

**GOVERNMENT AND ENTREPRENEUR STRATEGIES
IN FACING FREE TRADE AREA ON
ASIA PACIFIC (FTAAP) ISSUE THROUGH COMBINED
ANALYTICAL HIERARCHY PROCESS AND
GAME THEORY**

THESIS

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**University of Indonesia
Faculty of Economics
Master of Planning and Public Policy
International Trade and Policy
DEPOK
January, 2009**

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**A Thesis Presented for
The Master of Economic Degree in Public Policy**

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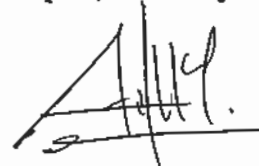
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DEDICATION

Dan, Allah Maha Luas Karunia-Nya Lagi Maha Mengetahui
(Al-Baqarah: 268)

This thesis is dedicated to:

My Mom, Widyawulan S. Rini;

My Dad, M. Widagdo

Husband, Imron;

Childrens, Sava and Azka;

Beloved Friends

"Orang yang berhasil

BUKAN orang yang tidak pernah GAGAL, melainkan orang
yang TIDAK PERNAH MENYERAH"

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STATEMENT OF ASSERTION

As civitas academia of University of Indonesia, I who signed on below:

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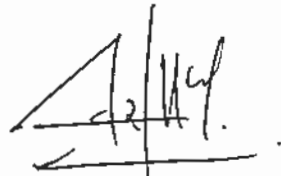
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ABSTRACT

Name : Marina Novira Anggraini
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Title : Government and Entrepreneur Strategies in Facing Free Trade Area on Asia Pacific (FTAAP) Issue through Combined Analytical Hierarchy Process and Game Theory

This research discusses the most important strategies related to their goals for government and entrepreneur, in determining their strategic based on their interests orientation in facing FTAAP issue which become APEC current issue. This study tried to compare best strategies from government, entrepreneur, academician, and NGO's but in this case academician and NGO's judgment are given by looking toward for two objectives which is "*his preferences from government side*" and "*his preferences from entrepreneur side*". The model is built in interactive framework where in making decision each actor consider other possible strategic choices. The research found that the best strategy for government confronting entrepreneur strategy is keep on track moving toward the Bogor goals, while, in other side the best strategy for entrepreneur confronting government strategy is no further suggestions. Applications of the Analytical Hierarchy Process (AHP) combined with game theory for solutions of this problem is described in this study through an interactive decision structural model, then the output from Expert Choice[®] are used as based on analysis of the problems.

Keywords: APEC, FTAAP, WTO, Bogor Goals, Game Theory, Pay-offs, Regionalism, Interest, Expert Preferences.

ABSTRAK

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Perdagangan Bebas di Wilayah Asia Pasifik Melalui
Pendekatan AHP-Game Theory

Pembahasan dari penelitian adalah menentukan strategi mana yang lebih penting atau utama terkait dengan tujuan dari pemerintah maupun pengusaha dalam menentukan strategi terbaik berdasarkan pada kepentingannya dalam menghadapi isu perdagangan bebas di Asia Pasifik yang saat ini menjadi isu terkini di dalam pembahasan APEC. Penelitian ini mencoba untuk membandingkan strategi terbaik dilihat dari kaca mata pemerintah, pengusaha, akademisi dan LSM. Akan tetapi, pendapat dari akademisi maupun LSM diarahkan pada dua objektivitas yaitu "*pendapat mereka dilihat dari sisi pemerintah*", dan "*pendapat mereka dilihat dari sisi pengusaha*". Model dibangun melalui bentuk yang interaktif sehingga masing-masing aktor dapat dimungkinkan untuk mengetahui kemungkinan strategi lain yang dapat dipilih. Penelitian ini menemukan bahwa strategi terbaik bagi pemerintah adalah tetap melaksanakan agenda Bogor Goals, sementara strategi terbaik bagi pengusaha adalah tidak menambahkan masukan lebih lanjut. Aplikasi dari AHP yang dikombinasikan dengan Game Theory untuk mendapatkan pemecahan masalah diuraikan dalam penelitian ini melalui kerangka pengambilan keputusan yang interaktif, kemudian hasil dari perangkat lunak Expert Choice^o digunakan sebagai dasar dalam menganalisa permasalahan.

Kata Kunci: APEC, FTAAP, WTO, Bogor Goals, Game Theory, Pay-offs, Regionalisasi, Kepentingan, Pendapat ahli.

TABLE OF CONTENTS

	<i>Page</i>
PAGE OF COVER.....	i
PAGE OF TITLE.....	ii
STATEMENT OF AUTHORSHIP.....	iii
ENDORSEMENT.....	iv
DEDICATION.....	v
ACKNOWLEDGEMENTS.....	vi-vii
STATEMENT OF ASSERTION.....	viii
ABSTRACT.....	ix-x
TABLE OF CONTENTS.....	xi-xiii
LIST OF GRAPHS OR FIGURES.....	xiv
LIST OF TABLES.....	xv
LIST OF ABBREVIATION.....	xvi-xviii
CHAPTER I INTRODUCTION	
1.1. Research Background.....	1
1.2. Problem Statement.....	3
1.3. Research Objectives.....	3
1.4. Research Coverage.....	4
1.5. Research Methodology.....	4
1.5.1. Data Collecting.....	5
1.5.2. Analysis Method.....	5
CHAPTER II LITERATURE REVIEW: SOME TERMS OF THEORY AND EMPIRICAL RESEARCH OF AHP-GAME THEORY	
2.1 Economic Integration Theory.....	6
2.2 Regionalism.....	8
2.2.1 Trade Creation, Trade Diversion and Spaghetti Bowl Effects.....	12
2.2.2 Regional Trade Agreements in the World.....	13
2.2.2.1 Among Advance Countries.....	13
2.2.2.1.1 European Union.....	13
2.2.2.1.2 North America FTA.....	15
2.2.2.2 Among Least Developed Countries in Asia.....	16
2.2.2.2.1 ASEAN Free Trade Area.....	16
2.2.2.2.2 Asia Pacific Free Trade Area.....	17
2.2.2.2.3 MERCOSUR.....	18
2.3 The Interest-Group Theory of Government.....	20
2.4 Game Theory.....	21
2.4.1 History of Game Theory.....	21
2.4.2 Understanding of Game Theory.....	22
2.4.3 Game Theory for Economic and Business.....	23
2.4.4 Nash Equilibrium.....	25
2.4.5 Types of Game.....	26

2.5	Empirical Research.....	28
2.5.1	Some Explanations.....	31

CHAPTER III LITERATURE REVIEW: APEC'S BACKGROUND

3.1	APEC Brief History.....	33
3.1.1	APEC Backgrounds.....	34
3.1.2	APEC Pillars.....	37
3.1.2.1	Trade and Investment Liberalization.....	37
3.1.2.2	Trade Facilitation.....	38
3.1.2.3	Economic and Technical Cooperation (ECOTECH).....	39
3.1.3	The Bogor Goals.....	40
3.1.3.1	The Impact of the Bogor Goals.....	42
3.1.3.2	Commitment to the Bogor Goals.....	43
3.1.3.3	Current Achievement Towards the Bogor Goals.....	43
3.2	The APEC Business Advisory Council (ABAC).....	45
3.2.1	ABAC Background.....	45
3.2.2	ABAC and FTAAP.....	46
3.2.2.1	FTAAP Understanding.....	46
3.2.2.2	Doha Round and FTAAP.....	48
3.2.2.3	FTAAP and Implication for WTO and APEC... ..	50
3.2.2.4	FTAAP above Pros and Cons.....	52
3.3	APEC's Analysis.....	55
3.3.1	APEC's Success.....	56
3.3.2	APEC's Failures.....	56
3.4	Evaluation of APEC Trade Liberalization Performance.....	57
3.4.1	Regional Trade Agreements (RTAs) in APEC.....	57
3.5	APEC and the WTO.....	61
3.5.1	APEC attitude Towards the WTO.....	61

CHAPTER IV RESEARCH DESIGN

4.1	Methodology.....	64
4.2	Research Stages.....	66
4.3	Application of the AHP.....	66
4.3.1	Structuring the Hierarchy.....	66
4.3.2	Decision Structural Models.....	67
4.3.2.1	Determinant Factors.....	67
4.3.2.2	Strategic Options.....	74
4.3.3	Respondents.....	76
4.3.4	Performing Pairwise Comparisons.....	77
4.3.4.1	Government Party.....	78
4.3.4.2	Entrepreneur Party.....	83

4.3.5	Synthesizing the Results.....	88
4.3.6	Sensitivity Analysis.....	91
4.3.7	Pay-offs Matrix Between Government – Entrepreneur.....	78

CHAPTER V CONCLUSION AND RECOMMENDATION

5.1	Conclusion.....	101
5.2	Recommendation.....	103

REFERENCES

APPENDICES



LIST OF FIGURES

	<i>Page</i>
Figure 2.1 Hierarchy of Interest and US Strategies.....	29
Figure 2.2 Hierarchy of Interest and OPEC Strategies.....	30
Figure 2.3 Decomposition of the Decision Problem	30
Figure 4.1 Research Stages.....	66
Formula 4.1 Group Judgments.....	76
Figure 4.2 Hierarchy of Interest and APEC Strategies.....	75
Figure 4.3 Hierarchy of Interest and Entrepreneur Strategies	75
Figure 4.4 Decomposition of the Decision Problem	77
Figure 4.5 Comparing Criteria Preferences and Weight Criteria	78
Figure 4.6 Comparing Criteria for Increasing Economic Gains.....	79
Figure 4.7 Comparing Criteria for Poverty Reduction	79
Figure 4.8 Comparing Criteria for Political Gains	80
Figure 4.9 Comparing Criteria Preferences and Weight of Criteria After Fix the Inconsistency	81
Figure 4.10 Comparing Criteria for Increasing Economic Gain After Repaired the Inconsistency	81
Figure 4.11 Comparing Criteria for Political Gain After Repaired the Inconsistency	82
Figure 4.12 Hierarchy of Government Interest and Strategies After the Calculations Revise.....	83
Figure 4.13 Comparing Criteria Preferences and Weights of Criteria	83
Figure 4.14 Comparing Criteria for Improving Income	84
Figure 4.15 Comparing Criteria for Enhancing Efficiency	84
Figure 4.16 Comparing Criteria for International Market Access.....	85
Figure 4.17 Comparing Criteria for Improving Income after Revise.....	86
Figure 4.18 Comparing Criteria for Enhancing Efficiency after Revise.....	86
Figure 4.19 Comparing Criteria for International Market Access after Revise	87
Figure 4.20 Hierarchy of Entrepreneur Interest and Strategies After the Calculations Revise.....	88
Figure 4.21 Overall Results of Government Interest and Strategies	89
Figure 4.22 Overall Results of Entrepreneur Interest and Strategies	90
Figure 4.23 Dynamic Sensitivity for Government	91
Figure 4.24 Dynamic Sensitivity for Entrepreneur	91
Figure 4.25 Performance Sensitivity for Government below the Goal	92
Figure 4.26 Performance Sensitivity for Entrepreneur below the Goal	92
Figure 4.27 Gradient Sensitivity for Government below the Goal.....	93
Figure 4.28 Gradient Sensitivity for Entrepreneur below the Goal.....	93
Figure 4.29 Performance Pay-offs Weight for Government	94
Figure 4.30 Performance Pay-offs Weight for Entrepreneur	94
Figure 4.31 Performance Pay-offs for Both Parties	95
Figure 4.32 Performance Two Dimensions for the Interaction Between Government - Entrepreneur.....	96

LIST OF TABLES

	<i>Page</i>
Table 2.1 NAFTA's Impact on the Mexican Economy	15
Table 2.2 MERCOSUR, Trade with the World	19
Table 2.3 Payoffs Matrix from Prisoner's Dilemma Game	24
Table 2.4 Comparison Between US and OPEC Goals and Strategies	29
Table 2.5 Weight of Global Priorities: US-OPEC	31
Table 2.6 Pay-Offs Matrix for US.....	31
Table 2.7 Pay-Offs Matrix for OPEC.....	31
Table 2.8 Final Result: Pay-Offs Matrix Between US-OPEC	32
Table 3.1 APEC Highlight from 1989 until 2007	36-37
Table 3.2 Selected APEC Initiatives and Activities for Capacity Building	40
Table 3.3 The achievements of APEC	44
Table 3.4 Trade Among APEC Economies 2000-2002	53
Table 3.5 ABAC's Estimates of Welfare Effects of Various FTAs in the Region	53-54
Table 3.6 FTAAP Implementation Plan Illustration	54-55
Table 3.7 RTAs within APEC.....	59
Table 3.8 FTAs/RTAs in the APEC Region	60
Table 4.1 Comparison between Government and Entrepreneur Goal, Criteria and Strategies	74
Table 4.2 Inconsistency Comparisons for Government	80
Table 4.3 Inconsistency Comparisons for Government after Revise.....	82
Table 4.4 Inconsistency Comparisons for Entrepreneur	85
Table 4.4 Inconsistency Comparisons for Entrepreneur after Revise.....	87

ABBREVIATION IN APEC

A	1 AAD	APEC Automotive Dialogue	33 AFS	APEC Food System
	2 ABAC	APEC Business Advisory Council	34 AB	Agricultural Biotechnology
	3 ABTC	APEC Business Travel Card	35 ABTH	APEC Business Travel Handbook
	4 ACD	APEC Chemical Dialogue	36 AVEs	Ad-Valorem Tariffs
	5 ACFTA	ASEAN-China Free Trade Area	37 AIMP	APEC Information Management Portal
	6 ACT	Anti-Corruption and Transparency		
	7 ACTS	APEC's Counter - Terrorism Statement		
	8 AD	Automotive Dialogue		
	9 ADA	Anti-Dumping Agreement		
	10 ADOC	APEC Digital Opportunity Centre		
	11 AELM	APEC Leaders' Meeting		
	12 AFTA	ASEAN Free Trade Area		
	13 AGGI	Advisory Group on Gender Integration		
	14 AHLM	APEC High Level Meeting		
	15 AHTN	ASEAN Harmonized Tariff Nomenclature		
	16 AME	Assessment Monitoring and Evaluation		
	17 AMMW	APEC Ministerial Meeting on Women		
	18 APEC	Asia-Pacific Economic Cooperation		
	19 API	Advanced Passenger Information		
	20 APIS	Asia-Pacific Information Society		
	21 APSN	APEC Port Service Network		
	22 ASCC	APEC Study Centers Consortium		
	23 ASEAN	Association South East Asian Nation		
	24 ASF	APEC Support Fund		
	25 ASW	ASEAN Single Window		
	26 ATA	ASEAN Trademark Alliance		
	27 ATCWG	Agricultural Technical Cooperation Working Group		
	28 ATWG	APEC Telecommunication Working Group		
	29 AWB	Air Way Bill		
	30 AWP	APEC Work Plan		
	31 DAA	Draft Annotated Agenda		
	32 APERC	Asia Pacific Energy Research Centre		
B			D	
	1 BG	Bogor Goal	1 DDA	the Doha Development Agenda
	2 BMC	Budget and Management Committee		
	3 BL	Bill of Lading		
	4 BMG	Business Mobility Group (formerly known as JEGBM)		
C			E	
	1 CAPs	Collective Action Plans	1 ECOTECH	Economic and Technical Cooperation
	2 CTI	Committee on Trade and Investment	2 EVSL	Early Voluntary Sectoral Liberalization
	3 CPDG	Competition Policy/Deregulation Group	3 e-IAP	Electronic Individual Action Plan
	4 CTTF	Counter Terrorism Task Force	4 EC	Economic Committee
	5 CDW	Customs Data Warehouse	5 ESM	Emergency Safeguard Mechanism
	6 CS	the Cargo Selectivity	6 EEMRA	Electrical and Electronic Equipment
	7 CBWG	the Customs-Business Working Group	7 EU	European Union
	8 CSS	Cyber Spider System	8 EWG	Energy Working Group
	9 CBP	Customs Border Protection	9 ESI	Energy Security Initiative
	10 CoO	Certificate of Origin	10 E-GP	Electronic Government Procurement
	11 CEPT	Common Effective Preferential Tariff	11 ECSG	Electronic Commerce Steering Group
	12 CD	Chemical Dialogue	12 EPA	Economic Partnership Agreement
	13 CTAPs	Counter Terrorism Action Plan		
	14 CTFW	Counter Terrorism Financing Workshop		
	15 CPD	Competition Policy and Deregulation		
	16 CFPN	Cultural Focal Point Network		
	17 CTC	Change on Tariff Classification		
F			G	
	1 FTAs	Free Trade Agreements	1 GOS	Group on Services
	2 FTAAP	Free Trade Area of the Asia-Pacific	2 GFFN	Gender Focal Point Network
	3 FMP	Finance Ministers' Process	3 GAAP	General Accepted Accounting Principles
	4 FWG	Fisheries Working Group	4 GATT	General Agreement on Tariff and Trade
	5 FDI	Forum Direct Investment	5 GRP	Good Regulatory Practise
			6 GSP	Generalized System of Preferences
			7 GDP	Gross Domestic Product
			8 GTA	Global Trademark Alliance
			9 GDLN	Global Development Learning Network
			10 GHS	Globally Harmonized System of Classification and
			11 GPEG	Government Procurement Expert's Group
			12 GDI	Gender Related Development Index
			13 GHTF	Global Harmonization Task Force

H			I	
1 HS	Harmonized System		1 IAPs	Individual Action Plans
2 HTF	the APEC Health Task Force		2 IEG	Investment Expert's Group
3 HRDWG	Human Resources Development Working Group		3 IPEC	Intellectual Property Rights Experts Group
4 HLPDAB	High Level Policy Development on Agricultural Biotechnology		4 IPR	Intellectual Property Rights
5 HDI	Human Development Index		5 IEC	International Electro-technical Commission
6 HCB	Human Capacity Building		6 ICPO	International Criminal and Police Organization
			7 IFIs	International Financial Institutions
			8 CIO	Chief Information Officer
			9 ITA	Information Technology Agreement
			10 IEGBM	Informal Experts Group on Business Mobility
			11 ISTWG	Industrial Science and Technology Working Group
			12 IFCS	Intergovernmental Forum on Chemical Safety
			13 ID	Industry Dialogues
			14 ICH	International Conference on Harmonization
K			J	
1 KBE	Knowledge Based Economy		1 JIST	Joint Investigation Support Team
			2 JMS	Joint Ministerial Meeting
			3 JF	Joint Fora
L			N	
1 LAISR 2010	Leader's Agenda to Implement Structural Reform toward 2010		1 NLB	Non-Legally Binding
2 LDCs	Least Developed Countries		2 NSW	National Single Window
3 LNG	Liquefied Natural Gas		3 NEDA	National Economic Development Authority
4 LSIF	Life Sciences Innovation Forum		4 NSO	National Statistic Office
5 LSPN	Labor and Social Protection Network		5 NFMD	Non-Ferrous Metals Dialogue
6 LSRA	Life Sciences Readiness Assessment		6 NBIP	APEC-Non Binding Investment Principles
7 LSI	Life Sciences Innovation		7 NAMA	Non-Agriculture Market Access
			8 NTBs	Non Tariff Barriers
M			O	
1 MAPA	The Manila Action Plan for APEC		1 OAA	Osaka Action Agenda
2 MAG	Market Access Group		2 OVOP	One Village One Product
3 MTS	Multilateral Trading System		3 OPEC	Organization of Petroleum Exporting Countries
4 MFN	Most Favored Nations		P	
5 MOU	Memorandum of Understanding		1 PECC	Pacific Economic Cooperation Council
6 MRAs	Mutual Recognition Arrangements		2 PIF	Pacific Islands Forum
7 MCPs	Multi-Chip Integrated Circuits		3 PFI	Policy Framework for Investment
8 MRTDs	Machine Readable Travel Documents		4 PoC	Point of Contact
9 MRT	Meeting of APEC Ministers Responsible for Trade		5 PCI	Protection of Critical Infrastructure
10 MFN-T	Most Favored Nations Treatment			
11 MRC-WG	Marine Resources Conservation Working Group			
12 MTST	Midterm Stock-Take			
13 MCA	Mutual Legal Assistance			
Q	<i>Not Found Yet</i>		T	
			1 TFAP	Trade Facilitation Action Plan
R			2 TRIPs	Trade Related Aspects of Intellectual Property Rights
1 RTAs	Regional Trade Agreements		3 TBT	Technical Barriers to Trade
2 ROO	Rules of Origin		4 TFAP	Trade Facilitation Action Plan
3 RMAS	Regional Movement Alert System		5 TILF	Trade and Investment Liberalization and Facilitation
4 REDI	Regional Emerging Diseases Intervention Centre		6 TNCs	Trans-national Corporations
5 RTEIS	Real-time Emergency Information System		7 TRS	Time Release Surveys
6 RAN	National Anti-Corruption Action Plan		8 TFCAP	Trade Facilitation Collective Action Plans
7 REACH	Registration, Evaluation, Authorization of Chemicals		9 THC	Terminal Handling Charge
S			10 TID	Technical Infrastructure Development
1 STAR	The Secure Trade in The APEC Region		11 TPRM	Trade Policy Review Mechanism
2 SOM	Senior Officials' Meeting		12 TPRB	Trade Policy Review Body
3 SMM	Sectoral Ministerial Meetings		13 TFAP 2	Second Phase of Trade Facilitation Action Plan
4 SCE	SOM Steering Committee on ECOTECH		14 TPEP	Task Force on Emergency Preparedness
5 SCSC	Sub Committee on Standard and Conformance		15 TPTWG	Transportation working Group
6 SCCP	Sub Committee on Customs Procedures		16 TWG	Tourism Working Group
7 SELI	Strengthening Economic Legal Infrastructure		17 TPWG	Trade Promotion Working Group
8 SMEs	Small and Medium Enterprises		18 TI - WG	Telecommunications and Information Working Group
9 SCM Agreement	Subsidies and Countervailing Measures Agreement		19 TMM	Transportation Ministerial Meeting
10 SPM	Sanitary and Phytosanitary Measures		20 TRQ	Tariff Rate Quota
11 SMEWG	Small and Medium Enterprise Working Group			
12 SSNC - BN	Social Safety Nets Capacity Building Network			
13 SD	Sustainable Development			
14 SSM	Safeguards Mechanism			
15 SP	Special Product			
16 SAICM	Strengthening Approach to International Chemical Management			

U		
1	UNCAC	United Nations Convention Against Corruption
V	<i>Not Found Yet</i>	<i>Not Found Yet</i>
W		
1	WG	Working Groups
2	WMD	Weapon and Mass Destruction
3	WSIS	the World Summit on Information Society
4	WLN	Women Leaders' Network
5	WTO	World Trade Organization
6	WCBG	WTO Capacity Building Group
7	WSSD	World Summit on Sustainable Development
X	<i>Not Found Yet</i>	<i>Not Found Yet</i>
Y	<i>Not Found Yet</i>	<i>Not Found Yet</i>
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CHAPTER 1

INTRODUCTION

1.1 Research Background

According to Alan (2005) "Commentators in many APEC economies regard APEC as dead" (p.1). Yet the larger number of APEC meetings held every year and the amount of resources APEC host governments devote to holding the annual Summit and other APEC meetings suggest Governments and Leaders do not think that. In 1997, C. Fred Bergsten, Chair of APEC's Eminent Persons Group (EPG), edited a book with a very catchy title: *Whither APEC? : The Progress to Date and Agenda for the Future* (Mehdy, 2005). It was hard to imagine that only less than ten years after its creation in 1989; APEC would face a pertinent question about its continued existence like this. Could it be that the spectacular success of APEC in the first 5-6 years of its existence had raised the level of expectation that is too difficult for APEC members to fulfill or keep up?

