Nelson, Patricia A. "Integrated Production in East Asia: Globalization Without Insulation?" Pp. 124-158 in Ulrike Schaeede and William Grimes, eds. *Japan's Managed Globalization: Adapting to the Twenty-first Century*. Armonk, New York: M. E. Sharpe, 2003. Sturgeon, T. J. "Modular Production Networks: A New American Model of Industrial Organization." *Industrial and Corporate Change* (2002) Vol. 11, No. 3: 451-496. Chen, Xiangming. 2005. *As Borders Bend : Transnational Spaces on the Pacific Rim*. Lanham, MD: Rowman & Littlefield Publishers, 2005, Fukunari, Kimura "International Production and Distribution Networks in East Asia: Eighteen Facts, Mechanics, and Policy Implications." *Asian Economic Policy Review (AEPR)* 1 (2006):306-325. Kimura, Fukunari, and Mitsuyo Ando, ""International Production/Distribution Networks and Ftas." " Pp. 73-88 in *Innovation and Institutions : A Programmatic Study*, edited by Steven Casper and Frans van Waarden. Northampton, MA: Edward Elgar, 2005.

<sup>xi</sup> See this emphasis on a variety of RTAs in Lee, Kyung-Tae, KIET. "Does the Region Have the Architecture It Needs? Toward a Prosperous Asia-Pacific Community." APEC Study Centre Network Preliminary Conference, Melbourne, Australia, December, 2006  
[http://www.apec.org.au/docs/06\\_PrelimConf/1.1\\_KTLee\(pppt\).pdf](http://www.apec.org.au/docs/06_PrelimConf/1.1_KTLee(pppt).pdf)

<sup>xii</sup> Terada, Takashi. "Constructing an [East Asian] Concept and Growing Regional Identity: from EAEC to ASEAN + 3." *The Pacific Review* 16, 2 (2003): 251-277. Terada, Takashi. "[Tomoni Ayumini Tomoni Susumu] Shin no Chiikishugi no Setsuritsu o [Walking Together, Advancing Together, For the Establishment of a Real Regionalism]." *Gaiko Forum* (October 2005): 32-37. English version available in The Council on East Asian Community, Report of an "East Asian Community" and New Dynamism of Regional Governance (2<sup>nd</sup> Year). Tokyo: The Council on East Asian Community, November 2, 2006.  
<http://www.ceac.jp/e/pdf/061102.pdf>. Taniguchi, Makoto. 2007. "Key Person Interview - Taniguchi Makoto." *ERINA Report* 73:5-8

<sup>xiii</sup> A meeting titled, "The Network of East Asian Think-tanks: International Meeting of Working Group "Overall Architecture of Community Building in East Asia," will be convened June 13-14 in Tokyo.  
<http://www.ceac.jp>

<sup>xiv</sup> Castells, Manuel. *The Rise of the Network Society*. Volume I, *The Information Age: Economy, Society and Culture*. Malden MA: Blackwell, 1996. P. 413.

<sup>xv</sup> Yeung, Henry Wai-chung. "Capital, State and Space: Contesting the Borderless World." *Transactions – Institute of British Geographers* vol. 23 (1998): 291-309. P. 303.

<sup>xvi</sup> Conti, Sergio. "Small and Medium Sized Enterprises in Space: The Plural Economy." Pp. 19-44 in Eirik Vatne, and Michael Taylor, eds. *Networked Firm in a Global World: Small Firms in New Environments*. Burlington VT: Ashgate, 2002. P. 33.

<sup>xvii</sup> Porter, Michael. *The Competitive Advantage of Nations*. With a New Introduction. New York: The Free Press, 1998.