A Free Trade Area of the Asia Pacific (FTAAP) has been proposed for many years. As early as in Bogor Declaration of 1994, the APEC economies committed themselves to the achievement of free trade and investment in the Asia Pacific region through a three programmed of trade and investment liberalization, trade and investment facilitation, and economic technical cooperation.

Nothing equally spectacular as the Bogor Goals or the Osaka Action Agenda has come out of APEC since 1997. To make the matters worse, East Asia was caught in debilitating economic crisis in 1997 and 1998, rendering the Leaders Meeting in 1998 a very strained and awkward event.

The event of September 11, 2001 had further dampened the profile of APEC, or at least made the normal activities in APEC less exciting or interesting. It is time again for APEC members to ponder what the future of APEC should be. As a result of the failure or lack of progress of the WTO-sponsored new round of multilateral trade negotiations, many APEC members have realized that they could no longer wait for the successful conclusion of this WTO new round of trade negotiations. They need to move inexorably forward as their lives depend on

world open trade systems. So, these outward-looking APEC members started to enter into bilateral trade deals with likeminded members within as well as outside APEC in the rapidly growing free trade agreements (FTAs). Literature abounds on the pros and cons of multilateral trading arrangements versus bilateral trading arrangements.

The call for achieving a FTAAP was renewed in recent APEC Economic Leaders' Meeting. In 2004, the APEC Business Advisory Committee (ABAC) has recommended to the APEC Leaders' for launch a study of Free Trade of the Asia Pacific (FTAAP). The Leaders have been unwilling to do so for at least two reasons. First, is a fear that even such a limited move in the direction of an FTAAP could undercut the ongoing Doha Round in the World Trade Organization (WTO), which remained their trade policy priority and was already in the parlous conditions, and secondly, the unwilling of the major APEC powers (China, Japan and the United States) to endorse the idea. ABAC thus decided to launch its own study of the FTAAP, and alternative trade policy ideas for APEC, in effort to restore APEC's contribution to global trade liberalization and to revitalize APEC as an institution. While supporting a call for a FTAAP, in Sydney in 2007, the Leaders' declared:

"[t]hrough a range of practical and incremental steps, we will examine the option and prospects for a Free Trade Area of the Asia Pacific."
(APEC, 2007)

Indonesia has been following other countries in paying more attention to regional trade agreements (RTAs) and free trade agreements (FTAs), for Indonesia itself, the best way that APEC can maximize the benefit from trade and investment and then achieve the Bogor Goals, in recent years the action of APEC members have changed and most APEC members have negotiated or are actively seeking out new FTAs with other APEC members and non-members, including those APEC countries which previously were against the preferential trade arrangements approach such as Japan and China. Moving towards the Bogor Goals will need to be the context of this "FTA reality" (Pangestu, 2005).

Indeed, there is debate between economist and neither is APEC members about FTAAP, this research will analyze the problems according of some theory

from economist such as regional integration theory and FTAAP understanding and making some comparison, also analyzes what a FTAAP mean to Indonesia.

1.2 Problem Statement

The proposal for a regional free trade agreement is the oldest idea for promoting mutual beneficial Asia Pacific regional cooperation. Japanese economist, Kiyoshi Kojima, is usually credited with first Pacific Free Trade Agreement proposal in 1966, and, while that proposal was clearly premature and unrealistic, it enhanced awareness of regional interdependencies and potentials for increased benefit through cooperation and eventually led to the establishment of both the Pacific Economic Cooperation Council (PECC) and to the APEC process.

In more recent times, American economist, C. Fred Bergsten, has been the foremost advocate of a FTAAP. In his view, if the FTAAP could be realized, it would provide the largest single liberalization in history. Moreover, the FTAAP would provide a framework for the US and China to head off trade tensions and revitalize APEC. He believes that because the economic logic of the FTAAP is so compelling, it is also politically feasible, although he acknowledges the difficulty of getting governments to recognize their long-term interest and overcome protectionist pressures. Actually, most of the studies are skeptical of the FTAAP concept.

From all the background above, the research will stressed some problems which covering of the feasibility for FTAAP as APEC new modality and what kinds of strategies which APEC could implementing according to Government and Entrepreneur interest.

1.3 Research Objectives

This research will briefly examine the performance record of APEC in the last few years, to see the strengths and weaknesses of this special trade and investment association or organization. Then, based on this personal observation, this research will offer some suggestions to strengthen the profile and activities of APEC. It notes that APEC indeed still needs many constructions especially in APEC progress for reaching its goals. Finally, the thesis considers some

suggestions for resolving the current impasse in considerations of strengthening the multilateral trading system in the APEC system. In order to analyze:

1. the understanding and potential role of FTAAP
2. APEC interests in case of free and open trade in Asia Pacific region
3. Entrepreneurs' interests which represent by APEC Business Advisory Council (ABAC) in case of free and open trade in Asia Pacific region.
4. the meaning of FTAAP for Indonesia

1.4 Research Coverage

This research use APEC data from the beginning (historical background) until APEC achievement in 2007 and the time coverage is from 1993 – 2007. The reasons to choose this time coverage because since 1993 APEC was declared the Bogor Goals by the Leaders. In essence, the goals were targeted to achieve free and open trade and investment in the Asia-Pacific region: 2010 for industrialized economies and 2020 for developing economies. After that time, APEC plays the role.

1.5 Research Methodology

A number of quantitative approaches have been applied to analyze the feasibility and assessment of FTAAP it self such as Computable General Equilibrium (CGE) by GTAP for instance, Basic Viner Model, etc. The main purpose of this research is to show how the AHP may be used as a decisions analysis tool for APEC problem in case of which is best policy to support multilateral trading system and trade liberalization in Asia Pacific region. In term of the world today there are two big plan and scenario. First is waiting for Doha Round progress in WTO which is suspension of negotiations as plan-A, second is feasibility of free trade area on Asia pacific (FTAAP) as plan-B. However, decision making process is a multi-objective problem, encompassing many quantitative as well as qualitative factors.

Since the AHP is capable of dealing with these kind of decision problems, the AHP was selected as a decision analysis tool and Expert Choice[®] was selected as the software. In this section the AHP and the research carried out are explained. Moreover, this research also will use literature study, and deeper interviewing

with the APEC experts from Indonesia as research methodology in order to analyze the problems.

1.5.1 Data Collecting

This research using primary by extend questionnaire and secondary data by depth interview with the relevant APEC experts and institutions related to this research.

1.5.2 Analysis Method

Analysis are be done with analyzing APEC' and entrepreneurs (which is represent by ABAC) interest and strategies by AHP method, with distribute AHP questionnaire to the expert, and making comparative judgment of the element (scoring method applied in pair-wise comparison) which divided into two section, first by comparing criteria and secondly is by comparing options. Then analyze the problem. This research also tried making some combination between AHP and game theory in order to define actors' response of APEC' and entrepreneurs interest and strategies in term of free and open trade in Asia-Pacific region. The alternative strategies derived in the questionnaire cover by alternatives justification from some literatures. Moreover, the result will be explorer by game theory analysis. *Technically about research methodology by AHP and game theory will be explains in other chapter.*

CHAPTER 2

LITERATURE REVIEW: SOME TERMS OF THEORY AND EMPIRICAL RESEARCH OF AHP-GAME THEORY

2.1 Economic Integration Theory

Economic integration is the process by which a group of nation-states agrees to ignore their national boundaries for at least some economic purposes, creating a larger and more tightly connected system of markets. The theory of customs unions and economic integration is associated primarily by Jacob Viner in the 1940s. The traditional core of this theory, which focuses on the static resource and production reallocation effects within highly integrated and flexible industrialized nations, is of limited value to contemporary developing nation's intent on building up their industrial base. Nations can commit to several different degrees of economic integration. Economic integration is thus a significant politically as it is economically.

The basic Economic Integration Theory written by Hungarian Economist Bela Balassa (1960). As economic integration increases, the barriers of trade between markets diminish. Salvatore (2007) shows if the degree of economic integration can divide into 5 stages as follows:

1. *Preferential Trade Arrangements (PTA)*

PTA provides lower barriers on trade among participating nations than on trade with non member nations. The best example of a PTA is the British Commonwealth Preference Scheme, which established in 1932 by the United Kingdom within members and some former members of the British Empire.

2. *Free Trade Area (FTA)*

A Free Trade Area (FTA) involves a relatively small degree of integration. Nations in an FTA agree to eliminate tariff barriers to trade for goods and services they produce themselves. Each nations, however, retains the right to set its own tariff barriers with respect to product from outside the FTA. The fact that some goods are tariff-free in FTA transaction, but other goods are still subject to differential trade barriers, complicates intra-FTA trade and therefore limits the effective degree of integration. NAFTA is an example of

an FTA. When NAFTA is fully implemented, goods from U.S., Canada and Mexico will be traded freely within the NAFTA borders. Goods from other countries, however, will be subject to the differential tariff barriers of these three countries.

3. *Customs Union*

In a custom union, a group of nations agree both to tariff-free trade within their collective borders and a common set of external trade barriers. The treaty of Rome, which created the European Economic Community (EEC), was based on the idea of a customs union. The movement to a customs union is an important step in term of economic integration because of the greater degree of political cooperation that is required. The nations involved give up some degree of sovereignty or national political autonomy, because they can no longer set their own trade barriers without consulting their economic partner. What they gain is a far greater degree of economic integration. Products flow more easily within a customs union, with no need for border inspections of customs fees because of unified trade structure. In practice, of course, the elimination of trade barriers as not as complete as theory suggests, because member nations retain the right to impose some non-tariff barriers, such as health and safety standards for example. Still, a customs union is an effective means of increasing market size and stimulating growth and efficiency.

4. *Common Market*

The common market goes beyond a customs union by also allowing the free movement of labor and capital among member nations. The EU achieved the status of a common market at the beginning of 1993.

5. *Economic Union*

The economic union is the final stage of economic and political integration. In an economic union, non-tariff barriers are eliminated along with tariff barriers, creating an even more fully integrated market. The degree of integration in an economic union goes further than this, however. Member nations in an economic union agree to four "freedoms" of movement: of goods, services, people and capital. These four freedoms represent significant limitations on national sovereignty, but they can also have significant effects on economic

activity. The EU, when its current plans are fully implemented, will become an economic union. The most successful economic union in the world is the United States, if we consider it as an alliance of the separate state. Consider how freely goods, services, people, and capital move from one state to another. The gigantic single market has been remarkably flexible and dynamic, making it a model for other developed nations. The elaborate system of economic and political federalism that characterize the U.S. political economy is much different from relations that typically exist among and between autonomous nation-states.

2.2 Regionalism

Regional trading alliances are not new. In 17th century mercantilism was a precursor to the contemporary trading bloc. The French, Spanish, Dutch and British all controlled large regional trading systems. Of course today's system is fundamentally different in that the decision to enter into an alliance is voluntary, and the object is for every participant to gain from the association. Today's operating principle is economic integration as opposed to the economic exploitation and exclusion of past centuries.

In more recent times, there have been numerous attempts to form regional trading alliances with mixed results. In fact, article 24 of the GATT explicitly provides for members to form such blocs provided they govern "substantially all" trade among their members and that tariffs on trade from nonmembers are not increased. Since GATT's inception in 1947 some free trade and regional agreements have been reviewed by its secretariat.

Regionalization is driven by the same market forces and technological developments as globalization. Intra-regional trade is growing faster than trade between regions. Relocation of production is primarily a regional phenomenon. Regional integration can thus be seen as the logical follow up to these market developments, but regional integration has a broader motivation than free trade and investment.

Much of the inspiration of present day regionalism is indeed political. It is become a part as political reaction to the globalization of markets, stemming from

the desire to retain a certain amount of policy autonomy of government's vis-à-vis market forces. In the number of regional arrangements proliferation is a part of the new post Cold War context. In that multipolar world, regional initiatives are often stimulated by regional agreements elsewhere.

Regionalism as a form of international governance is related to changing position of the state. It is no longer possible to regulate purely on the basis of national jurisdiction. The alternative of multilateral rule making is not only difficult to achieve, but it is often too remote from national interest groups to be acceptable. Regional integration can offer a middle way that preserves the notion that citizen and their nations are still in control of events. This makes deeper integration possible in certain regions. Deeper in the sense that the concept is broadened to cover competition policy, investment, and even the free movement of persons. Integration in world markets through regionalism can thus be phased according to the differing economic circumstances of the countries concerned.

Regional integration is a process in which states enter into a regional organization in order to increase regional cooperation and diffuse regional tensions. Past efforts at regional integration have often focused on removing barriers to free trade in the region, increasing the free movement of people, labor, goods and capital across national borders, reducing the possibility of regional armed conflict (e.g. through Confidence and Security-Building Measures), and adopting cohesive regional stances on policy issues, such as the environment. Such an organization can be based either on supranational or intergovernmental decision-making institution order. The degree of integration depends upon the willingness and commitment of independent sovereign states to share their sovereignty.

Regional integration initiatives, according to Van Langenhove, should fulfill at least eight important functions (*Regional Integration*, 2007):

- The strengthening of trade integration in the region
- The creation of an appropriate enabling environment for private sector development
- The development of infrastructure programmes in support of economic growth and regional integration

- The development of strong public sector institutions and good governance
- The reduction of social exclusion and the development of an inclusive civil society
- Contribution to peace and security in the region
- The strengthening of the region's interaction with other regions of the world

The crisis of the post-war ordered led to the emergence of a new global political structure which made obsolete the classical Westphalian concept of a system of sovereign states to conceptualize world politics. This concept becomes loser and the old legal definitions of an ultimate and fully autonomous power of a nation-state are no longer meaningful. Moreover, sovereignty, which gained meaning as an affirmation of cultural identity, has lost meaning as power over the economy. All regional integration projects during the cold war period were built on the Westphalian state system and were to serve economic growth as well as security motives in their assistance to state building goals. Regional integration and globalization are the two phenomenons are challenging the existing global order based upon sovereign states at the beginning of the twenty-first century.

Closer integration of economies is seen as a first step in creating a larger regional market for trade and investment. This works as a spur to greater efficiency, productivity gain and competitiveness, not just by lowering border barriers, but by reducing other costs and risk of trade and investment. Bilateral and sub-regional trading arrangements are advocated as development tools as they encourage a shift towards greater market openness. Such agreement can also reduce the risk of revision towards protectionism. Most of the members of these arrangements are genuinely hoping that they will succeed as building blocks for progress with a growing range of partner and towards a generally freer and open global environment for trade and investment. Integration itself is not an end, but a process to support economic growth strategies, greater social equality and democracy.

The theoretical analysis of the impact of increased integration and trade liberalization has followed the historical trends. International trade theory has along tradition of analysis of the impact of shallow integration (liberalization of barriers to commodity trade). Theoretical analysis of shallow regional trade agreements (old regionalism) is more complex, because it is inherently an exercise in “second best” analysis. Some distortions are eliminated (tariffs on trade within the RTA), while others remain (e.g., other within-RTA domestic tax/subsidy policies and tariffs on non-RTA trade).

The core theoretical analysis of shallow RTAs is the theory of Customs Unions, with seminal contributions by Viner (1950), Meade (1955) and Kemp and Wan (1976) (Paranagya, 2003). In this framework, the welfare impact of an RTA is determined by a few crucial variables changes in commodity trade in the countries within the RTA (trade creation effects), changes in trade between the RTA and the rest of the world (trade diversion effects), and changes in international prices facing the countries (terms of trade effects). In general, trade creation and terms of trade gains are welfare enhancing, and trade diversion and terms of trade losses are potentially damaging. There are trade offs, and empirical work is required to make any welfare judgments in particular cases.

According to Busfisher and Robinson (2006), new regionalism can be characterize as involving many of elements found in the deepest level of integration, or the achievement of full economic (and monetary) union, and many include:

- Facilitating financial and FDI flows (real and financial capital mobility) by establishing investment protocols and protections
- Liberalizing movement of labor within the RTA
- Harmonizing domestic tax and subsidy policies, especially those can effect production and trade incentives
- Harmonizing macro policies, including fiscal and monetary policy, to achieve a stable macroeconomic environment within the RTA, including coordinated exchange rate.
- Establishing institutions to manage and facilitate integration (e.g. regional development funds, institutions to set standard)

- Improvements of communications and transportation infrastructure to facilitate increased trade and factor mobility
- Harmonizing legal regulation of product and factor market (e.g. anti-trust law, commercial law)
- Monetary union (establishment of a common currency and completely integrated monetary and exchange rate policy)

New regionalism is also characterized by the link that recent RTAs have created between developing countries and one or more large, developed country partner. Especially when considering the impact of an RTA on developing countries, an important issue in new regionalism, elements of deep integration with developed countries is considered to be crucial in achieving potential link between increased trade and improvements in productivity.

2.2.1 Trade Creation, Trade Diversion and Spaghetti Bowl Effects

According to mainstream economic theory, global free trade is a net benefit to society, but the selective application of free trade agreements to some countries and tariffs on others can sometimes lead to economic inefficiency through the process of trade diversion. It is economically efficient for a good to be produced by the country which is the lowest cost producer, but this will not always take place if a high cost producer has a free trade agreement while the low cost producer faces a high tariff. It can lead to trade diversion and a net economic loss. This is why many economists place such high importance on negotiations for global tariff reductions such as the Doha Round.

In general, trade diversion means that a free trade area diverts trade, away from a more efficient supplier outside the FTA, toward a less efficient supplier within the FTA. In some cases, trade diversion will reduce a country's national welfare could improve despite the trade diversion. Trade creation means that a free trade area creates trade that would not have existed otherwise. As a result, supply occurs from a more efficient producer of the product. In all cases trade creation will raise a country's national welfare. It is common for economist to make the following statement, "if a FTA causes more trade creation than trade diversion then the FTA is welfare improving" (Laird, 2007). The simple way to

do this is to imagine that a country entering the FTA may have some imports markets in which trade creation will occur and other markets in which trade diversion would occur. The markets with trade creation would generate national welfare gains while the markets with trade diversion may generate national welfare losses.

Analysts have recommended a number of measures that can help to minimize trade diversion. Among those measures recommended, the following four instruments prove useful in the context of APEC's Bogor Goals, for instance:

- It is recommended to make territory (or membership) of RTAs/FTAs as large as possible. In the context of APEC's road, toward the Bogor Goals
- APEC could adopt the policy of open membership when negotiating an intra-APEC FTA
- Starting the liberalization schedule of FTA agreements at a relatively high level and ending at a nearly full specialization level will help mitigate the possibility of trade diversion.

Spaghetti bowl effects arise through the existence of different coverage and conditions of ROO in different FTA agreements that lead to on increasing complexity of rules in different FTA territories. APEC can adopt several measures to minimize this negative impact.

2.2.2 Regional Trade Agreements in the World

2.2.2.1 Among Advance Countries

Advanced countries have arguably taken primary leadership in adopting regional integration arrangements during the current resurgence of regionalism. Some of them are European Union (EU), and North American Free Trade Area (NAFTA), which written with simple explanation for example of regional trade agreements among advance countries.

2.2.2.1.1 European Union

The European Union (EU), then called the European Common Market, was founded by the Treaty of Rome, signed in March 1957 by West Germany, France, Italy, Belgium, the Netherlands and Luxembourg, and come into being on

January 1, 1958. The common external tariff was set at the average of the 1957 tariff of the six nations. Free trade in industrial goods within the EU and a common price for agricultural products were achieved in 1968, and restrictions on the free movement of labor and capital were reduced by 1970. Membership increased to 15 after the United Kingdom, Denmark and Ireland joined in 1973, Greece in 1981, Spain and Portugal in 1986, and Austria, Finland and Sweden in 1995. On January 1, 1993, the EU removed all remaining restrictions on the free flow of goods, services, and resources (including labor) among its members, thus becoming a single unified market. The formation of the EU significantly expanded trade in industrial goods with nonmembers. This was due to (Salvatore, 2007):

- The very rapid growth of the EU, which increased its demand for imports of industrial products from outside the union
- The reduction to very low levels of the average tariff on imports of industrial products

Other highlights in the operation of the EU are as follows:

- Member nations have adopted a common value-added tax system, under which a tax is levied on the value added to the product at each stage of its production and passed on to the consumer
- The commission proposes laws, monitors compliance with treaties, and administers common policies such as anti trust policies
- The Council of Ministers makes final decisions but only on the recommendation of the Commission
- Plans have also been drawn for full monetary union, including harmonization of monetary and fiscal policies, and eventual full political union.

In recent years, the EU has also been very active in negotiating FTAs, such as in year 2000, with South Africa, Morocco, Israel and Mexico, in 2002 with Costa Rica, Croatia and Jordan, in 2003, with Chile and Lebanon, Egypt in 2004, and is negotiating an FTA with Mercosure.

2.2.2.1.2 North American FTA

In September 1993, the United States, Canada, and Mexico signed the North American Free Trade Agreement (NAFTA), which took effect on January 1, 1994. This agreement is to eventually lead to free trade in goods and services over the entire North American area. NAFTA will also phase out many other barriers to trade and reduce barriers to cross-border investment among the three countries. With \$40 billion of exports to and \$41 billion of imports from the United States in 1993, Mexico was already the United States third largest trading partner after Canada and Japan at the same time the agreement took effect. The main impact of NAFTA was on trade between the United States and Mexico. Moreover, Canada only joined in the negotiations to ensure that its interests were protected.

The implementation of NAFTA benefits the United States by increasing competition in products and resources market, as well as by lowering the prices of many commodities to U.S. consumers. In fact, between 1994 and 2004, two way trade between the U.S. – Mexico increased by 166%. Because the U.S. economy is more than 15 times larger than Mexico's economy, the U.S. gains from NAFTA as a proportion of its GDP were much smaller than Mexico's. Free trade access to Mexico allows U.S. industries to import labor-intensive components from Mexico and keep other operations in the United States rather than possibly losing all job in the industry to low-wage countries. The implementation of NAFTA benefited Mexico by leading to greater export-led growth resulting from increased access to the U.S market and by increasing inward FDI.

**Table 2.1, NAFTA's Impact on the Mexican Economy
(Yearly Averages to the Year 2005)**

	Estimates with NAFTA	Without NAFTA	Difference
Growth of Real GDP (%)	5.2	3.8	1.4
Inflation rate (%)	9.7	14.5	-4.8
Short-term interest rate (%)	13	18.3	-5.3
Inflow of FDI (billion \$)	9.2	6	3.2
Growth of exports (%)	10.4	8.3	2.1
Trade deficit (billion \$)	14.9	9.7	5.2
Net financial capital inflows (billion \$)	14.7	10.6	4.1

Source: D. Salvatore, "International Economics", 9th edition, 2007, p. 355

The table above shows long-run simulations results of NAFTA's impact on Mexico during the 1995-2005 decade. At that time Mexican real GDP was estimate to grow at rate 5.2% per year with NAFTA and compared with 3.8% without NAFTA. NAFTA was also expected to reduce the Mexican inflation rate become 9.7% per year, short-term interest rate become 13.0%, increased FDI to 9.2 billion per year, and growth of exports become 10.4%, raise the trade deficit and the capital inflows.

2.2.2.2 Among Least Developed Countries in Asia

Although advanced countries have arguably taken primary leadership in adopting regional integration arrangements during the current resurgence of regionalism, less developed countries have also actively formulated and begun to implement plans for new or revitalized regional integration arrangements for economic cooperation among LDCs. Countries in Asia and Latin America have made the greatest progress in designing and implementing pacts for regional trade cooperation. Some example of regional integration arrangements among LDCs in Asia will be explanation, such as AFTA, short explanation about FTAAP (will be explains more clearly in a different chapter), and Mercosur.

2.2.2.2.1 ASEAN Free Trade Area

The Association of Southeast Asian Nations (ASEAN) has existed since 1967, but it was in January 1992 that its members agreed to the formation of an ASEAN Free Trade Area (AFTA). ASEAN is the longest established regional group for economic and political cooperation within Asia. The association also holds legitimate claim to being the first if not most prominent group of less developed countries worldwide to formulate and implement a regional free trade area under the current resurgence of regionalism, the ASEAN Free Trade Area (AFTA), which was adopted in 1992 and will be implemented fully in 2003. AFTA can be interpreted as ASEAN's collective strategic response to China's competitive pressure as well as to the worldwide movement towards regional trading arrangements, particularly in the Americas.

On January 1, 1993, ASEAN launched the free trade area with an agreement of reducing or eliminating tariffs on non-agricultural products within

15 years under the Common Effective Preferential Tariff (CEPT) scheme. Each ASEAN member nation would cut import tariffs for all goods traded within the region to below 5%. Two different tracks: a “fast track” and a “normal track” will accomplish the import tariffs cut under the CEPT scheme. Under the fast track,¹ products with tariffs greater than 20% have their tariffs immediately reduced to 20% and to 0 – 5 % within 10 years, while fast track products with tariffs at 20% or below have their tariffs reduced to 0 – 5% within seven years. To qualify for the CEPT (Common Effective Preferential Tariff), the goods must satisfy the ASEAN content requirement of 40%, referring to both single country and cumulative ASEAN content. It should be noted that unprocessed agricultural products were initially excluded.

Furthermore, progress has been made in customs harmonization, including the implementation of a green lane or no customs inspection for CEPT products to speed up customs clearance of shipments. The leaders agreed to maximize the number of tariff lines whose CEPT tariff rates were to be reduced to 0% by 2003 (2006 for Vietnam and 2008 for Laos and Cambodia). AFTA members, as a group, seemed to be intent upon liberalizing the region. In the joint statement from the AFTA Council Meeting, ASEAN economic leaders plan to eliminate import duties on all products by 2015 for the six original ASEAN members (Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand) and by the newer members (Laos, Myanmar, Vietnam and Cambodia).

2.2.2.2 Asia Pacific Free Trade Area

An FTA for Asia-Pacific (FTAAP) was recommended by a number of experts (Park 1998, Bergsten 2006, Scollay 2005 etc) as a way of overcoming the difficulties arising from the non-effectiveness of member economies' efforts towards the Bogor Goals. The argument is that if APEC members agree upon an FTAAP, the Bogor Goals can be achieved in a most influential way. After an initial agreement they have to adjust the schedule of liberalization within the FTAAP congruent to the target years of the Bogor Goals. Then, the problems of

¹ The fast track products are: vegetable oil, chemicals, fertilizer, rubber products, pulp and paper, wooden and rattan furniture, gems and jewelry products, cement, pharmaceuticals, plastics, leather products, textiles, ceramics and glass products, copper cathodes, and electronics.

trade diversion and spaghetti bowl effects will be effectively solve for the entirety of APEC members, and the problems will be transferred of APEC (Elek, 2003).

To establish an FTAAP, APEC, however has to overcome several substantial hurdles. First, the different strategic positions of member's economies towards liberalization, which are caused mainly by the diversity of members in the level of economic development, have to be bridged. Reaching consensus which involves a hard negotiation process seems very difficult. Second, to establish an FTAAP, APEC member economies that are already engage in bilateral and regional arrangements should give up these existing agreements and replace them to be negotiated FTAAP agreement. More explanations will be written in a different chapter.

2.2.2.2.3 MERCOSUR

Countries of the Southern Cone of Latin America have embraced regionalism more actively than countries in Central America and the Caribbean (DeRosa, 1998). This applies particularly to member countries of the South American Common Market (Mercosur), which the member countries are Argentina, Brazil, Paraguay and Uruguay, which was established as a customs union in 1991 and, in recent years has achieved significant reduction if not complete elimination of tariffs and non tariff barriers to intra-Mercosur trade.

Brazil and Argentina signed in 1986 twelve commercial protocols which is their first concrete step towards the bringing of two countries closer together that had officially been started in 1985 under the declaration of Iguacu. To supplement and improve on their former agreements, Brazil and Argentina signed in 1988 a treaty of integration, cooperation and development that set the stage for a common market between the two countries within 10 years, with the gradual elimination tariff barriers and harmonization of the macroeconomic policies of both nations. It was further established that this agreement would be open to all other Latin American countries. After the adhesion of Paraguay and Uruguay a new treaty was signed by all four countries on March 26, 1991 in Asuncion, Paraguay, providing for the creation of a common market among four participants, to be

known as the Southern Common Market (MERCOSUR). The objectives of Mercosur are:

- Free transit of production goods, services and factors between the members states with inter-alia, the elimination of customs rights and lifting of non-tariff restriction on the transit of goods or any others measures with similar effects
- Fixing a common external tariff (TEC) and adopting of a common trade policy with regard to non-member states or group, and the coordination of positions in regional and international commercial and economic meetings
- Coordination of macroeconomics policies of member states relating to foreign trade, agriculture, industry, taxes, monetary system, exchange and capital, services, customs, transport and communications, and any others they may agree on, in order to ensure free competition between member states; and
- The commitment by the member states to make the necessary adjustments to their laws in pertinent areas to allow for strengthening of the integration process.

Tabel 2.2, MERCOSUR, Trade with the World

Year	Imports	Yearly Change (%)	Exports	Yearly Change (%)	Balance	Imports & Exports
2003	71,772.0		117,584.0		45,811.0	189,356.0
2004	91,338.0	27.3	141,124.0	20.0	49,786.0	232,462.0
2005	110,229.0	20.7	175,617.0	24.4	65,388.0	285,846.0
2006	139,479.0	26.5	210,647.0	19.9	71,168.0	350,126.0
2007	168,028.0	20.5	231,735.0	10.0	63,707.0	399,763.0
Average annual growth		27.3		18.5		20.5

Source: www.imf.org

One quantitative study of Mercosur that has engendered a great deal of interest and debates was undertaken by Yeats. As Yeats (1997) investigate

whether recent commodity patterns of exports by Mercosur countries to different destinations conform to the past revealed comparative advantage of Mercosur countries in natural resource-intensive and labor intensive goods. He finds that the fastest growing products in intra-Mercosur trade are capital-intensive goods in which Mercosur countries have not previously displayed strong export performance (DeRosa, 1998, p. 72-73).

2.3 The Interest-Group Theory of Government

The interest in state theory that swept academic circles following the Miliband-Poulantzas debate waned considerably in the late-1980s and 1990s so that much of the last decade was notable for the impoverishment of state theory. Indeed, during this time, there was a never ending litany of books and articles on the crisis of the nation-state, the eclipse of the state, the retreat of the state, and even the end of the nation-state. The central theme in these eulogies was that nation-states had lost control of their national economies, currencies, territorial boundaries, and even their cultures and languages and that macroscopic forms of power were shifting from the nation-state to the global market, transnational corporations, and globalized channels of communication. However, a number of theorists are reexamining the relationship globalization theory and state theory to argue that nation-states as the principal agents of globalization as well as the guarantors of the political and material conditions necessary for global capital accumulation. In contrast to those who see a nebulous "logic of empire," or even an autonomous global state, as the repositories of a new sovereignty, this emerging theoretical position conceptualizes globalization as new form imperialism.

As a generalized idea about how the organized "few" win favors from government at the expense of the unorganized "many," the interest-group theory of regulation and government has been in the literature of economics and political science for a long time (Posner 1974). In the past twenty-five years, however, the interest-group theory has grown from an intuitive but loose idea about how government works into a rigorous theory of government with testable implications that are not nearly so obvious as the "few" versus the "many" logic would seem to

suggest. Two economists paved the way for these developments. Olson (1965) first explored the important question of how interest groups overcome free riding behavior with respect to the "public good" provided by lobbying in order to organize for collective action. In other words, how do interest groups form, and how large are they? In a study of economic regulation Stigler (1971) later showed how to formalize the interest-group approach and, more importantly, how to test empirically propositions derived from such a theory. Subsequent contributions to this literature have been steady and cumulative, so that the interest-group theory can now claim a place as a serious competing explanation of the behavior of government and its agents. Moreover, the interest-group theory stresses the costs and benefits of organization and lobbying.

2.4 Game Theory

2.4.1 History of Game Theory

The first known discussion of game theory occurred in a letter written by James Waldegrave in 1713. In this letter, he provides a mini-max mixed strategy solution to a two person version of the card game le Her. It was not until the publication of Antoine Augustin Cournot's *Recherches sur les principes mathématiques de la théorie des richesses* (Researches into the Mathematical Principles of the Theory of Wealth) in 1838 that a general game theoretic analysis was pursued. In this work Cournot considers a duopoly and presents a solution that is a restricted version of the Nash equilibrium. Although Cournot's analysis is more general than Waldegrave's, game theory did not really exist as a unique field until John von Neumann published a series of papers in 1928. Von Neumann's was a brilliant mathematician whose work was far-reaching from set theory to his calculations that were keys to development of both the Atom and Hydrogen bombs and finally to his work developing computers. Von Neumann's work in game theory culminated in 1944 book *Theory of Games and Economic Behavior* by Von Neumann and Oskar Morgenstern. This profound work contains the method for finding mutually consistent solutions for two-person zero-sum games. During this time period, work on game theory was primarily focused on cooperative game theory, which analyzes optimal strategies for group of

individuals, presuming that they can enforce agreements between them about proper strategies.

In 1950, John Nash developed a criterion for mutual consistency of players' strategies, known as Nash equilibrium, applicable to a wider variety of games than the criterion proposed by Von Neumann and Morgenstern. In addition, the first applications of game theory to Philosophy and Political Science occurred during this time. In 1965, Reinhard Selten introduced his solution concepts of subgame perfect equilibria, which further refined the Nash Equilibrium. In 1967, John Harsanyi developed the concepts of complete information and Bayesian games. Nash, Selten and Harsanyi became Economics Nobel Laureates in 1994 for their contributions to economic game theory. In the 1970s, game theory was extensively applied in Biology, largely as a result of the work of John Maynard Smith and his evolutionarily stable strategy. In 2005, game theorists Thomas Schelling and Robert Aumann followed Nash, Selten and Harsanyi as Nobel Laureates. Schelling worked on dynamic models, Aumann introduced an equilibrium coarsening, and developing an extensive formal analysis of the assumption of common knowledge and of its consequences. In 2007, Roger Myerson, together with Leonid Hurwicz and Eric Maskin, was awarded of a Nobel Prize in Economics.

2.4.2 Understanding of Game Theory

Although game theory is relevant to parlor games such as poker or bridge, most research in game theory focuses on how groups of people interact. Game theory is a branch of applied mathematics that is used in the social sciences (most notably economics), biology, engineering, political science, international relations, computer science (mainly for artificial intelligence), and philosophy. Game theory attempts to mathematically capture behavior in strategic situations, in which an individual's success in making choices depends on the choice of others.

Game theory is a formal way to analyses interaction among a group or rational agent who behaves strategically. While initially developed to analyze competitions in which one individual does better at another's expense (zero sum

games), it has been expanded to treat wide class of interactions, which are classified according to several criteria. Today, “game theory is a sort of umbrella or *unified field* theory for the rational side of social science, where ‘social’ is interpreted broadly, to include human as well as non-human players (computers, animals, plants)”(wikipedia, 2008).

Traditional applications of game theory attempt to find equilibria in these games—sets of strategies in which individuals are unlikely to change their behavior. Many equilibrium concepts have been developed (most famously the Nash equilibrium) in an attempt to capture this idea.

The field of game theory came into being with the 1944 book *Theory of Games and Economic Behavior* by John von Neuman and Oskar Morgenstern. This theory was developed in the 1950s by many scholars. Game theory has been widely recognized as an important tool in many fields.

The games studied in game theory are well-defined mathematical objects. A game consists of a set of players, a set of moves (or strategies) available to those players, and a specification of payoffs for each combination of strategies. Most cooperative games are presented in the characteristic function form, while the extensive and the normal forms are used to define non-cooperative games.

2.4.3 Game Theory for Economic and Business

Economist have long used game theory to analyze a wide array of economic phenomena, including auctions, bargaining, duopolies, fair division, oligopolies, social network formation, and voting systems. There are two main branches of game theory: cooperative and non-cooperative game theory. Non-cooperative game theory deals largely with how intelligent individuals interact with one another in an effort to achieve their own goals. According to Levine (2007) a game theory, economic theory has three other main branches, are followed :

- a. *Decision theory*, can be viewed as a theory of one person games, or a game of a single player against nature. The focus is on preferences and the formation of beliefs. The most widely used form of decision theory argues that preferences among risky alternatives can be described by the maximization of

the expected value of a numerical utility function, where utility may depend on a number of things, but in situations of interest to economists often depends on money income. Decision theory is often used in the form of decisions analysis, which shows how best to acquire information before making a decision.

- b. *General Equilibrium theory*, can be viewed as a specialized branch of game theory that deals with trade and production, and typically with a relatively large number of individual consumers and producers. It is widely used in the macroeconomic analysis of broad based economic policies such as monetary or tax policy, in finance to analyze stock markets, to study interest and exchange rates and other prices.
- c. *Mechanism design theory* differs from game theory in that game theory takes the rules of the game as given, while mechanism design theory asks about consequences of different types of rules.

One way to describe a game is by listing the players (or individuals) participating in the game, and for each player, listing the alternative choices (called actions or strategies) available to that player. In the case of a two-player game, the actions of the first player form the rows, and the actions of the second player the columns, of a matrix. The entries in the matrix are two numbers representing the utility or payoff to the first and second player respectively. A very famous game is the Prisoner's Dilemma game. In this game the two players are partners in a crime who have been captured by the police. Each suspect is placed in a separate cell, and offered the opportunity to confess to the crime. The game can be represented by the following matrix of payoffs (see table 2.1):

Table 2.3. Payoffs matrix from Prisoner's Dilemma Game

	Not Confess	Confess
Not Confess	5,5	-4,10
Confess	10,-4	1,1

Source: <http://en.wikipedia.org>.

Note that higher numbers are better (more utility). If neither suspect confesses, they go free, and split the proceeds of their crime which we represent by five units of utility for each suspect. However, if one prisoner confesses and the other does not, the prisoner who confesses testifies against the other in exchange for going free and gets the entire ten units of utility, while the prisoner who did not confess goes to prison and which results in the low utility of -4. If both prisoners confess, then both are given a reduced term, but both are convicted, which we represent by giving each one unit of utility: better than having the other prisoner confess, but not so good as going free.

2.4.4 Nash Equilibrium

In game theory, **Nash equilibrium** (named after John Forbes Nash, who proposed it) is a solution concept of a game involving two or more players, in which each player is assumed to know the equilibrium strategies of the other players, and no player has anything to gain by changing only his or her own strategy (i.e., by changing unilaterally). If each player has chosen a strategy and no player can benefit by changing his or her strategy while the other players keep theirs unchanged, then the current set of strategy choices and the corresponding payoffs constitute a Nash equilibrium. In other words, to be in a Nash equilibrium, each player must answer negatively to the question: "Knowing the strategies of the other players, and treating the strategies of the other players as set in stone, can I benefit by changing my strategy?"

Likewise, many players are in Nash equilibrium if each one is making the best decision that they can, taking into account the decisions of the others. However, Nash equilibrium does not necessarily mean the best cumulative payoff for all the players involved; in many cases all the players might improve their payoffs if they could somehow agree on strategies different from the Nash equilibrium. Each strategy in a Nash equilibrium is a best response to all other strategies in that equilibrium. A Nash equilibrium for a mixed strategy game is stable if a small change (specifically, an infinitesimal change) in probabilities for one player leads to a situation where two conditions hold:

- the player who did not change has no better strategy in the new circumstance
- the player who did change is now playing with a strictly worse strategy

If these cases are both met, then a player with the small change in his mixed-strategy will return immediately to the Nash equilibrium. The equilibrium is said to be stable. If condition one does not hold then the equilibrium is unstable. If only condition one holds then there are likely to be an infinite number of optimal strategies for the player who changed. John Nash showed that the latter situation could not arise in a range of well-defined games. According to Dutta (1999) sufficient conditions to guarantee that the Nash equilibrium is played are:

- a. The players all will do their utmost to maximize their expected payoff as described by the game.
- b. The players are flawless in execution.
- c. The players have sufficient intelligence to deduce the solution.
- d. The players know the planned equilibrium strategy of all of the other players.
- e. The players believe that a deviation in their own strategy will not cause deviations by any other players.
- f. There is common knowledge that all players meet these conditions, including this one. So, not only must each player know the other players meet the conditions, but also they must know that they all know that they meet them, and know that they know that they know that they meet them, and so on.