<sup>xviii</sup> Asheim and Isaksen (2000)

<sup>xix</sup> Some of these ideas have been discussed in my article, "New Places but Old Spaces –Knowledge Hierarchies among Asian SMEs Abroad." *Organization – The Critical Journal of Organization, Theory and Society* 13, 4 (2006): 549-567. See also, "Knowledge and Thai Networks in the New East Asian Region." *Thammasat Review* (Thammasat University, Bangkok, Thailand) Vol. 9 (December 2004): 1-21. Published Fall, 2005. "Industry and National Identity – Globalizing the Korean Auto Industry." Pp. 318-328 in David Steinberg, ed., *Korean Attitudes toward the United States* (New York: M. E. Sharpe, 2005). "Security and Society within the Northeast Asian Region." Pp. 163-175 in Byung Chul Koh, ed., *The Korean Peninsula in Transition: The Summit and Its Aftermath*. Seoul: The Institute for Far Eastern Studies [IFES], Kyungnam University, 2003. "Trust and Technology Transfer in Global Production Chains." Pp. 180-188 in International Social Economy Association ed., *Proceedings of the International Symposium on Unemployment and Poverty - Causes and Remedies*. Rome: INAIL, 2002.

# Where Commerce Meets Community

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1

## The APEC Challenge

- Problem – Strong Commerce, but weak Cultural or Geographic Community
- Promise – Community of Standards, of Security, and perhaps a Knowledge Community
- Prospect – from bilaterals to RTAs

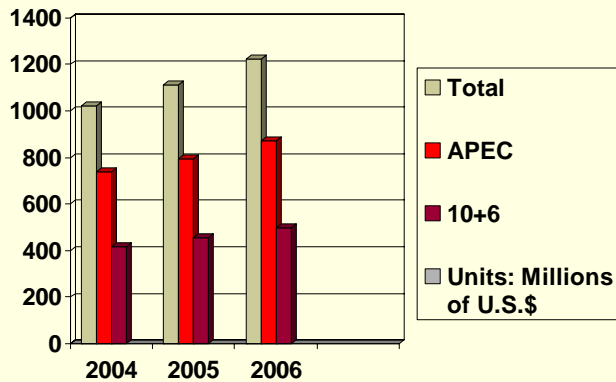
2

## The RTA Competition

- (EAFTA) East Asia Free Trade Area in ASEAN + 3 (13 nations, “APT”)
- (CEPEA) Comprehensive Economic Partnership in East Asia among East Asian Summit (16 nations “EAS”)
- (FTAAP) Free Trade Area of the Asia-Pacific in APEC (21 nations)

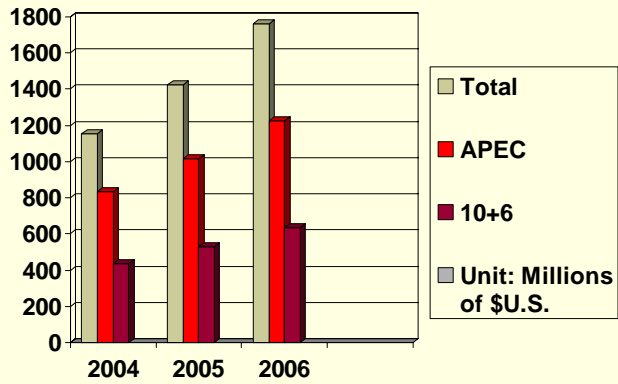
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## Japan's Trade Partners 2006



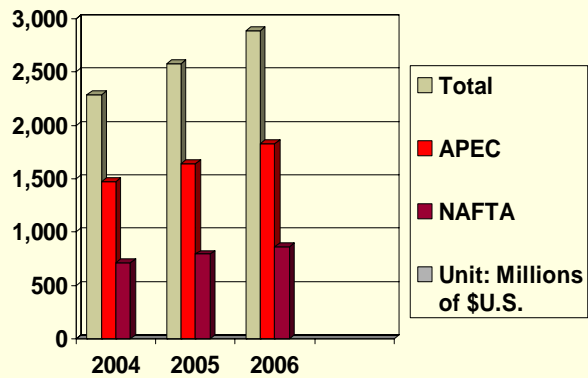
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## China's Trade Partners 2006



5

## U.S. Trade Partners 2006



6

## RTA Communities

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- ASEAN 10: Economic integration, cultural continuity, reforms for political cooperation
- Northeast Asia 3 – China, Japan, Korea – Growing Economic integration, cultural continuities, political divisions
- APEC – economic cooperation – standards, security of trade, and knowledge apart from culture or politics

7

## APEC – The Knowledge Community

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- A Standards Community (PTA model; ABAC, WGs)
- A Knowledge Community (technology) – protections (IPR), transfers (Ecotech/ SMEs)
- An Epistemic Community – information, research

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