2.4.5 Types of Game

There are 8 (eight) types of game theory, which followed:

a. *Cooperative and Non-cooperative,*

A game is cooperative if the players are able to form binding commitments. For instance the legal system requires them to adhere to their promises. In non-cooperative games this is not possible. Of the two types of games, non-cooperative games are able to model situations to the finest details, producing accurate results. Cooperative games focus on the game at large. Considerable efforts have been made to link the two approaches. The so-called Nash

Programme has already established many of the cooperative solutions as non-cooperative equilibria.

b. Symmetric and Asymmetric

A symmetric game is a game where the payoffs for playing a particular strategy depend only on the other strategies employed, not on who is playing them.

c. Zero Sum and Non-Zero Sum

Zero sum games are a special case of constant sum games, in which choices by players can neither increase nor decrease the available resources. In zero-sum games the total benefit to all players in the game, for every combination of strategies, always adds to zero (more informally, a player benefits only at the equal expense of others). Many games studied by games theorists (including the famous prisoner's dilemma) are non-zero-sum games, because some outcomes have net results greater or less than zero. Informally, in non-zero-sum games, a gain by one player does not necessarily correspond with a loss by another.

d. Simultaneous and Sequential

Simultaneous games are games where both players move simultaneously, or if they do not move simultaneously, the later players are unaware of the earlier players' actions (making them effectively simultaneous). Sequential games or dynamic games are games where later players have some knowledge about earlier actions. The difference between simultaneous and sequential games is captured in the different representations discussed above.

e. Perfect Information and Imperfect Information

A game is one of perfect information if all players know the moves previously made by all other players. Thus, only sequential games can be games of perfect information, since in simultaneous games not every player knows the actions of others. Perfect information is often confused with complete information, which is similar concept. Complete information requires that every player know the strategies and payoffs of the other players but not necessarily the actions.

f. Infinitely Long Games

Games, as studied by economists and real-world game players, are generally finished in a finite number of moves. Pure mathematicians are not so constrained, and set theorists in particular study games that last for an infinite number of moves, with the winner (or other payoff) not known until after all those moves are completed.

g. Discrete and Continuous Games

Much of game theory is concerned with finite, discrete games, that have a finite number of players, moves, events, outcomes, etc. Many concepts can be extended, however. Continuous games allow players to choose a strategy from a continuous strategy set. Differential games such as the continuous pursuit and evasion game are continuous games.

h. Meta-games

These are games the play of which is the development of the rules for another game, the target or subject game. Meta-games seek to maximize the utility value of the rule set developed. The theory of meta-games is related to mechanism design theory.

2.5 Empirical Research

For the empirical research, these studies are based on a model which is written by Professor Thomas L. Saaty from his book "The Logic of Priorities: Applications in Business, Energy, Health and Transportation". The author worked through a conflict between US and OPEC related to petroleum trading. The problems shown in table 2.4.

US	OPEC
Goals: THE COMPLACENCY OF AMERICAN CONSUMER	Goals: THE BIGGEST PRODUCER OF PETROLEUM IN THE WORLD
<i>Purposes:</i> P1 : Clean Area physically from pollution P2 : Enough petroleum supply P3 : Achievable prices of petroleum	<i>Purposes:</i> O1 : Maximize income from petroleum O2 : Conservation of petroleum reserve O3 : Political gains
<i>Strategies:</i> L1 : Conservation L2 : Buffer Stocks of petroleum L3 : Improving Relationship between oil exporting countries L4 : Prices Control in Domestic L5 : Domestic Subsidies	<i>Strategies:</i> I1 : Bounding of World Prices Stabilization I2 : Bounded of production quota I3 : Cutting of oil supply as unexpectedly I4 : Do Nothing

Source: AHP-Bambang Permadi, PAU-EK-UI, Jakarta, 1992.

Tabel 2.4. Comparison Between US and OPEC Goals and Strategies

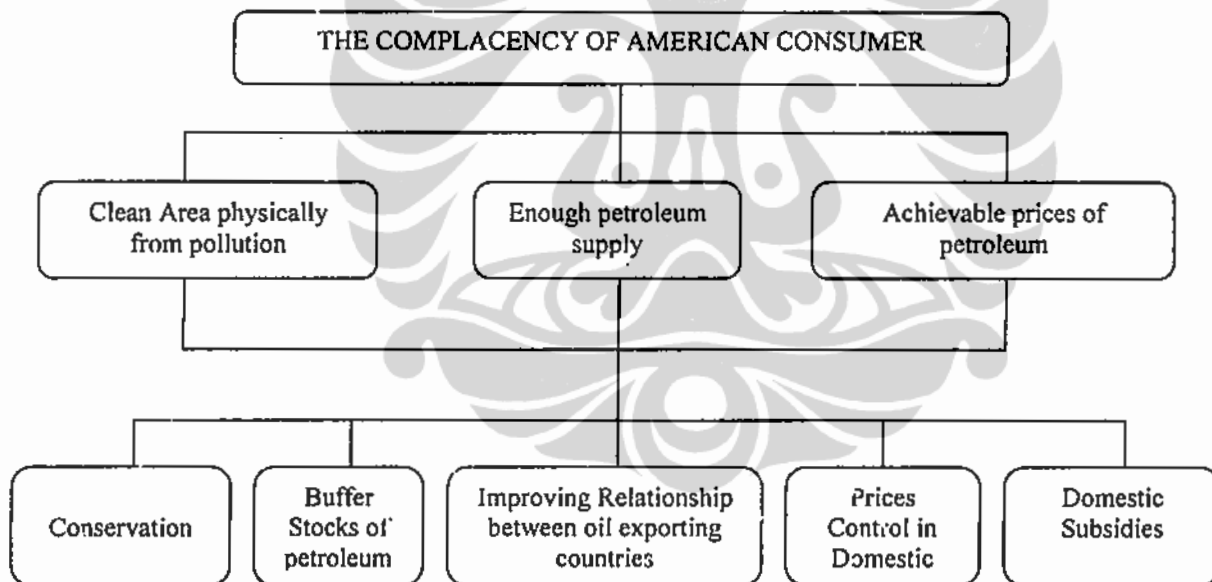


Figure 2.1. Hierarchy of Interest and US Strategies

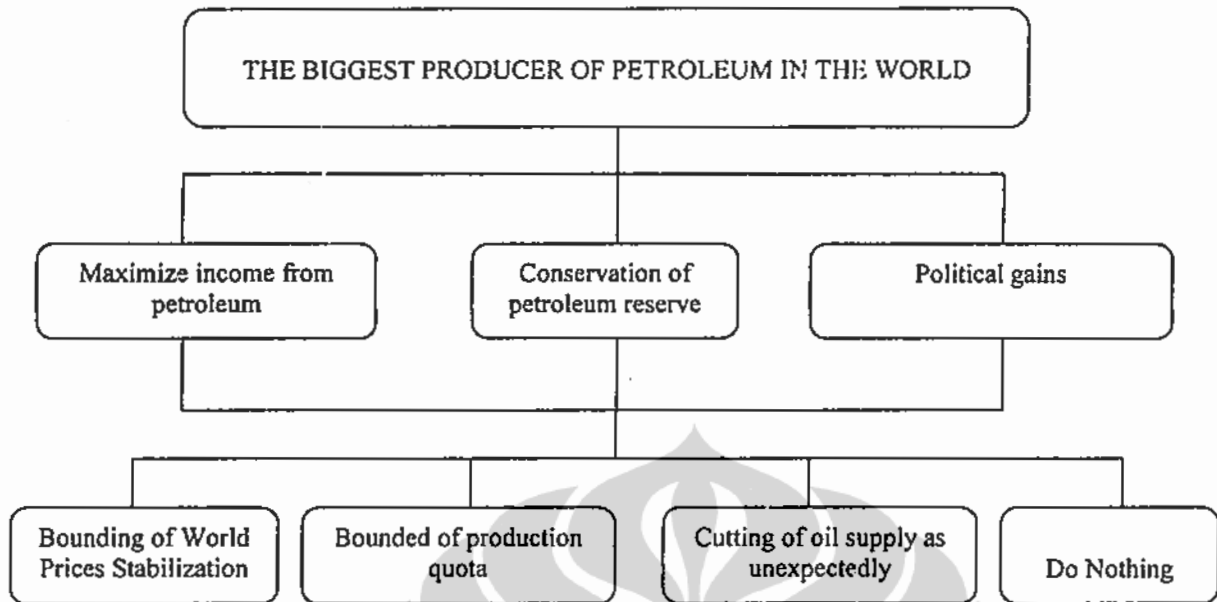


Figure 2.2. Hierarchy of Interest and OPEC's Strategies

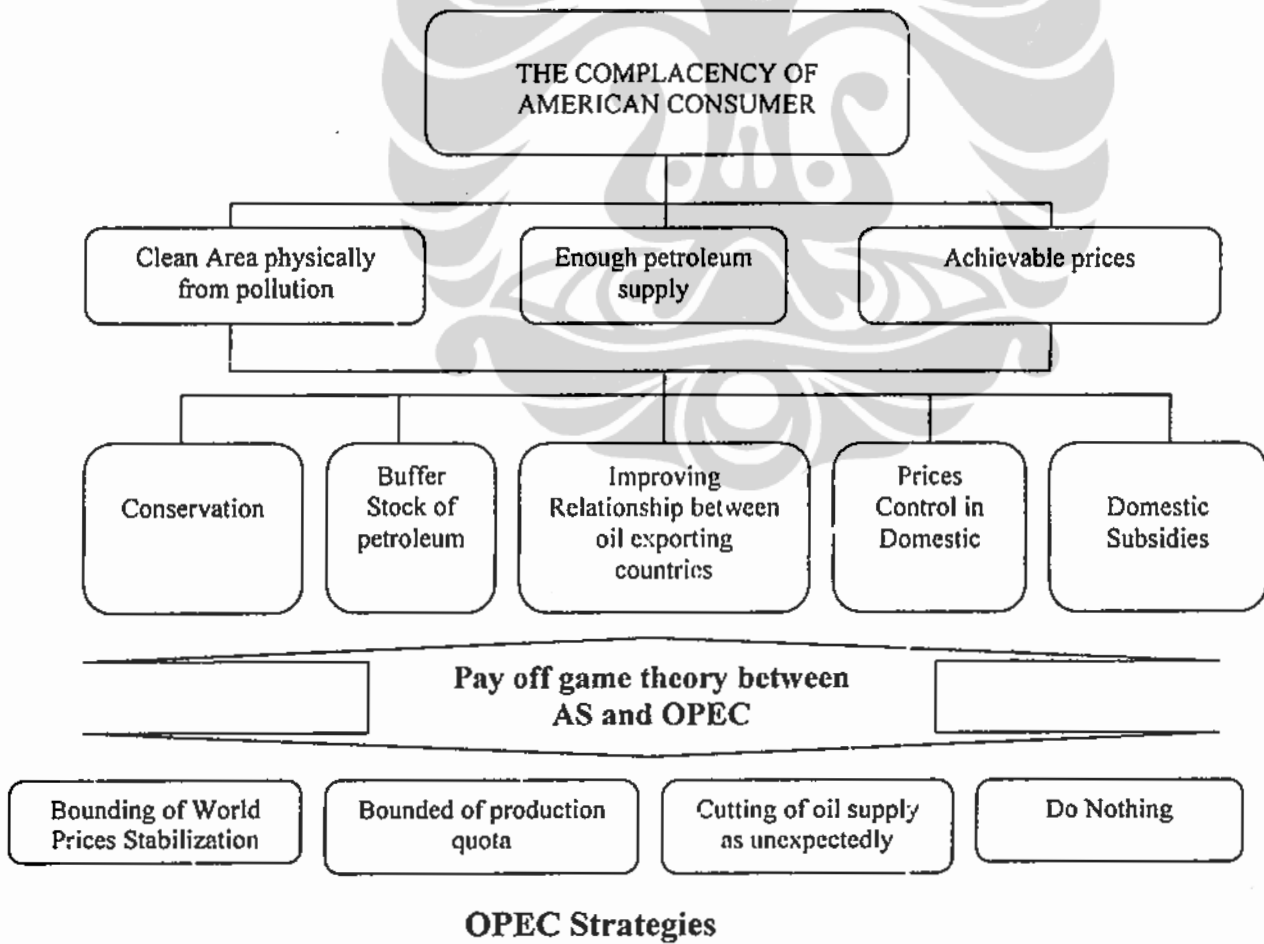


Figure 2.3. Decomposition of the Decision Problem

2.5.1 Some explanations

For US, act of determining priorities from each strategy to accomplish their purposes are by doing these following steps:

1. Act of determining process based on interest order to American consumer complacency
2. Act of strategies policies determining based on interest order to each purposes
3. Act of strategies policies determining based on global priorities from each strategy related to the goals

Table 2.5. Weight of global priorities: US - OPEC

Orders of global priorities from alternatives strategies of US		Orders of global priorities from alternatives strategies of OPEC	
	<i>Weight</i>		<i>Weight</i>
L1	0.152	I1	0.550
L2	0.052	I2	0.105
L3	0.451	I3	0.074
L4	0.085	I4	0.270
L5	0.261		

Table 2.6. Pay-offs matrix for US

		OPEC			
		I1	I2	I3	I4
U S	L1	0.019	0.010	0.009	0.011
	L2	0.002	0.008	0.027	0.007
	L3	0.226	0.129	0.119	0.227
	L4	0.002	0.002	0.002	0.002
	L5	0.079	0.121	0.033	0.069

Table 2.7. Pay-offs matrix for OPEC

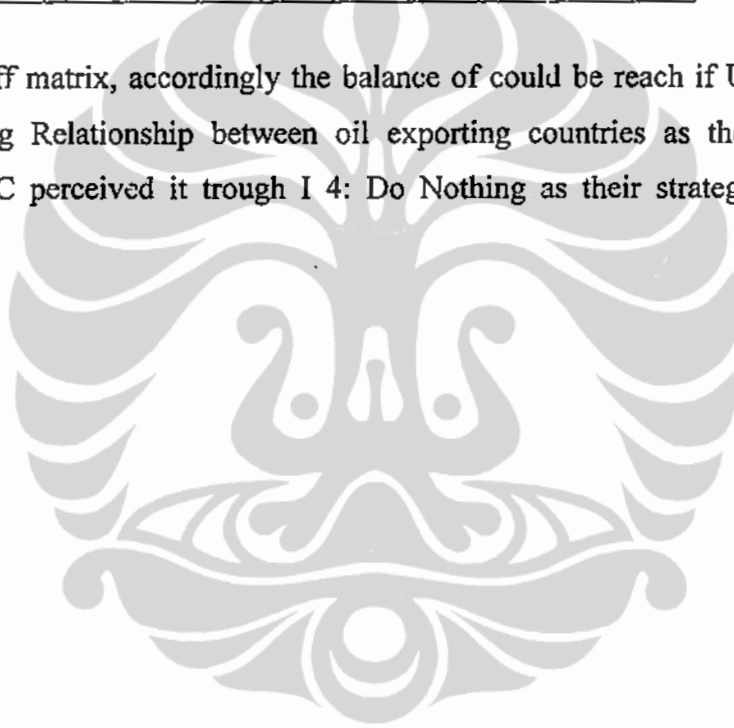
		US				
		L1	L2	L3	L4	L5
O P E C	I1	0.031	0.157	0.058	0.076	0.031
	I2	0.051	0.016	0.022	0.025	0.050
	I3	0.026	0.003	0.003	0.040	0.010
	I4	0.030	0.142	0.174	0.025	0.091

As a result from the process of AHP through expert choice program software is a payoff matrix from game theory between two parties which non-zero characteristic as followed:

Table 2.8. Final result: Payoff Matrix between US - OPEC

	I1	I2	I3	I4
L1	(0.019;0.031)	(0.010;0.051)	(0.009;0.026)	(0.011;0.030)
L2	(0.002;0.157)	(0.008;0.016)	(0.027;0.003)	(0.007;0.142)
L3	(0.226;0.058)	(0.129;0.022)	(0.119;0.003)	(0.227;0.174)
L4	(0.002;0.076)	(0.002;0.025)	(0.002;0.040)	(0.002;0.025)
L5	(0.079;0.031)	(0.121;0.050)	(0.033;0.010)	(0.069;0.091)

Building on that payoff matrix, accordingly the balance of could be reach if US applied L3: Improving Relationship between oil exporting countries as their strategies, while OPEC perceived it trough I 4: Do Nothing as their strategy.



CHAPTER 3

LITERATURE REVIEW: APEC'S BACKGROUND

3.1 APEC Brief History

An Economic Community is a distinct phase in the process towards deeper economic integration. It has been given a rather precise meaning in many textbooks. It is phase in economic integration that is short of the end phase of economic integration, namely the creation of an Economic Union in which there is monetary union.² Textbooks have been inspired by the evolution of regional economic integration in Europe. There is a logical sequence in the different phases towards the creation of an Economic Union, beginning with a Free Trade Area (FTA), followed by a Customs Union, a Common Market, and subsequently an Economic Community. This sequence reflects some order of liberalization.

APEC is two things. It is first of all the Asia Pacific economic community; the community of relatively and increasingly open and rapidly growing economies, deeply and increasingly integrated with each other, benefiting from large and expanding economic relations with the rest of the world. It is a community that was built by independent enterprises operating markets, and not by governments. It is a community which revealed itself and defined its own boundaries through its economic characteristic and interactions, and not through the assertion of a collective international political will.

Secondly, APEC is a process of inter-governmental Asia Pacific Economic Cooperation, which aims to conserve, strengthen and extend the older Asia Pacific economic community. The second manifestation of APEC began with twelve members at the Ministerial meeting in Canberra in 1989. It was expanded to include the three Chinese economies in Northeast Asia in Seoul in 1992. APEC assumed increased weight with the Leaders' meeting in Seattle in 1993, at the time of agreement to include Papua New Guinea, Mexico and Chile.

² A monetary union uses a common currency that is issued by one central bank, such as the Euro that is issued by the European Central Bank located in Frankfurt, Germany.

3.1.1 APEC Background

Although the pioneering initiatives for building a framework for economic cooperation in Asia-Pacific have never been in short supply, the initial wealth of ideas was constrained by a combination of unavoidable political restrictions that prevailed during the Cold War and by a general lack of actual experience in exchange and cooperation. Recent economic growth in East Asia on an unprecedented scale; however, coupled with an increasing interdependence with other developed economies in Asia-Pacific overall. The ultimate aim and responsibility of APEC is to nurture this momentum and link it to the region's future.

At the same time, within Asia-Pacific are a number of situations with the potential to adversely affect the stability that underpins regional prosperity. These include bilateral trade issues between various member countries, such as between Japan and the United States and between the United States and China, which to some extent are inevitable consequence of expanding economics ties. Similarly, international political issues such as relations between Taiwan and China, human rights arguments between the United States and China, territorial disagreements over the Spratly Island, underground nuclear testing by France and China, and other moves by some regional economies to build up their arms have an enormous impact on the stability of Asia-Pacific. Economic stability in the region cannot be taken for granted. The more serious issues become, the more important it is for every country in the region to be courageous enough to review its national values and global outlook in light of international developments, and to make the effort to nurture trust by pursuing common interests. The Asia-Pacific region is home to diverse range of national interests and values, so that the process of defining common regional interests is not necessarily and easy one; however, the regional liberalization and prosperity sought by APEC represent and important element of this process.

The APEC Economic Leaders' Meeting provides an important opportunity for Asia-Pacific leaders to gather in the same place. By discussing common economic concerns and agreeing on a framework for future cooperation, the

leaders of each member economy help to expand the foundation of common interests and make a significant contribution toward developing trust.

The Asia-Pacific Economic Cooperation (APEC) was established in 1989 in Canberra, Australia with 12 members in response to the growing interdependence among Asia-Pacific economies (APEC, 2008). Initially an informal dialogue group, APEC has since become the primary vehicle for promoting open trade and practical economic cooperation within the region. The author maintain that, from twelve founding members in 1989 (Australia, Brunei Darussalam, Canada, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and the United States), APEC's current twenty-one member economies (adding China, Hong Kong, Taiwan, Mexico, Papua New Guinea, Chile, Peru, Russia and Viet Nam) have a combined Gross Domestic Product (GDP) of US\$18 trillion and account for over 43.85% of global trade (Worthington & Higgs, 2004).

APEC started with a modest program of sectoral and trade initiatives. From the beginning, APEC has seen itself not a grouping of countries, but of economies, the term emphasizing that the organization discusses economics, not politics. It was also established as a loose consultative forum, with no organization structure or a large bureaucracy supporting it. Indeed, even today, the APEC Secretariat, which is located in Singapore, includes only 20 diplomats seconded from APEC member economies in addition to 20 locally hired staff.

The Economic Leaders' Meeting in 1993 in Seattle was a crucial turning point in bringing major changes to APEC, because is produced a political pledge at the summit of APEC leaders. Up until then, APEC had generally been a vehicle for discussing cooperation in specialist areas, through the SOM and also elevens Working Groups (WG) that cover a range of regional issues, under the aegis of the Ministerial Meeting. The Blake Island Economic Vision produced at Seattle represented a dream of building an Asia-Pacific community. Only one year after this first meeting, which was held in the United State, APEC Leaders took another historic step at their meeting in Bogor, Indonesia. At this meeting, the Leaders declared a bold goal of creating the world's largest area of free trade and investment by 2020. Within APEC, this challenge became known as the "Bogor

Goals". Under the plan, developed economies would achieve free trade by the year 2010 and developing economies would follow in 2020.

At their meeting in Japan in 1995, the Leaders approved what became known as the Osaka Action Agenda (OAA). Under this approach, APEC established three central pillars to its cooperative work: trade and investment liberalization, trade facilitation and economic and technical cooperation. 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 non-binding commitments, open dialogue and equal respect for the views of all participants. Unlike the WTO or other multilateral trade bodies, APEC has no treaty obligations required of its participants. Decisions made within APEC are reached by consensus and commitments are undertaken on a voluntary basis. APEC has 21 members - referred to as "Member Economies" - which account for approximately 41% of the world's population, approximately 55% of world GDP and about 49% of world trade (APEC, 2008).

Table 3.1, APEC Highlight from 1989 until 2007

<i>2007 – Sydney, Australia</i>	Leaders adopted a major report on closer Regional Economic Integration, including structural reform initiatives, and welcomed the new APEC Trade Facilitation Action Plan
<i>2006 – Ha Noi, Viet Nam</i>	Leaders endorsed the Ha Noi Action Plan also issued a statement on the WTO DDA calling for ambitious and balanced outcomes.
<i>2005 – Busan, Korea</i>	APEC adopts the Busan Roadmap
<i>2004 – Santiago, Chile</i>	APEC issues a strong statement of support for progress in the WTO DDA and sets a target date for achieving a breakthrough in negotiations: December 2005, the convening of the Sixth WTO Ministerial Conference. APEC adopts best Practices for RTAs and FTAs also the Santiago
<i>2003 – Bangkok, Thailand</i>	APEC agrees to re-energize the WTO DDA negotiations and bilateral and regional trade agreements, the Bogor Goals and the multilateral trading system under the WTO.
<i>2002 – Los Cabos, Mexico</i>	APEC adopts a Trade Facilitations Action Plan, Policies on Trade and Digital Economy and Transparency Standards.
<i>2001 – Shanghai, People's Republic of China</i>	APEC adopts the Shanghai Accord, strengthen market structures and institutions, facilitate infrastructure investment and technology for on-line transactions

(Continue from table 3.1)

2000 – Bandar Seri Begawan, Brunei Darussalam	APEC establishes an electronic Individual Action Plan (e-IAP) system, providing IAPs online and commits to the Action Plan for the New Economy
1999 – Auckland, New Zealand	APEC commits to paperless trading by 2005 in developed economies and 2010 in developing economies. ABTC scheme is approved and a Mutual Recognition Arrangement on Electrical Equipment and a Framework for the Integration of Women in APEC is endorsed.
1998 – Kuala Lumpur, Malaysia	APEC agrees on the first nine sectors for EVSL and seeks an EVSL agreement with non-APEC members at the WTO.
1997 – Vancouver, Canada	APEC endorses a proposal for EVSL in 15 sectors and decides that IAPs should be updated annually.
1996 – Manila, The Philippines	The Manila Action Plan for APEC (MAPA) is adopted
1995 – Osaka, Japan	APEC adopts the Osaka Action Agenda (OAA)
1994 – Bogor, Indonesia	APEC sets the Bogor Goals of, “free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies.”
1993 – Blake Island, United States	APEC Economic Leaders meet for the first time and outline APEC’s vision, “stability, security and prosperity for our peoples.”
1989 – Canberra, Australia	APEC begins as an informal Ministerial-level dialogue group with 12 members.

Source: derived from http://www.apec.org/apec/about_apec/history.html (Changed by author's)

APEC differs from bodies such as the United Nations and a ruled-based organization like the World Trade Organization (WTO). In contrast, APEC has developed as a loose inter-governmental framework designed to promote regional cooperation. Unlike a European-style with the European Union or a formal trade agreement like on the North American Free Trade Agreement (NAFTA), not a policy think tank group like the Organization for Economic Cooperation and Development (OECD), APEC does not legally bind countries into an integrated regional economy. Rather, the basis of APEC has always been to harness the dynamism of spontaneous and historical economic progress in the Asia-Pacific region, to develop the region as a whole, and to benefit individual economies.

3.1.2 APEC Pillars

3.1.2.1 Trade and Investment Liberalization

Trade and Investment Liberalization reduce and eventually eliminate tariff and non-tariff barriers to trade and investment. Protectionism is expensive

because it raises prices for goods and services. Thus, Trade and Investment Liberalization focuses on opening markets to increase trade and investment among economies, resulting in economic growth for APEC Member Economies and increased standard of living for all. The first pillar is critical for APEC ability to achieve its Bogor Goal of free trade in the APEC region by the year 2020. It works on the basis of unilateral liberalization, which means that each APEC member voluntarily agrees to liberalize in a particular area of trade and investment.

APEC has developed a tool for achieving this pillar named Individual Action Plans (IAPs). All APEC economies are required to prepare and regularly update these IAPs. Each IAP includes details on 15 sectors specified by the Osaka Action Agenda³.

In addition to each IAP describing what APEC members are doing in these areas, there are working-level group within APEC works towards making further progress in each of the 15 areas. APEC has made these IAPs more accessible to business by simplifying formats and creating electronic IAPs. These “e-IAPs” were fully operational in November 2000. Moreover to the IAPs, APEC members work together collectively in these same areas through the use of Collective Action Plans (CAPs).

3.1.2.2 Trade Facilitation

Business Facilitation focuses on reducing the costs of business transactions, improving access to trade information and aligning policy and business strategies to facilitate growth, and free and open trade. Essentially, Business Facilitation helps importers and exporters in Asia Pacific meet and conduct business more efficiently, thus reducing costs of production and leading to increased trade, cheaper goods and services and more employment opportunities due to an expanded economy.

³ They include the following areas: Tariffs, Non-tariff measures, Services, Investment, Standard and conformance, Custom procedure, Intellectual property rights, Competition policy, Government procurement, Rules of origin, Dispute mediation, The mobility of business people, Implementation of outcomes of the Uruguay Round and Information gathering and analysis.

Essentially, trade facilitation is aimed at making doing business in the region easier and less costly. Although work in this area continues on a broad front, APEC has already made substantial progress in many areas including standards, customs, electronic commerce, business travel, telecommunications, energy, fisheries, and government procurement. As part of this trade facilitation work APEC Leaders at their meeting in Shanghai in 2001, set a goal of reducing transaction cost throughout the APEC region by five percent by 2006. All APEC groups are working to meet this target. In addition, APEC has agreed to implement APEC Transparency Standards to provide business and investors comprehensive and clear information on the rules and regulation of each APEC member.

3.1.2.3 Economic and Technical Cooperation (ECOTECH)

ECOTECH is dedicated to providing training and cooperation to build capacities in all APEC Member Economies to take advantage of global trade and the New Economy. This area builds capacity at the institutional and personal level to assist APEC Member Economies and its people gain the necessary skills to meet their economic potential. Instead, ECOTECH is collectively the activities and programs of APEC aimed at achieving its overall goals of attaining sustainable growth, broadening the benefits of that growth to improve the economic and social well-being of all our people and deepen the spirit of community in APEC. At their meeting in Manila in 1996, APEC Leaders identified six priority areas for APEC's work in ECOTECH⁴. Currently, APEC has 250 ongoing ECOTECH activities.

⁴ Six priority areas for APEC's work in ECOTECH, includes: Developing human capital, Fostering safe and efficient capital markets, Strengthening economic infrastructure, Harness technologies for the future, Promoting environmentally sustainable growth; and Encouraging the growth of small and medium enterprises

Table 3.2, Selected APEC Initiatives and Activities for Capacity Building

Cooperation Areas Initiatives	Initiating Forum
TILF	APEC Strategic Plan for Capacity Building for WTO Agreements CTI
ECOTECH	Human Capacity Building SOM
Strengthening Markets	Knowledge-based Economies (KBE) Summit
	Strengthening APEC Social Safety Nets Summit
	Entrepreneurship and Star-up Companies CTI
New Economy	Network of Skills Development Centres HRD Working Group
	Asia Pacific Information Infrastructure (APII) TELMIN
	Use of IT in a Learning Society HRD Working Group
	Digital Divide into Digital Opportunities SOM
Education	Readiness Assessment Evaluation Partnership (REAP) SOM TEL
	e-APEC: Building Digital Society e-APEC Task Force
	APEC Education Foundation Summit
	APEC Cyber Education Cooperation Summit

Note:

CTI (Committee on Trade and Investment), SOM (Senior Officials Meeting), HRD (Human Resources Development), TELMIN (Telecom Ministers Meeting), TEL (Telecom and Information Working Group)

Source: derived from www.apec.org

3.1.3 The Bogor Goals

Since its inception in 1989, APEC has aimed at promoting the development and growth of its member through trade liberalization in a manner consistent with the principles embodied in the multilateral trading system. In the Seoul APEC Declaration of 1991, APEC adopted the principles of open regionalism namely, regional integration without trade discrimination against other economies. This open regionalism contrasts sharply with the approach taken in most regional cooperation agreements including EU and NAFTA. As Drysdale et al. (1997) put it,

APEC is "characterized by market-driven integration, rather than institutional integration; involving economies at different stages of economic development rather than economies with similar income levels; and outwardly oriented rather than inward looking".

APEC has since grown in scope and liberalization commitments, and has held annual summit meetings of heads of state. The first summit was held in Seattle, USA, in 1993, where they adopted a broad vision of regional free trade and investment. At the second summit in Bogor, Indonesia, in 1994, APEC concluded with the APEC Economic Leaders' Declaration of Common Resolve. Economic Leaders recognized that the diverse economies are becoming more interdependent and are moving toward a community of Asia-Pacific economies. They agreed on the commitment to achieve the goal of free and open trade and investment in the Asia-Pacific region no later than 2020. The pace of implementation will take into account differing levels of economic development among APEC economies, with the industrialized economies achieving the goal of free and open trade and investment no later than 2010 and developing economies no later than 2020.

The declaration gave a sharp focus to the vision of regional economic cooperation that had driven APEC's economies emerging trade and investment work program. It reflected the basic principles of APEC cooperation: voluntary participation, comprehensiveness, mutual respect and consensus-based decision making. In adopting the Bogor Goals, APEC Leaders made two key commitments:

- Free and open trade and investment in the Asia-Pacific should encourage and strengthen trade and investment liberalization in the world as a whole. APEC must not be an inward-looking bloc that diverts from the pursuit of global free trade.
- Trade liberalization efforts alone are insufficient to generate trade expansion. Trade and investment facilitation must also be expanded and accelerated to further promote the flow of goods, services, and capital among APEC economies.

The APEC Action Agenda was adopted at the Osaka, Japan summit in 1995. During this summit APEC member countries agreed to further develop their detailed action plans by the 1996 summit. The fourth APEC summit in Manila, Philippines, took another step toward the goal of the regional free trade by approving an action plan for implementing trade and investment liberalization in

the region. While the first three APEC summits at Seattle, Bogor and Osaka shaped APEC vision and objectives, the fourth summit marked the beginning of the action phase by adopting the Manila Action Plan for APEC (MAPA). APEC member nations have reinforced their liberalization commitments through MAPA, which details country-by-country commitments to free trade and investment in the region, effective as of January 1, 1997.

The primary focus of the MAPA commitments relates to trade liberalization, trade facilitation (e.g., cooperation on standards, improving customs procedures, coordinating competition policies and dispute mediation), and economic and technical cooperation, energy and environment). MAPA consists of three parts: Individual Action Plans (IAPs), Collective Action Plans (CAPs), and Economic and Technical Cooperation (ECOTECH). In formulating and implementing IAPs and CAPs, all APEC economies have been encouraged to observe the principles of comprehensiveness, WTO-consistency, comparability, nondiscrimination, transparency, standstill, simultaneous start, continuous process, differentiated timetables and flexibility.

3.1.3.1 The Impact of the Bogor Goals

Four-teen years later, the Bogor goals remain a key organizing principle for APEC and the driving force behind its trade and investment liberalization and facilitation work program. Driven by this shared commitment, the APEC region has emerged as the engine of world economic growth over the last decade, outpacing the rest of the world in opening itself to international trade and investment and increasing its share of global output and trade as a result.

According to APEC outlook 2007 – 2008, the results of the Stock-take demonstrate that APEC economies have achieved significant liberalization and facilitation of trade and investment since 1994. Multilateral, regional, bilateral and unilateral initiatives all have contributed to a more open regional environment. Tariff and non-tariff barriers have been removed in many cases and lowered in many others, though liberalization has clearly been more successful in some sectors than others. Foreign investment has been liberalized. Outcomes in a range of other areas designated by the OAA such as services, competition policy, and

intellectual property rights and customs procedures have improved. ECOTECH activities have developed in parallel to the progress made on the liberalization and facilitation fronts. Moreover, The rewards from these policy choices have been substantial and have contributed to sustained economic growth and significant welfare improvements in the region.

3.1.3.2 Commitment to the Bogor Goals

As the process of globalization unfolds and regional integration intensifies, new ways of conducting business are emerging and new barriers to trade and investment, both actual and potential, are surfacing. It is important that APEC does not interpret the goals of free and open trade and investment in a finite or static manner.

The expanding international trade agenda has since 1994 broadened to include not only border issues directly related to trade liberalization, but also facilitation and behind-the-border⁵ issues such as standards and conformance, customs procedures, e-commerce and business mobility. Only in recognizing this reality and the fact that the environment for trade is constantly evolving, will APEC be able to adapt its focus accordingly and continue to deliver concrete and commercially relevant outcomes in the years ahead to realize the Bogor Goals. While recognizing that the Bogor Goals are dynamics, APEC Leader's pledge in 1994 to achieve free and open trade must be maintained.

3.1.3.3 Current Achievements Towards the Bogor Goals

The mid-term stocktake has identified an array of APEC economies achievements in the areas of trade and investment liberalization and facilitation. Guided by the Bogor Goals, APEC economies have outpaced the rest of the world over the last decade-and-a-half in opening their markets to international trade and investment, resulting in higher-than-average economic growth in the region. More

⁵ *Behind-the-border issues* arise from economic and social policies concerned primarily with the internal regulation of an economy and the institution required implementing and enforcing them. They include laws, policies and regulations and practices administering competition, consumer protection, education, government procurement, judicial systems, health services, infrastructure problems, investment regulation, labour market policies, protection of IPR, standards, structural reform, taxation, transparency, etc. some of these laws and policies may also have an effect on foreigners wishing to engage in economic activities within the economy.

importantly, this growth has accompanied significant improvements in governance and social policy, resulting in greatly improved health and welfare outcomes for their citizen.

Table 3.3, The achievements of APEC

<i>Trade and investment barriers have fallen</i>	Average applied tariffs of APEC economies have been reduced significantly since APEC's inception, from 15.9% in 1989 to 5.5% in 2004 and currently almost half of all APEC economies' tariff lines are at less than 5%, and tariffs on many goods are now set at zero or negligible levels.
Trade in services	A vibrant regional market for services has emerged due to the efforts of individual APEC economies to eliminate market access restrictions, extend national treatment and MFN, pursue a process of deregulation and de-bureaucratization and enhance domestic capacity building.
Investment	The APEC region has become much more open to foreign direct investment (FDI)
Trade and investment facilitation	APEC has shown willingness to tackle other significant non-border barriers to trade and investment beyond the formal WTO agenda as reflected in the 2002 Trade Facilitation Action Plan (TFAP)
High-quality RTAs/FTAs	Trade liberalizing as described in the 2004 APEC Best Practice for RTAs/FTAs.
<i>APEC has strengthened the multilateral trading system ECOTECH</i>	APEC, which represents close to 50% of world trade and almost 60% of global GDP
<i>Trade and Investment flows have grown</i>	APEC has also led the way in linking closely ECOTECH with trade and investment liberalization and facilitation. APEC trade in goods and services more than tripled between 1989 and 2003, and account for an ever-growing share of APEC economies' GDP (18,5% in 2003, compared to 13,8% in 1989). Foreign investment flows have also increased. Direct investment outflows from the APEC region more than doubled from 1989 to 2003, while inflows increased more than five-fold to a maximum of \$565 billion in 2000, before falling off considerably to a level still some 50% higher than in 1989. APEC economies accounted for 28% of world FDI inflows and 42% on FDI inward stocks in 2003.
<i>Trade and investment policy has generated economic growth</i>	APEC gains 61% of world growth from 1989 to 2003. By 2003, APEC economies made up 57% of world economy. Real GDP in the APEC region grew by 46% between 1989 and 2003, compared to 36% for non-APEC economies over the same period. APEC's real GDP increasing by 77% since APEC's inception. Per capita GDP has increased growing by 26% between 1989 and 2003 (or about 1,7% per year) compared to 8% for non-APEC economies.
<i>International openness</i>	APEC economies impressive trade and investment liberalization and facilitation gains are largely a result of each individual economy's policy choices.

Source: derived from www.imf.org; www.wto.org; www.oecd.org; www.apec.org; (changed by author)

3.2 The APEC Business Advisory Council (ABAC)

3.2.1 ABAC Background

The APEC Business Advisory Council (ABAC) was created by the APEC Economic Leaders in November 1995 to provide advice on the implementation of the Osaka Action Agenda and on other specific business sector priorities, and to respond when the various APEC fora request information about business-related issues or to provide the business perspective on specific areas of cooperation. ABAC comprises of up to three members of the private sector from each economy. ABAC members are appointed by their respective Leaders, and represent a range of business sectors, including small and medium enterprises. The economy determines the term of membership of each appointee as well as its own administrative arrangements and staff support.

The ABAC International Secretariat based in Manila, the Philippines serves all members and all economies and maintains a website. Funding is provided through a system of annual dues, which are structured to reflect the size of each economy, following the APEC formula. In 2008, ABAC established the following working groups to carry forward its work:

- Action Plan and APEC Resources Working Group (APARWG)
- Finance and Economics Working Group (FEWG)
- Facilitation Working Group (FWG)
- Liberalization Working Group (LWG)
- Technology and Information Working Group (TIWG)

ABAC also try to identify measures to transform the significant growth that has characterized much of the APEC region into lasting development and to spread the benefits of globalization more widely between and within APEC economies. ABAC key priorities identified in the 2008 work program include, seeking ways to further advance trade and investment liberalization in the region, including through the WTO Doha Development Agenda negotiations, the proposal for a Free Trade Area of the Asia-Pacific (FTAAP), and continuing work on model measures for regional trading arrangement (RTA)/free trade agreement (FTA) chapters; improving the investment environment; reducing the costs of doing business in the region; studying the economic implications of labor mobility,

including consideration of the development and adoption of standards or best practices; cooperation to improve educational systems; strengthening and deepening capital markets, enhancing social security and retirement safety nets, and micro-credits; addressing the challenges posed by climate change and energy security; intellectual property protection; support for SMEs; and responding to regional emergencies.

3.2.2 ABAC and FTAAP

3.2.2.1 FTAAP Understanding

In the 2004, APEC Business Advisory Committee (ABAC) has recommended APEC Leaders launch a study of a Free Trade Area of the Asia Pacific (FTAAP). The Leaders have been unwilling to do so for at least two reasons: a fear that even such a limited move in the direction of an FTAAP could undercut the ongoing Doha Round in the World Trade Organization, which remained their trade policy priority and was already in parlous condition, and the (presumably related) unwillingness of the major APEC powers (China, Japan and especially the United States) to endorse the idea (Bergsten, 2006).

ABAC thus decided to launch its own study of the FTAAP, and alternative trade policy ideas for APEC, in an effort to restore APEC's contribution to global trade liberalization and to revitalize APEC as an institution. The immediate objective is to advance the discussion of these issues at the Leaders Meeting in Hanoi in November 2006 and during the Australian chairmanship in 2007.

According to Bergsten, there are four reasons for this important change. *First*, the Doha Round is faltering badly. It now seems unlikely to achieve even minimal success without a "political jolt" of the type that an FTAAP launch by the APEC Leaders could provide. The model is the Leaders' adoption of the goal of "free and open trade and investment in the region," at the first APEC summit in Seattle in 1993, that galvanized the successful conclusion of the Uruguay Round in the GATT shortly thereafter. *Second*, outright failure or indefinite extension of Doha, which largely amount to the same thing, are now quite possible outcomes. Hence a fallback "Plan B" may become essential to keep the global trading system from relapsing into protectionism as the momentum of liberalization stalls.

An FTAAP, in addition to improving the prospect for a successful Doha, is a far more promising "Plan B" candidate than the likely alternative of a renewed explosion of bilateral and sub-regional preferential agreements within the region (and in the rest of the world). *Third*, the continued proliferation of bilateral and sub-regional (e.g. China-ASEAN, Japan-ASEAN, Korea-ASEAN) FTAs within East Asia, which could evolve into a wide-ranging East Asian Community or East Asia Free Trade Area whether called that or not, is again threatening to "draw a line down the middle of the Pacific." The expansion of US subregional FTAs in Latin America, from NAFTA to CAFTA and now into most of the Andean Community, projects a similar pattern from the eastern edge of that ocean (whether or not a full Free Trade Area of the Americas is ever concluded). Such disintegration of the Asia Pacific region, with East Asia and the Western Hemisphere raising increasingly discriminatory trade barriers against each other, would raise severe political and even security, as well as economic, problems for many countries in the region. It is essential to embed any new East Asian and Western Hemisphere integration schemes within the broader trans-Pacific context to avoid such a risk. APEC is the only institutional foundation for such an initiative and the FTAAP is the only operational instrument that could mobilize its potential to that end. *Fourth*, the United States and China are experiencing intense and growing trade tensions within the context of a bilateral imbalance that exceeded \$200 billion in 2005 and will continue to rise rapidly. The United States has already imposed a number of new barriers against Chinese exports and many more, including across-the-board Congressional sanctions, are being seriously considered. Macroeconomic policy changes, especially substantial revaluation of the renminbi, will be essential to head off or at least limit an economic conflict between the two economic superpowers that could otherwise engulf the entire region. A fresh approach to the trade policy dimension of the relationship is needed as well, however, and an FTAAP would embed any bilateral China-United States confrontation within a broader trans-Pacific context. It would thus offer a more promising response than the bilateral route, which to date has proved largely fruitless and indeed confrontational and dangerous.

Comparing with others region in the world, the Asia-Pacific has their own characteristic and some achievements. A numbers of its economies, for instance China and Vietnam, are achieving extraordinary growth. Since the Bogor Goals were set, trade barriers have continued to decreased, with the average tariffs lower in all of the sub-regions of the Asia Pacific. Although some protectionist sentiments in some parts of the region, the APEC economies keep follow to the WTO obligations.

Projections of the world economy suggest a global slowing growth, and some pessimists are extremely worried about some possibility of wrecking as a result of the huge macro-economic imbalance between US and other countries. US interest rates have been creeping up, cooling the bubble like American house market. On the other side, China economic growth is highly especially on exports (e.g. to the US).

Many economists consider that APEC should be a vehicle through which the major economies in the region review economic analysis and policies options and potentially undertake reinforcing policies that could help restored those conditions. Such policies could include measured currency realignments and further trade liberalization.

However, it was the sense of many members of the study team, that APEC is not fulfilling this role, in part because a decline in government and public interest in the APEC process and in part because governmental attention has been diverted to other issue, like terrorism.

3.2.2.2 Doha Round and FTAAP

The consequences for the world trading system of an outright failure of Doha would be devastating. Protectionist relapses could be expected everywhere, especially as the global trade imbalances. A further proliferation of PTAs could be expected as governments tried to find some politically viable modality for resuming trade liberalization. Under these circumstances, a "Plan B" would be desperately needed. Launch of an FTAAP should be extremely attractive in this context, especially as trans-Pacific trade ties would be the most likely to suffer in

the context of a renewed outbreak of protectionism. A minimalist outcome, the second possibility, is clearly possible.

WTO Director General Pascal Lamy signaled such a strategy in his report on Hong Kong to a large conference at the Institute for International Economics on February 17, and Deputy Director General Rufus Yerxa repeated the concept in a speech in Washington on May 24. Their message has essentially been that, facing profound difficulties in meeting the original goals of the Round or even advancing the negotiations beyond where they have stalemated over the past year, the WTO membership should “declare victory and go home” (WTO, 2006). There are two problems with this approach. *The first* is that the offers to date are quite minimal, and it is doubtful that the world as a whole – as opposed to the ministers who would try to sell such an outcome – would view it as much better than an explicit failure. *The second*, which compounds the first, is that some of the present “offers,” such as the US willingness to limit agricultural subsidies in its next farm bill if the EU and others significantly expand market access in that sector, will almost certainly be withdrawn unless substantially better proposals emanate from their trading partners. Hence any “declared victory” would be quite hollow and extremely difficult to sell. The global trade policy consequences might not be quite as bad as under an outright failure but neither would they be attractive to contemplate. All of the major trade problems would remain unresolved and the developing countries, in particular, would (rightly) feel betrayed for a second time. The resulting bad taste all around would make it virtually impossible to contemplate another WTO round, or even any major sectoral negotiations, in the foreseeable future. The bicycle might not topple completely but it would become very wobbly. A “Plan B” would still be sorely needed.

The third option, which Hufbauer and Schott (Bergsten, 2006) regard as the most likely, is extension of the talks from the current “deadline” of late 2006/early 2007 until anywhere from the end of 2007 (after the next French elections) to 2009 (after the next US elections) or even beyond. This would be similar to the end game of the Uruguay Round, which was initially scheduled to conclude in 2000 but continued until late 2003 (after completion of NAFTA and the initial Seattle summit of APEC, as described above). It would be tantamount

to the failure outcome in the short run but of course without the definitive finality there of, and indeed with some prospect of ultimate success or at least renewed effort down the road. The global trade policy consequences of this quite plausible "outcome" are the most conjectural. They would depend partly on whether credible new deadlines could be set. They would also depend heavily on whether the Congress seemed likely to extend the President's Trade Promotion Authority, which would be highly uncertain with Doha in suspense due to lack of success and hence unlikely to provide much motivation for the United States to resume the talks. Victories by the Democrats in the Congressional elections of 2006 or 2008, or in the Presidential election of 2008, could of course inject huge additional uncertainties into the picture. If an FTAAP proceeded to fruition even in the wake of a reinvigorated and successful Doha Round, produced in part by the launch of the FTAAP itself, it could also galvanize a future WTO negotiation to reduce the new "Doha plus" discrimination that it created. The formal launch of the Bogor Goals in 1994, coming just after the completion of the Uruguay Round, clearly stimulated successful multilateral/WTO negotiations (on telecom and financial services, in particular) for several more years; Sir Leon Brittan, the chief EU trade negotiator at the time, said repeatedly and publicly that "the EU will not be left behind if APEC does what it says it will do" and used the specter of APEC discrimination to bring his more recalcitrant member states into all these global liberalization packages.

3.2.2.3 FTAAP and Implication for WTO and APEC

The implications of an FTAAP for the WTO and the multilateral trading system are therefore very important considerations. According to Bergstens (2006)

"On the one hand it might be argue that launching of negotiations for an FTAAP could create a powerful incentive for non-APEC economies to devote greater energy and commitment to the pursuit of liberalization through WTO process. It might also be argued that a world trading system containing fewer and larger trading blocs might be easier to manage and administer than the current 'kaleidoscope' of bilateral and plurilateral PTAs."

Larger blocs would be likely to be acutely aware of their interest maintaining a viable and effective ruled-based system, in order to minimize the risk of trade wars and other destructive developments. Even if an FTAAP is deemed acceptable and desirable, it might still be argued that it would be in-appropriate for it to be launched at the current stage of the DDA process. APEC members will have to make careful judgments on these issues in deciding whether to pursue an FTAAP.

There are also been considerable disquiet among PECC Trade Forum members over the possible effect that pursuit of an FTAAP negotiations could be divisive within the APEC process. Even with full participation, the negotiation of binding reciprocal trade agreements can in itself be a divisive process, as experience in the WTO makes clear. Its appears to be common ground that the APEC process as it currently stands is not suited to such negotiations. There are a number of possible responses to these concerns. One response is to argue that the APEC process must be restructured to become an effective vehicle for discussion some issues like the FTAAP. Further with Bergstens (2006), the APEC's voluntary, non-binding approach has outlived its usefulness, and the time come to switch to a binding approach, and to accept the associated need to restructure the APEC process accordingly.

The contrary view is that the voluntary, non-binding approach constitutes APEC's unique strength, and that the fact that the APEC process is not suited to the negotiation of binding agreements is in itself a reason not to pursue the FTAAP. According to this view APEC should continue to work in areas where a voluntary non-binding approach is effective, and leave the negotiations to other forums like the WTO. An attempt to negotiate an FTAAP could destroy much that is valuable in the APEC process. Another approach in effect seeks to reconcile these conflicting views. It is suggested that negotiation of the FTAAP should be a separate process, distinct from the main APEC process. This is similar to the approach followed in the Americas, where the summit process is kept separate from the FTAA negotiations. This means that the summit process, and the cooperative activities associated with it, need not be compromised by difficulties

or even failure in the FTAA negotiations. This approach should be considered by APEC economies if they decide to proceed with the FTAAP.

3.2.2.4 FTAAP above Pros and Cons

The proposal for a regional free trade agreement is the oldest idea for promoting mutual beneficial Asia-Pacific regional cooperation. Japanese economist Kiyoshi Kojima is usually credited with first Pacific Free Trade Agreement proposal in 1966, and, while that proposal was clearly premature and unrealistic, it enhanced awareness of regional interdependencies and potentials for increased benefit through cooperation, and eventually led to the establishment of both the Pacific Economic Cooperation Council (PECC) and to the APEC process.

In more recent times, American economist C. Fred Bergsten has been the foremost advocate of a Free Trade Agreement of Asia-Pacific. His paper, prepared as part of this study, provides a most comprehensive and forceful statement in favor of an FTAAP. In Dr. Bergsten's view, if the FTAAP could be realized, it would provide the largest single liberalization in history. Moreover, its benefits would extend beyond the APEC economies because it would effectively force the Europeans to sit up and take notice, probably restarting the WTO's multilateral trade negotiations. Even if it did not, it is the best "Plan B" available, since its own benefits would be so great. It would also sweep up the extending smaller PTAs with their proliferation of unwieldy rules of origins into a larger framework, thus dampening the "noodle bowl" effect. It would also prevent competitive liberalizations in the Americas and Asia, which Dr. Bergsten believes threaten to "draw a line down the Pacific."

Table 3.4 Trade Among APEC Economies 2000 - 2002

Region	Percentage of Total Trade Conducted with:					
	East Asia	Western Pacific	USA	NAFTA	APEC	South America
Northeast Asia	49	52	20	22	74	1
as a part Japan	41	44	25	27	73	2
Southeast Asia	55	58	16	17	73	1
Australasia	45	52	15	16	70	1
NAFTA	24	25		46	72	4
as a part USA	31	32		32	65	4
Chile and Peru	23	24	20	26	49	23

Source: Preliminary Assessment of the Proposal for FTAAP, ABAC, 2004 derived from www.abaonline.org

The FTAAP would provide a framework for the United States and China to head off trade tensions and revitalize APEC. Dr. Bergsten believes that because the economic logic of the FTAAP is so compelling, it is also politically feasible, although he acknowledges the difficulty of getting governments to recognize their longer-term interests and overcome protectionist pressures.

Table 3.5. ABAC's estimates of welfare effects of various FTAs in the region
(US\$ (1997) millions)

	ASEAN-China	ASEAN-Japan	ASEAN Plus 3 FTA	FTAAP	APEC MFN	Global MFN
Australia	-118.7	-234.9	-690	1744.8	939.9	1742.2
New Zealand	-22	-49.9	-134.8	682.4	296.8	2240.7
China	209.5	-861.5	514.1	3275.1	1856.6	5180
Hong Kong	-267.1	-218.6	-122.6	3038.7	2428.6	3272.7
Japan	-1628.5	528.1	6612.4	14931.7	12437.4	14578.4
Korea	-491.3	-706.9	5028.2	5658.1	4885.2	7764.8
Chinese Taipei	-429.3	-477.9	-2011.8	3100	2961.8	3091.3
Indonesia	461	842.2	2403	2658.5	2123.1	2750.4
Malaysia	1128	504.9	805.9	771.6	515.5	1305.9
Philippines	205.1	154.7	61.3	86.8	218.2	36.2
Singapore	2688.6	1974.1	2438.6	1933	1569.4	2585.5
Thailand	691.7	2983.2	2933.8	2497.1	1908.9	2963.3
Viet Nam	429.8	877.8	1092.5	1278.8	489.9	1646.1
Canada	0.1	-25	-62.4	111.4	570.5	1771
US	-1166.3	-2035.9	-4266.3	1189.4	-6390.8	-569.2
Mexico	3.8	29.3	59.4	-317.9	-593.1	-484.8
Rest of South America	17.7	62	-354	-1766.1	2652.9	2815.3
Columbia	8.4	-2.2	-50.8	-247	349.5	341.2
Peru	-61	-15.8	-88.2	66.1	-83.1	1602.9

(Continue from table 3.5)

Venezuela	17.4	6.8	-0.8	-73.4	122.2	646.7
Argentina	-75.3	-32.7	-195.6	-527.9	221.2	3145.3
Brazil	-219.3	-145.6	-591.3	-1978	2075.2	6067.7
Chile	4	-52.8	-118.9	310	74.3	621
Uruguay	-3.7	-1.8	-17.7	-37.9	29	770.9
Europe	-1255.3	-2055.9	-3282.5	-9178.3	4505.7	-1450.6
ROW	-155	-758	-2356.6	-6483.1	2855.7	23384.5

Aggregations						
18 APEC Economies	1637.1	3188.2	13355	44015.7	25762.7	52025.8
Northeast Asia-5	-2606.8	-1736.9	8921.2	30003.6	24559.6	33887.1
Southeast Asia-6	5604	7310	9735.1	9225.8	6388.7	11214.9
Australasia	-140.7	-284.7	-824.8	2427.2	1236.7	3982.9
North America-3	-1162.5	-2031.6	-4269.3	1983	-6413.4	717
Non-APEC	-1628.7	-2989.5	-6495.2	-18455.6	10158.5	32905.7

Source: Preliminary Assessment of the Proposal for FTAAP, ABAC, 2004 derived from www.abaonline.org

Table 3.6 FTAAP Implementation Plan Illustration

Policy Direction

Section	Downpayment at stage I	Downpayment at stage I
Bound Tariffs	The simple average bound tariff rate and import-weighted average bound tariff rate are 19.45% and 9.59% in 2001, respectively down from 27.6% and 15.4% in 1996, respectively	In 2005, tariffs will be held at those levels until 1 January 2010, when tariffs on apparel and certain finished textile articles will be further reduced to 10%
Applied Tariffs	Simple average applied rate and import-weighted average applied rate are 13.66% and 8.33% in 2002 respectively, lowered from 15.4% and 10.9% in 1996	
Tariff Quotas	Only 0.1% of tariff lines are subject to a tariff quota	Future dairy product import arrangements will be considered in the context of WTO Agriculture negotiations
Tariffs Preferences	GSP tariff rates will be reduced by 30%	

Sectoral Liberalization Plan

Product Category	Current Rate	Improvement at Stage I	Plan for Stage II
All Products	10.00%	7%	5%
Agriculture including fish	50%		
Fish and fish products	40%		
Petroleum Oils	5%	4%	3%
Wood, Pulp, Paper & Furniture	3%	3%	3%
Textiles & Clothing	12%		10%

(Continue from table 3.6)

Leather, Rubber, Footware, and Travel Goods	10%	10%	
Metals	4%	2%	
Chemical & Photographic Supplies	2%	0%	0%
Transport Equipment	3%	3%	3%
Non-Electric Machinery	3%	3%	3%
Electric Machinery	3%	3%	3%
Mineral Products, Precious Stones & Metals	5%		5%
Manufactured Articles, n.e.s	9%	7%	5%

Source: Quoted from Han (2005)

Some of the other papers in this volume critique Bergsten's FTAAP proposal. Most of the study team are skeptical of the political feasibility of the FTAAP concept. The most direct and comprehensive rebuttal to the proposal comes from American political scientist, Vinod Aggarwal. Based on an analysis of the American political economy, Dr. Aggarwal argues that the FTAAP is neither politically feasible nor desirable. In his view, selective liberalization through sector and bilateral trade agreements has rewarded freer trade interests, but left trade policy dominated by protectionist interests. Thus the free trade coalition needed to push an FTAAP through Congress is not there. Moreover, the politically charged massive trade deficit with China makes any FTA effectively "dead on arrival" in Congress. Dr. Aggarwal also argues that APEC does not have the institutional basis to negotiate an accord and dismisses the FTAAP as a good "Plan B," noting that it would not accomplish the agricultural and industrial market objectives the U.S. is seeking through the Doha Round.

3.3 APEC's Analysis

APEC has consolidated as the leading Trans Pacific institution. The APEC summit is now one of the world's most important Head of Government conclaves and is used to review global issues of concern to APEC countries. APEC has natural role to support the countries in the region to manage the impacts of growth and maintain global competitiveness.

3.3.1 APEC's Success

As quotation at the chapter 1 which said that "commentators in many APEC economies regard APEC as dead". Yet the larger number of APEC meeting held every year and the amount of resources APEC host governments devote to holding the annual Summit and other APEC meetings and in all of that meeting shows APEC is busy.

APEC produces effective result on contemporary issues. APEC was able to provide collective political guidance to global financial institutions following the Asian currency crisis. The work it generated on measures required to enhance the security of trade following September 11 was impressive. At a practical level, APEC is doing some valuable work, such as on how to create social security safety nets, improving the competitive environment for telecommunications.

APEC's capacity to respond quickly to contemporary development is unusual for international organizations. Is because of, first, it is guided by a Head of Government annual meeting. It is capable of adopting new strategies for any issue that attracts Head of Government interest. Second, APEC's own bureaucratic administrative structure (in the secretariat) is very slight by global standards. There is no large bureaucracy to smother and weigh down proposals with layers of approval and review.

3.3.2 APEC's Failures

The most obvious failures are on the issue in which APEC's colors were first nailed to the international mast --- trade liberalization. APEC was formed in 1988 out of apprehension that trade blocs were emerging in Europe (the EC Single Market) and North America (NAFTA). East Asia was not then in position to contemplate its own regional trade community. So espousal of a political commitment to open regionalism was the response.

This was hailed as sophisticated public policy --- no discriminatory free trade agreements in East Asia, instead APEC supported liberal economic arrangements that encouraged unilateral liberalization. The policy solution was

effective but, in truth, APEC was not capable doing more than entering a political commitment like that at that time. It was ultimately given the most powerful endorsement available. Through the APEC Leaders' Summit in Bogor, President Soeharto managed adoption of a declaration that APEC economies would remove all barriers to trade and investment by 2020. This was and still is a significant policy goal. It still shapes policy in the region. It is a reasonable target.

Under the ECOTECH heading, numerous programs to produce dubious results have been funded. In this respect, APEC has performed below the standard of most international organizations. Programs have overlapped, served contrary goals and have basically produced paper. This has irritated officials, but the concern has not really spilt into the public realm.

AELM declared at the Mexico Summit in 2002 that the WTO meeting at Cancun in October 2003 had to be successful. It was not. Key APEC economies sided actively with the developing countries that brought the Cancun meeting to its knees for trite reasons. APEC Leaders' met again a month later in Bangkok. They lamented the failure at Cancun as if it was remote from what some of their own representatives had done in Mexico. The true value of APEC on trade liberalization has been the political value of the Bogor Goals in guiding policy of APEC members (Oxley, 2005).

3.4 Evaluation of APEC Trade Liberalization Performance

Although it is not easy to evaluate APEC efforts, we can make a rough estimate by analyzing APEC trade liberalization performance through the Information Technology Agreement (ITA), Regional Trade Agreements (RTAs), Early Voluntary Sectoral Liberalization (EVSL), and the Individual Action Plans (IAPs). But for this section the author only emphasis to analysis RTAs in APEC.

3.4.1 Regional Trade Agreements (RTAs) in APEC

There has been a proliferation of preferential region trading arrangements elsewhere in the global economy since the early 1990s. Regionalism is one of the most dominant trends in the world economy today. There were only 26 new (RTAs) reported to GATT prior to 1969 (Lee, 2001). in the middle 1990s APEC economies focused on the non-preferential approach to regional trade liberalization embodied in APEC's version of the concept of open regionalism,

because of that then the number of RTAs exploded in the 1990s. 47 additional RTAs were signed during the period 1990-1995, and 85 agreements were reached after 1995. This demonstrates that rather than simply being a type of insurance policy taken against potential shortcomings of multilateral free trade formation, regionalism is seen as a viable commercial strategy that complements multilateral trade agreements. Yunling and Drysdale noted that APEC economies have shown a sharp rise in interest in new sub regional and bilateral trading arrangements since 1999 (Yunling & Drysdale, 2001). They emphasized that initiatives for establishing trading blocs go beyond trade liberalization by promoting a range of other initiatives such as trade facilitation, the improvement of transparency in trading rules, mutual recognition of standards, etc. There are three features of this process are particularly noteworthy. First, the numbers of economies that have historically stood aside from this process and refused to consider any regional trade alternatives to the GATT/WTO are now initiating FTA negotiations/discussions. Second, the first moves are now being made to link existing FTAs and existing customs unions. Third, membership of existing FTAs and existing customs unions continues to expand (Groser, 2000).

APEC member economies have been active in including RTAs. Table-4, shows that with a few exceptions, namely China, Hong Kong, Chinese Taipei and Russia, APEC member economies currently belong to one or more sub-regional trading blocs. Moreover, most of them are in the process of establishing formal links with other blocs within and across continents. RTAs have contributed the development of the WTO as well as APEC through progressive trade liberalization. In particular, RTAs go beyond commodity trade to include services trade, FDI and other areas pertaining to policy reforms. They can be designed to be open to bringing in new members or linking up with other RTAs.

Table 3.7 RTAs Within APEC

APEC Member Economy	Sub Regional Integration Arrangement
Australia	CER, PATCRA, SPARTECA
Brunei Darussalam	AFTA
Canada	NAFTA
Chile	MERCOSUR, GSTP, LAIA
China	Bangkok Agreement
Hong Kong, China	
Indonesia	AFTA, GSTP
Japan	
Korea	Bangkok Agreement, GSTP
Malaysia	AFTA, GSTP
Mexico	NAFTA, GSTP, LAIA
New Zealand	CER, SPARTECA
Papua New Guinea	SPARTECA, PATCRA
Peru	CAN, GSTP, LAIA
Philippines	AFTA
Russia	CIS, EAEC
Singapore	AFTA, GSTP
Taiwan	
Thailand	AFTA, GSTP
USA	NAFTA
Vietnam	AFTA

Note:

AFTA (ASEAN Free Trade Area), CAN (Andean Community),
 CER (Closer Trade Relations Trade Agreement), CIS (Commonwealth of Independent States),
 EAEC (Eurasian Economic Community)
 GSTP (General System of Trade Preferences among Developing Countries)
 LAIA (Latin American Integration Association), NAFTA (North American Free Trade Agreement)
 MERCOSUR (Southern Common Market)
 PATCRA (Agreement of Trade and Commercial Relations between the Government of Australia and the Government of Papua New Guinea)
 SPARTECA (South Pacific Regional Trade and Economic Cooperation Agreement)

Source: APEC (2007), 2007 APEC Economic Outlook, www.apec.org

APEC Economic Leaders Meeting has been increasing recognition to the important role in Regional Trading Agreements (RTAs) and Free Trade Agreements (FTAs) can play in trade liberalization in the APEC region. In November 2005, APEC Leaders declared the promotion of high quality RTAs and FTAs as an element of the Busan Roadmap towards the Bogor Goals. Leaders committed APEC to developing model measures for as many commonly accepted FTA chapters as possible by 2008.

Table 3.8 FTAs/RTAs in the APEC Region

APEC Members Economy	Existing RTAs	Under Negotiation	Under Discussion
Australia	New Zealand, Papua New Guinea, Singapore, Thailand, USA	Brunei Darussalam, China, Indonesia, Malaysia, Philippines, Vietnam	Japan
Brunei darussalam	Chile, China, Indonesia, Malaysia, New Zealand, Philippines, Singapore, Thailand, Vietnam	Australia, Japan, Korea	
Canada	Chile, Mexico, USA	Korea, Peru, Singapore	Japan
Chile	Brunei Darussalam, Canada, China, Korea, Mexico, New Zealand, Peru, Singapore, USA	Japan	Thailand
China	Brunei Darussalam, Chile, Hongkong (China), Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam	Australia, New Zealand	
Hong kong, China	China	New Zealand	
Indonesia	Brunei Darussalam, China, Malaysia, Philippines, Singapore, Thailand, Vietnam	Australia, Japan, Korea, New Zealand	
Japan	Mexico, Singapore	Brunei Darussalam, Chile, Indonesia, Korea, Malaysia, Philippines, Thailand, Vietnam	Australia, Canada
Korea	Chile, Singapore	Brunei Darussalam, Canada, Indonesia, Japan, Malaysia, Philippines, Thailand, USA, Vietnam	
Malaysia	Brunei Darussalam, China, Indonesia, Philippines, Singapore, Thailand, Vietnam	Australia, Japan, Korea, New Zealand, USA	
Mexico	Canada, Chile, Japan, Peru, USA	Singapore	
New zealand	Australia, Brunei Darussalam, Chile, Singapore, Thailand	China, Hongkong (China), Indonesia, Malaysia, Philippines, Vietnam	
Papua new guinea	Australia		
Peru	Chile, Mexico	Canada, Singapore, USA	
Philippines	Brunei Darussalam, China, Indonesia, Malaysia, Singapore, Thailand, Vietnam	Australia, Japan, Korea, New Zealand	
Russia			
Singapore	Australia, Brunei Darussalam, Chile, China, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Thailand, USA, Vietnam	Canada, Mexico, Peru	
Chinese Taipei			
Thailand	Australia, Brunei Darussalam, China, Indonesia, Malaysia, New Zealand, Philippines, Singapore, Vietnam	Chile, Japan, Korea, USA	
Usa	Australia, Canada, Chile, Mexico, Peru, Singapore	Korea, Malaysia, Thailand	
Vietnam	Brunei Darussalam, China, Indonesia, Malaysia, Singapore, Thailand, Philippines	Australia, Japan, Korea, New Zealand	

Source: derived from http://www.apec.org/webapps/fta_rta_information.htm (changed by author)

3.5 APEC and the WTO

APEC and the WTO have played leading roles with regards to trade liberalization. The WTO is the only organization to promote trade liberalization on the multilateral level. APEC, on the other hand is the most important regional trade arrangement from amongst more than one hundred such institutions on the basis of its membership and economic significance. Most of the world major states, with the exception of the EU, are APEC members with a total trade equivalent to half of the entire globe. However, despite the fact that the two institutions share the common objective of trade liberalization, they are totally different. The WTO can be regarded as a locus of negotiations and rule-making whereas APEC functions as a consultative body.

Recently, however, the two institutions have begun to explore new forms of cooperation. For example, at the Information Technology Agreement (ITA) negotiations, the WTO asked APEC to conclude an agreement in order to facilitate a consensus. Moreover, when Early Voluntary Sectoral Liberalization (EVSL) consultations in APEC failed to reach a conclusion, APEC called on the WTO to take over the reins in order to maintain the momentum of the liberalization negotiation.

3.5.1 APEC Attitude toward the WTO

APEC is the only regional trading arrangement that has always included support for the multilateral trading system in the front rank of its objectives. This strong tradition, going back to APEC's origin in the early days of discussion APEC within the Pacific Economic Cooperation Council (PECC) and elsewhere, was brought to account at crucial points in the Uruguay Round negotiations.

APEC declaration and statement repeatedly recognize the superiority of the GATT/WTO system and emphasize that regional liberalization should be implemented in accordance with the framework of the GATT/WTO. Before 1993, APEC was merely encouraging multilateral trade negotiation. However, in recent years it has shifted to the actual implementation of trade liberalization. After the conclusion of the Uruguay Round, the nature of APEC appears to have slightly changed from a conference body to an executing institution mainly as a result of

the United States' insistence of the necessity for stricter rules. From 1994 – 1995, APEC recognized the primacy of the WTO and the need to strengthen the multilateral trading system in conformity with GATT/WTO provisions. This means that APEC placed itself under the WTO system.

"APEC economies will take the lead in strengthening the open multilateral trading system and enhancing global liberalization momentum by participating actively and positively in multilateral negotiation and exploring the possibility of taking joint initiatives under the WTO, including initiatives for the first WTO Ministerial Meeting in Singapore. APEC economies will take fully into account the outcome of such multilateral activities" (APEC, 1995b).

After 1996, the development of APEC again changed direction as it pursued a partnership with the WTO and called for cooperation on trade liberalization at the regional and multilateral levels. At this stage, APEC appeared self confident and, as the implementing body of regional trade framework, was keen to emphasize its differences from the WTO.

"APEC's voluntary framework and the WTO's legal one can mutually reinforce liberalization and the process of analysis and consensus building in one forum can contribute to progressing negotiations in the other." (APEC, 1996)

"Ministers agreed to work to ensure that regional and multilateral trade and investment initiatives complement and support each other." (APEC, 1997)

The concept of open regionalism reflects the support from APEC for WTO in global trading system. The achievement of the Bogor Goals can directly feed into supporting the Doha Development Round and longer term progressive trade liberalization under WTO.

CHAPTER 4

RESEARCH DESIGN

As mentioned by Tollison, (1991) that the interest in state theory that swept academic circles following the Miliband-Poulantzas debate waned considerably in the late-1980s and 1990s so that much of the last decade was notable for the impoverishment of state theory. The central theme in these eulogies was that nation-states had lost control of their national economies, currencies, territorial boundaries, and even their cultures and languages and that macroscopic forms of power were shifting from the nation-state to the global market, transnational corporations, and globalized channels of communication. However, a number of theorists are reexamining the relationship globalization theory and state theory to argue that nation-states as the principal agents of globalization as well as the guarantors of the political and material conditions necessary for global capital accumulation.

As a generalized idea about how the organized "few" win favors from government at the expense of the unorganized "many," the interest-group theory of regulation and government has been in the literature of economics and political science for a long time (Posner 1974). Olson (1965) first explored the important question of how interest groups overcome free riding behavior with respect to the "public good" provided by lobbying in order to organize for collective action. In a study of economic regulation Stigler (1971) later showed how to formalize the interest-group approach and, more importantly, how to test empirically propositions derived from such a theory. Moreover, the interest-group theory stresses the costs and benefits of organization and lobbying.

The objectives of this research is to choose the most important strategies related to their goals of four main economic players (government, entrepreneur academician and NGO), but in this case the research is only tried to compare best strategies from two dimension (government and entrepreneur), academician and NGO's judgment are given by looking toward for two objective which is "*his preferences from government side*" and "*his preferences from entrepreneur side*". In addition, the study tried to show the interaction between government and

interest group judgments. Some academicians according to Robert and Malone (1996) perceive a threat to intellectual freedom and worry that value systems may change through increased exposure to commercial practices. Thus, in this study the objectives can be fulfilled proportionally.

4.1 Methodology

In this study game theory will be used combined with Analytical Hierarchy Process (AHP). Game theory has been accepted widely as the best tool for interactive decision making, while AHP (Saaty, 1982) on the other hand has been accepted also as the best tool in interpreting qualitative decisions into quantitative scores, which is the basic requirement for game theory.

In this study the policies priorities selection be done through *The Analytical Hierarchy Process (AHP)* by determining some criteria and alternatives strategies related to the goals based on expert perceptions by fulfill the questionnaire. Study and analyzes had been done in a partial which comprise governments strategies and priorities of entrepreneurs strategies to find out the most important purposes for APEC related to "*Gains from Trade and Investment Liberalization on Asia Pacific Region*" and the most important purposes for entrepreneurs related to "*Optimize Action for Advancing Free and Open Trade on Asia Pacific*". Therefore, in this research there are two analyzes of AHP that are government preference and entrepreneur preference. In these matters, academicians's preferences are used to strengthen some of purposes from both of parties.

AHP is design to solve complex and multiple-criteria problems based on the innate human ability to make judgment about some problems or issues. It facilitates decision making by organizing perception, feelings, judgments, and memories into a framework that exhibits the forces that influence a decision. The process requires decision-maker to give judgment about the relative importance of each criterion and then specify in preference on each criterion for each decision alternative strategy. The output of AHP is a prioritized ranking indicating the overall preference for each decision alternatives. In this research, the prioritized

ranking is considered as the pay-off of the game theory which can be translated as:

“How much (level of preference) of the decision maker (player) will get when he or she choose that particular strategy considering other player’s decision” (Said, 2007).

In AHP a problem is structured as a hierarchy. Once the hierarchy has been constructed, the decision-maker begins the prioritization procedure to determine the relative importance of the elements in each level. Prioritization involves eliciting judgments in response to questions about the dominance of one element over another.

The scale used for comparisons the AHP enables the decision-maker to incorporate experience and knowledge intuitively and indicate how many times an element dominates another with respect to the criterion. The decisions maker can express his preference between each pair of elements verbally as *equally important, moderately more important, strongly more important, very strongly more important and extremely more important*. These descriptive preferences would be translated into numerical values 1,3,5,7,9 respectively with 2,4,6, and 8 as intermediate values of comparisons between two successive qualitative judgments. Reciprocals of these values are used for the corresponding transposed judgments.

Finally, all the comparisons are synthesized to rank the alternatives. The output of AHP is a prioritized ranking of decisions alternatives based on overall preferences expressed by the decisions maker. Sensitivity analysis is used to investigate the impact of changing the priorities of the criteria on the final outcome.

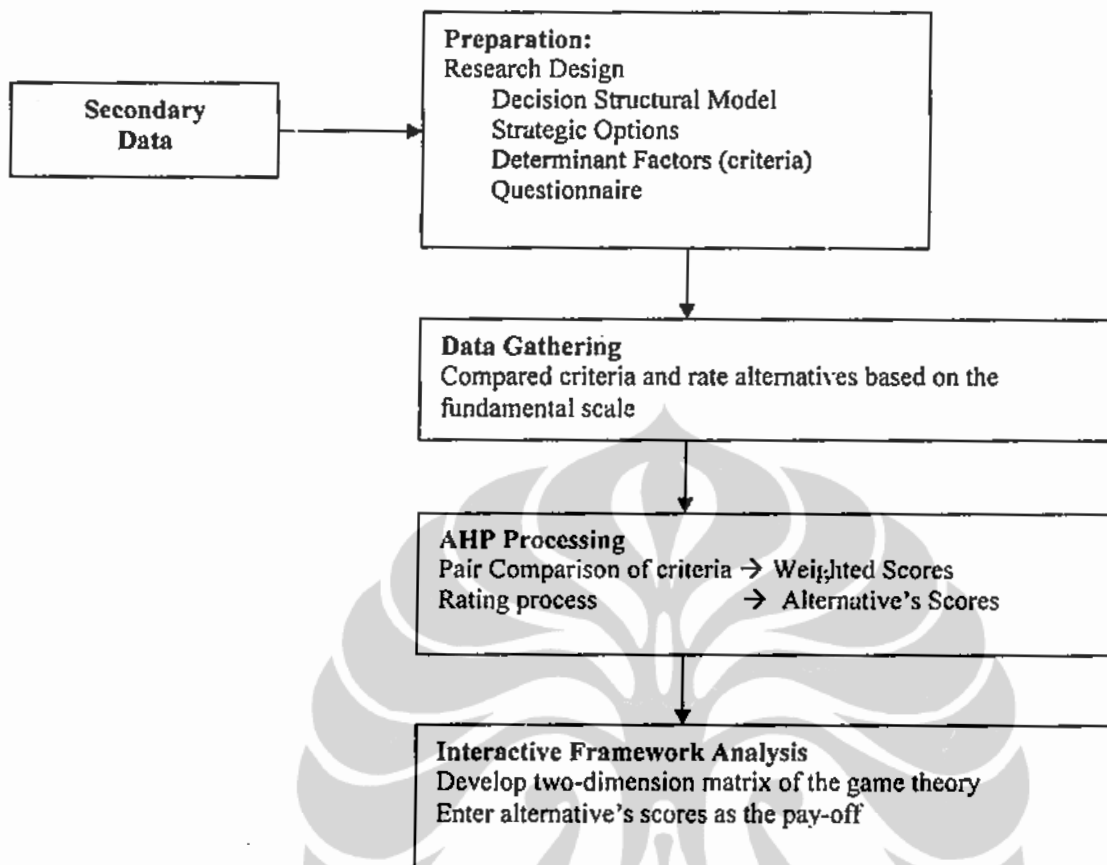


Figure 4.1. Research Stages

4.2 Research Stages

The research's stages are illustrated in figure 4.1. Respondents filled questionnaire to express their options and preferences. Kinds of question have guided them in comparing criteria used to select strategy for reaching each of goals from both parties, and in rating the strategic alternatives against an intensity scale.

4.3 Application of the AHP

4.3.1 Structuring the Hierarchy

Hierarchy is the most important from AHP model, because it is the basic tool from human thought for giving judgments. Begin with hierarchy, complex systems could be most available to understand because it is divided to some elements. Then, from global element into more specific and arrange it as hierarchy.

To develop the structure of AHP, the author is based on Thomas J. Saaty, which followed steps:

- a. Identify overall objective or goal from some literacy and empirical research, books, browsing and others through done a simple problem then defined the overall objective, examined problem as part of several problems under an overall goal, and forced a framework.
- b. Identify criteria to satisfy a goal by looking some examples
- c. Identify, where appropriate, sub-criteria under each criterion
- d. Identify alternatives to be evaluated in terms of sub-criteria
- e. Identify a level of factors above for the evaluation
- f. Formulate written questions for the expert.

4.3.2 Decision Structural Model

4.3.2.1 Determinant Factors

Before selecting any alternatives normally the decisions-maker weights first the impact. The impact influences what criteria will be applied in making decisions, indeed in some cases, that impact is used directly as a criterion. It is followed:

a. Government

For government the issue is *"what are the most important purposes for APEC related to gains from trade and investment liberalization on Asia Pacific region"*. It corresponds to the government's responsibility to the society (Starling, 1998). In choosing alternatives to increasing economic development, government considers three potential impact, they are: **increasing economic gains, poverty reduction and political gains**. *Increasing economic gains* is as known that closer integration of economies is seen as a first step in creating a larger regional market for trade and investment. This works as a spur to greater efficiency, productivity gain and competitiveness, not just by lowering border barriers, but by reducing other costs and risk of trade and investment, and government is the main actor to fulfill these roles. If country could increase their economic, it will give impact to increasing welfare, in other words it will *reduce the poverty* within country.

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Political gains are considered with Starling (1998) that government can not ignore the political environment of any decisions. However, government's interest in political image, underscored by Justman and Teubal (1996) should not be overemphasized but should be searched its balance with other objectives. For the relation among strategies with criteria and Goals are followed:

- ***Moving toward the Bogor Goals***, based on AELM results at the second summit in Bogor, Indonesia, in 1994. Economic Leaders recognized that the diverse economies are becoming more interdependent and are moving toward a community of Asia-Pacific economies. They agreed on the commitments to achieve the goal of free and open trade and investment in the Asia-Pacific region no later than 2020. The pace of implementation will take into account differing levels of economic development among APEC economies, with the industrialized economies achieving the goal of free and open trade and investment no later than 2010 and developing economies no later than 2020. Further it is known as Bogor Declaration or Bogor Goals. The declaration gave a sharp focus to the vision of regional economic cooperation that had driven APEC's economies emerging trade and investment work program. It reflected the basic principles of APEC cooperation: voluntary participation, comprehensiveness, mutual respect and consensus-based decision making. In adopting the Bogor Goals, APEC Leaders made two key commitments: *first*, is free and open trade and investment in the Asia-Pacific. *Second* is trade and investment facilitation further promotes the flow of goods, services, and capital among APEC economies. Its also emphasized with 14th AELM Meeting on 2006, held at Hanoi, Vietnam, known as Hanoi Declaration:

".....In this regard, we emphasized the importance of measures aimed at reducing business transaction costs and building a more secure and favorable business environment. We highlighted numerous steps taken this year to carry forward the Busan Business Agenda of the Busan Roadmap...."

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That is why; “*Gains from Trade and Investment Liberalization on Asia Pacific Region*” become the goal for APEC’s interest and strategies and “Moving Toward the Bogor Goal” become first strategies to achieving the goal.

- *Waiting for Doha Round Progressing (as Plan-A)*, as based on the previous chapter about APEC and the WTO. APEC and the WTO have played leading roles with regards to trade liberalization. The WTO is the only organization to promote trade liberalization on the multilateral level. APEC, on the other hand is the most important regional trade arrangement from amongst more than one hundred such institutions on the basis of its membership and economic significance. Most of the world major states, with the exception of the EU, are APEC members with a total trade equivalent to half of the entire globe. In November 2001 declaration of the Fourth Ministerial Conference in Doha, Qatar, provides the mandate for negotiations on a range of subjects and other work. The negotiations include those on agriculture and services, which began in early 2000. In Doha this important question was handled in two ways. Ministers agreed to adopt around 50 decisions clarifying the obligations of developing country member governments with respect to issues including agriculture, subsidies, textiles and clothing, technical barriers to trade, trade-related investment measures and rules of origin. Agreement on these points required hard bargaining between negotiators over the course of nearly three years. In Doha, Ministers also approved a linked decision on implementation — problems developing countries face in implementing the current WTO agreements. The concept of open regionalism reflects the support from APEC for WTO in global trading system. The achievement of the Bogor Goals can directly feed into supporting the Doha Development Round and longer term progressive trade liberalization under WTO.

- **Feasibility of FTAAP (as Plan-B)**, for government these strategy is based on 14th AELM meeting at Hanoi, Vietnam:

"...We shared the APEC Business Advisory Council's (ABAC) views that while there are practical difficulties in negotiating a Free Trade Area of the Asia-Pacific at this time, it would nonetheless be timely for APEC to seriously consider more effective avenues towards trade and investment liberalization in the Asia-Pacific region. Therefore, while affirming our commitments to the Bogor Goals and the successful conclusion of the WTO/DDA negotiations, we instructed Officials to undertake further studies on ways and means to promote regional economic integration, including a Free Trade Area of the Asia-Pacific as a long-term prospect, and report to the 2007 APEC Economic Leaders' Meeting in Australia.."

The proposal was proposed by ABAC. ABAC recommended that APEC to undertake a study on the feasibility of a Free Trade Area of the Asia-Pacific (FTAAP). According to the ABAC members, the FTAAP as an option to advance the trade liberalization agenda within APEC and as a possible fallback plan should the Doha Development Agenda negotiations fail.

- **Do Nothing**, became one of the option of alternatives strategy based on human thinking that current implemented of strategy for government policies is already feel enough to bang-up either party related to reaching the goals, so that government does not necessary to making some changing for strategy or policy.

b. Entrepreneur

The concept of "*Optimize Action for Advancing Free and Open Trade on Asia Pacific*" is representing an effort to achieve the benefit of regional liberalization such a greater participation to contribute income, employment and overall economic growth, moreover, to alleviate poverty. The report

highlights the fact that while gains have been achieved from reductions in tariffs, and then the challenges of growth through accessing the international market. Some of report provides policy maker involved in the development of private sector with some evidence on the many challenges and diverse conditions, particularly in the context of a competitive global market access. It is considered with ABAC final report to the Leaders' in 2006 at Hanoi, Vietnam.

"....ABAC endorses an integrated approach by APEC to structural reform and notes that measures to encourage financial market liberalization complement structural reform. Measures it recommends elsewhere in this report to ameliorate the impact of adverse capital flows, on policies relating to health costs and pensions in ageing societies, on the promotion of regional bond markets, and measures to liberalize investment are interconnected and will contribute to market openness, competition and to the capacity of economies to withstand financial shocks...."

According to Stigler (1971) "the interest-group theory stresses the costs and benefits of organization and lobbying". Entrepreneur is known as one of interest group. Its mean that there is some interests for entrepreneur for some particular gains. In choosing alternatives to increasing economic development, entrepreneur considers three potential impact, they are: *improving income, enhancing efficiency and international market access*. Considering that most of firms focus their objectives on profitable, the author's put *improving income* as the first criteria. One of the most available for these options is through reducing cost. Reducing cost is substantial factor to push marketable price, where the lower marketable price is the higher competitive advantages. Efforts to simplify exporting processes in some areas like tariff, non-tariff and regulatory barriers (e.g. custom procedures, mobility of business people, standard and labeling requirements, mutual recognition of professional qualifications, consumer protection and IPR), would alleviate some of the comparative burdens faced by private sectors. Based on previous studies of the

impact of liberalization measures on trade and export, it is reasonable to assume that substantial across-the-board removal of non-tariff measures and implementation of trade facilitation initiatives, which lead to a 5% reduction in transaction cost, could raise APEC's average export growth rate to 6,2% per annum from the current average of 4,7% per annum.⁶ This condition is vis-à-vis with *enhancing efficiency*. Moreover, from an efficiency point of view, private sectors which expose themselves to the more intense competition of global markets acquire new skills, new technology and new marketing techniques. Exporter tends to apply knowledge and technologies faster and more innovatively than non-exporters, thereby enhancing their efficiency and their productivity. *Greater participation by business sector in world trade* would generate increased benefit. With access to a larger market, individual firms are able to reap the advantages of economies of scale, and generate additional revenues. Its means opened the gate of international market access, would become one of private sector purposes in order to optimize action for advancing free and open trade in Asia-Pacific region. For the relation among entrepreneur strategies with criteria and Goals are followed:

- *Waiting for Doha Round Progressing (as Plan-A)*, for entrepreneur, Doha Round, is so critical to maintaining economic growth and promoting development. Successful conclusion of the DDA negotiation would have provided a stimulus to world economic growth and extended the benefits of a liberalized trading system to people in developing economies who stand to gain the most from lowered barriers. Further, from ABAC final report (26-001) to APEC Economic Leader 2006, Hanoi, Vietnam:

"...Likely the Rounds that have come before, the DDA is a once in a generation opportunity to make progress on trade liberalization and must end in a positive outcome for the world trading community...."

⁶ Global Trade Reform: Maintaining Momentum, Department of Foreign Affairs and Trade, Australia, 1999.

- **Suggestion and Support for Implementing of FTAAP (as Plan-B)**, failure to conclude the Doha Round means that governments have missed an historic opportunity to lower barriers to trade in agriculture products, improve non-agriculture market access and trade in services. Entrepreneur, through ABAC, believes that an FTAAP offers the highest degree of achieving such convergence and consolidation. Further, from ABAC final report (26-001) to APEC Economic Leader 2006, Hanoi, Vietnam:

"...Nevertheless, ABAC believes that it would now be timely for APEC to undertake a serious consideration of a more effective process than presently available for achieving its goal of free and open trade in Asia-Pacific region, including combining existing FTAs which could create a roadmap for advancing the FTAAP initiatives..."

- **Suggestion and support looking for any other way (e.g. Bilateral Agreements)**. Trade policy is one of the key components of any effective foreign policy. The establishment of beneficial trade relationships can facilitate domestic growth and industry expansion, while simultaneously promoting the development of an efficient global marketplace. Bilateral free trade agreements offer each country a set of particularized benefits that will, in theory, increase its position as an exporter to the other party, among other things. These benefits generally include reduced tariffs and quotas on key products exported to the other country, which allow exporters to reduce overall costs. Free trade agreements, many of which are bilateral, are arrangements in which countries give each other preferential treatment in trade, such as eliminating tariffs and other barriers on goods. Each country continues its trade policies, such as tariffs with countries outside the FTA. International trade policy at the Institute for International Economics says free trade agreements play an important role in spurring improvements in developing and emerging market countries. "These deals are essentially about provoking domestic reform in the partner countries which will make it easier for them to pursue further liberalization at the multilateral level if they introduce more market-

oriented reforms in their domestic policy. International trade is an area that can be approached either from a grandiose perspective, i.e., multilateral agreements, or from a smaller, more direct approach, i.e., bilateral trade agreements. In other words, by giving support and suggestion for government to increasing bilateral cooperation by its agreements could impact the criteria and toward the goal.

- *No further suggestion*, became one of the option of alternatives strategy based on human thinking that current implemented of strategy for entrepreneur had already satisfied to bang-up private sectors related to reaching the goals, so that entrepreneur does not necessary to making some changing for strategy, in other words is just waiting for previous suggestions which have come up before.

4.3.2.2 Strategic Options

In order to avoid being trapped to a high-complicated model, strategic options are limited to four. Consequently, they should cover the extreme choices. Those four choices are derived based on estimations toward the most important issues for each player toward trade and investment development. It is followed:

Table 4.1. Comparison between Government and Entrepreneur Goal, Criteria and Strategies

Government	Entrepreneur
Goals: GAINS FROM TRADE AND INVESTMENT LIBERALIZATION ON ASIA PACIFIC REGION	Goals: OPTIMIZE ACTION FOR ADVANCING FREE AND OPEN TRADE ON ASIA PACIFIC
<i>Purposes:</i> P1 : Increasing Economic Gains P2 : Poverty Reduction P3 : Political Gains	<i>Purposes:</i> O1 : Improving Income O2 : Enhancing Efficiency O3 : International Market Access
<i>Strategies:</i> G1 : Moving Toward the Bogor Goals G2 : Waiting for Doha Round Progressing (as Plan-A) G3 : Feasibility of FTAAP (as Plan-B) G4 : Do Nothing	<i>Strategies:</i> E1 : Waiting for Doha Round Progressing (as Plan-A) E2 : Suggestion and Support for Implementing of FTAAP (as Plan-B) E3 : Suggestion and Support Looking for Any Other Way (e.g. Bilateral Agreements) E4 : No Further Suggestions

From the table above shown assumed that government perhaps had already or on the right track to reaching any of those four choices and It is also assumed that entrepreneurs perhaps had already or on the track to reaching any of those four choices.

Figure 4.2 Hierarchy of Interest and APEC's Strategies

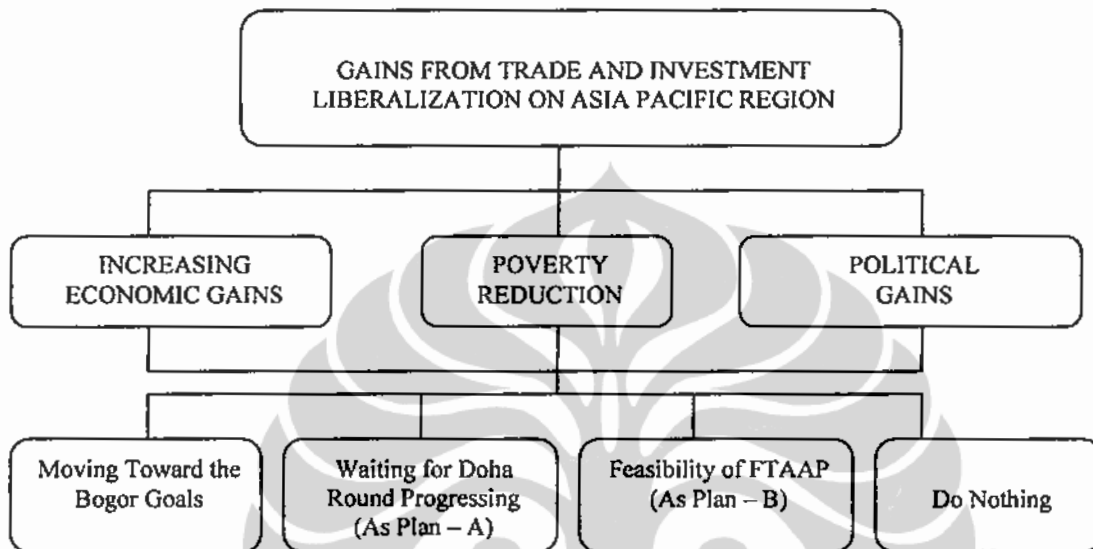
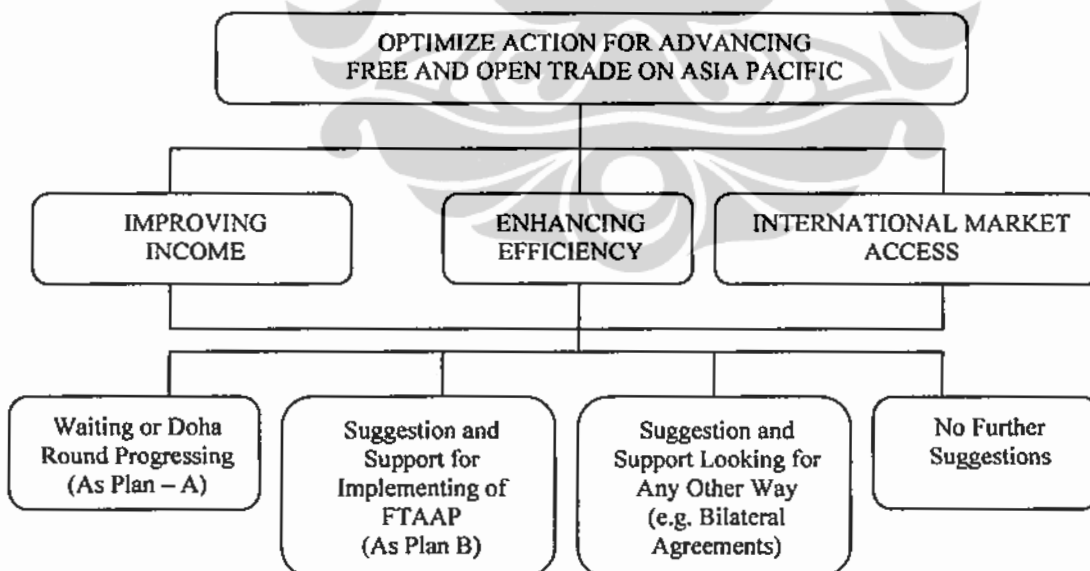


Figure 4.3 Hierarchy of Entrepreneurs Interest and Strategies



4.3.3 Respondents

Population to be studied is composed of three group of respondent: government officer, academicians and business practitioners. A total of 12 questionnaire have been distributed, and all of them are returned with all can be processed. There are 4 government officers, 4 business practitioners and 4 academicians (2 researchers and 2 NGO). For government group, four institutions have been chosen: Dept. Perdagangan (Ministry of Trade), Ministry of Economic Coordinator (Kemenko Perekonomian), Ministry of Law and Human Right (Dept. Hukum dan HAM), Dept. Luar Negeri (Ministry of Foreign Affairs). Opinions from business practitioners are taken from Committee on Investment and International Trade Development – ABAC Indonesia Secretariat, PT. Trans Global Pratama, PT. Marga Cipta Sentosa, PT. Quadra Solutions. Opinions from academicians are taken from LPEM-FE UI, FISIP UI, NFID and Institute of Global Justice.

The questionnaire form in order based on hierarchy structure by compared degrees of comparison within problems (*see appendix*). For the group judgment, according to Saaty, the studies need to use the geometric mean, to combine individual pairwise comparison judgments through this formula:

$$A_w = \sqrt[n]{a_1 x a_2 x a_3 \dots a_n} \quad (4.1)$$

Whereas:

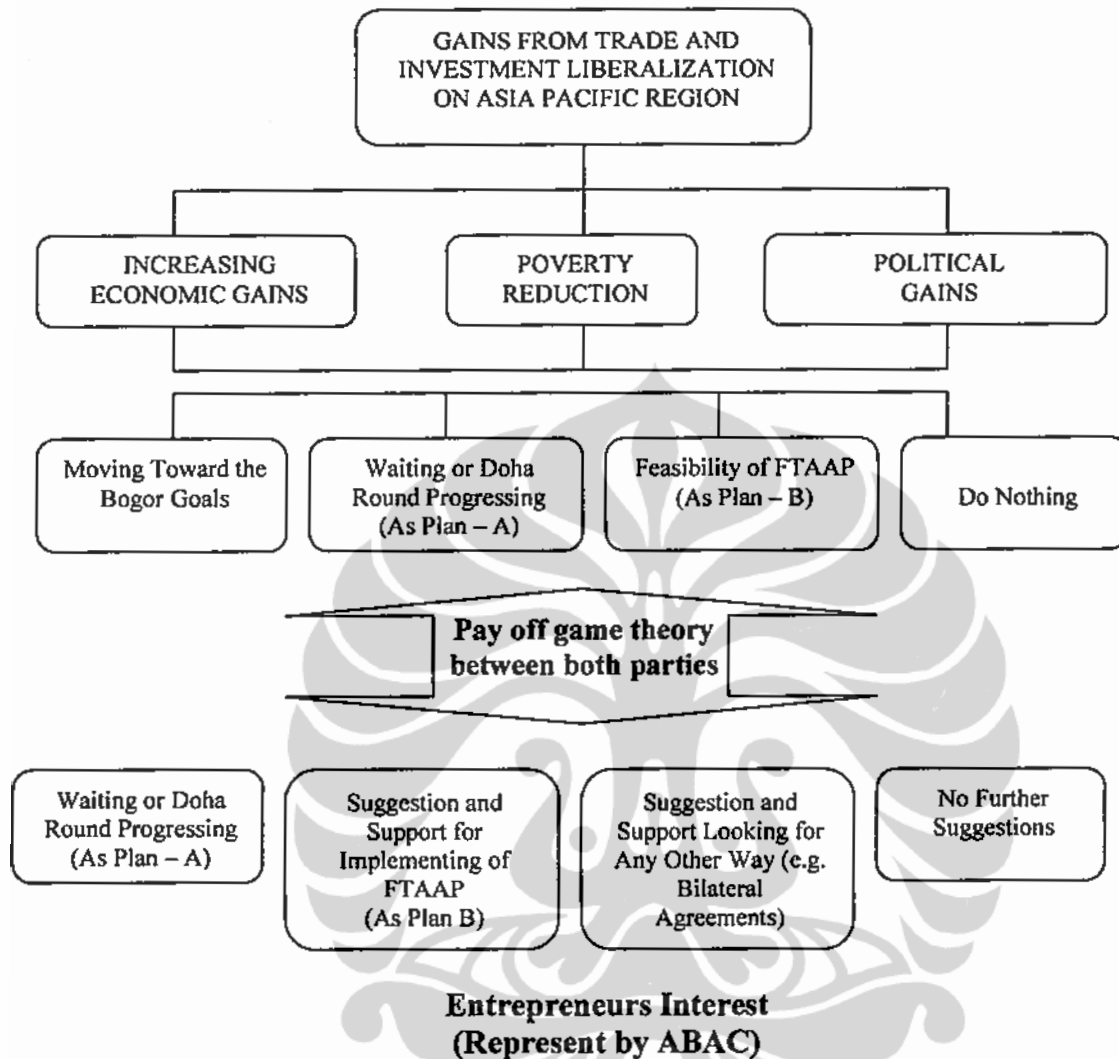
A_w = group judgments

A_i = judgments come from (i) respondent

N = total of respondents

Each respondent performs the entire judging process privately and obtains his own priorities for the alternatives of choice.

Figure 4.4 Decomposition of the Decision Problem



4.3.4 Performing Pairwise Comparisons

After constructing the hierarchy, pairwise comparisons were performed systematically to include all the combinations of goals, criteria and alternatives relationships. The author compared the criteria and alternatives according to their relative importance with respect to the upper level. After performing all pairwise comparisons by the decision-makers, we aggregated individual judgments using the geometric mean as Saaty suggested (Saaty, 1990). The judgments were based upon the gathered information through the questionnaire. The results are then combined by applying the geometric mean. Expert Choice[®] provides various

options for comparing criteria/sub-criteria/tertiary sub-criteria/alternatives: Numerical, verbal and graphical. Numerical options where the decision makers can enter numerical values between 1 and 9; verbal option where semantic terms can be used; and graphical option where the decision makers can make comparisons by contrasting the graphical bars. Millet (1997a) evaluated different comparison modes and found that direct estimation, and numerical pairwise comparison methods are dominated by verbal comparison, graphical pairwise comparisons and graphical multi bars based on perceived ease of use and accuracy criteria.

4.3.4.1 Government Party

First, the author entered the judgments provided through the questionnaire for three major criteria in level 2. For the government *increasing economic gains* is the most important criteria to reached trade and investment liberalization on Asia Pacific region with a **priority of 0.557**. *Poverty reduction* is a major purpose with an importance priority of 0.300. Figure 4.5 shows the pairwise comparison matrix for the criteria from the aspect of APEC interest and strategies.

	Increasing Economic Gains	Poverty Reduction	Political Gains
Increasing Economic Gains	1	2.806	2.583
Poverty Reduction		1	3.167
Political Gains			1

Priorities with respect to:
Goal: Trade & Investment Liberalization

Increasing Economic Gains	.557	
Poverty Reduction	.300	
Political Gains	.143	
Inconsistency = 0.16 with 0 missing judgments.		

Figure 4.5 Comparing criteria preferences and weights of criteria.

Then the author tried to evaluate *increasing economic gains* criteria. For *increasing economic gains* criterion moving towards the Bogor Goals is

considered more important over others alternatives by 0.603 Figure 4.6 shows the judgments obtained and importance matrix for *increasing economic gains*.

	Bogor Goal	Doha Round	FTAAP	Do Nothing
Bogor Goals		4.875	5.125	6.625
Doha Round (Plan-A)			3.292	5.875
FTAAP				4.625
Do Nothing				

Priorities with respect to:
Goal: Trade & Investment Liberalization
>Increasing Economic Gains

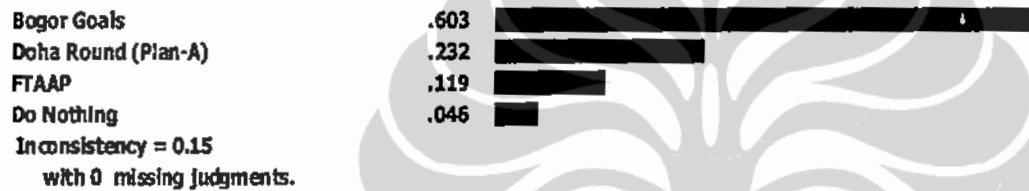


Figure 4.6 Comparing criteria for increasing economic gains

For *poverty reduction* criterion moving towards the Bogor Goals is also considered more important over others alternatives by 0.555 Figure 4.7 shows the judgments obtained and importance matrix for *poverty reduction*.

	Bogor Goal	Doha Round	FTAAP	Do Nothing
Bogor Goals		4.125	3.875	4.375
Doha Round (Plan-A)			2.625	3.0
FTAAP				3.25
Do Nothing				

Priorities with respect to:
Goal: Trade & Investment Liberalization
>Poverty Reduction

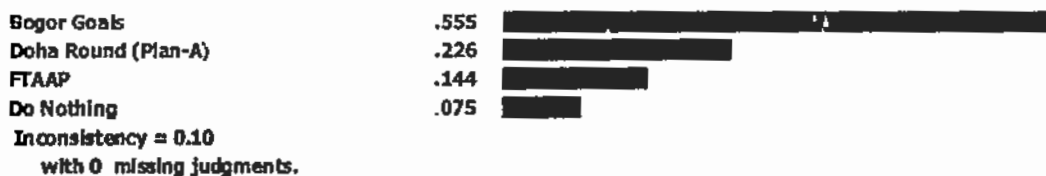


Figure 4.7 Comparing criteria for poverty reduction

For *political gains* criterion moving towards the *Bogor Goals* is again also considered more important over others alternatives by 0.598 Figure 4.8 shows the judgments obtained and importance matrix for *political gains*.

	Bogor Goal	Doha Round	FTAAP	Do Nothing
Bogor Goals		5.188	5.0	4.625
Doha Round (Plan-A)			3.6	3.625
FTAAP				2.875
Do Nothing				

Priorities with respect to:
Goal: Trade & Investment Liberalization
>Political Gains

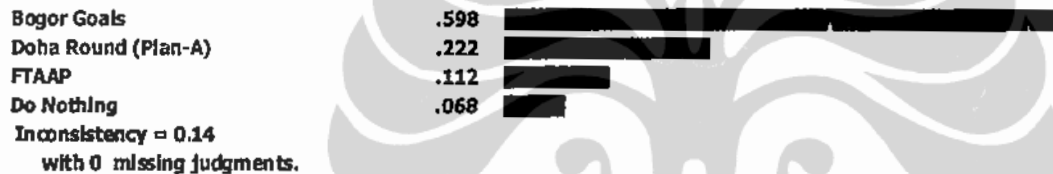


Figure 4.8 Comparing criteria for political gains

From the figures 4.5 until 4.8, we can summarize the inconsistency, which follows:

Table 4.2. Inconsistency Comparisons for government

List of figure	Inconsistency
4.5	0.16
4.6	0.15
4.7	0.10
4.8	0.14

According to Saaty (2008), consistency ratio (CR) of a pairwise comparison matrix is the ratio of its consistency index to the corresponding random index value, if the value of Consistency Ratio is smaller or equal to 10%, the inconsistency is acceptable, but if its greater than 10%, we need to revise the subjective judgment. Figure 4.5, 4.6 and 4.8 shown that the inconsistency is relatively high, because of that the result needs to be repair. After using the *best fit* through Expert Choice⁶, the result became:

	Increasing	Poverty Red	Political Ga
Increasing Economic Gains		1.2	2.583
Poverty Reduction			3.167
Political Gains			

Priorities with respect to:
Goal: Trade & Investment Liberalization

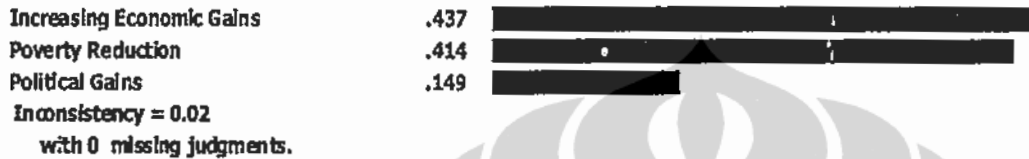


Figure 4.9 Comparing criteria preferences and weights of criteria after fix the inconsistency

After repaired the inconsistency, from the figure 4.9 above, we can see that for the government *increasing economic gains* is the most important criteria to reached trade and investment liberalization on Asia Pacific region with a priority of 0.437.

	Bogor Goal	Doha Round	FTAAP	Do Nothing
Bogor Goals		1.3	5.125	6.625
Doha Round (Plan-A)			3.292	5.875
FTAAP				4.625
Do Nothing				

Priorities with respect to:
Goal: Trade & Investment Liberalization
>Increasing Economic Gains

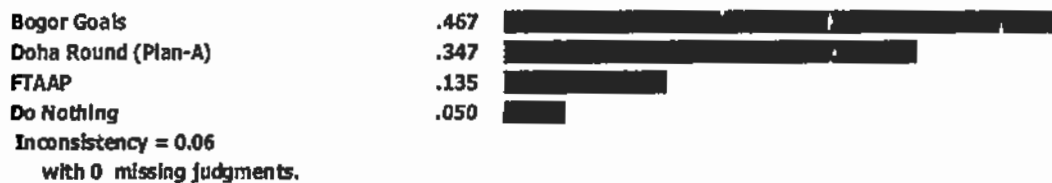


Figure 4.10 Comparing criteria for increasing economic gains after repaired the inconsistency

For *increasing economic gains* criterion moving towards the *Bogor Goals* is considered more important over others alternatives by 0.467 Figure 4.10 shows the judgments obtained and importance matrix for *increasing economic gains*.

We don't need to revise the judgment for poverty reduction because the result is can be acceptable.

	Bogor Goal	Doha Round	FTAAP	Do Nothing
Bogor Goals		1.4	2.6	4.625
Doha Round (Plan-A)			3.5	3.625
FTAAP				2.875
Do Nothing				

Priorities with respect to:
Goal: Trade & Investment Liberalization
>Political Gains



Figure 4.11 Comparing criteria for Political Gains after repaired the inconsistency

For *political gains* criterion moving towards the *Bogor Goals* is again also considered more important over others alternatives by 0.408 Figure 4.11 above shows the judgments obtained and importance matrix for *political gains*.

From the figures 4.9 until 4.11, we can summarize the inconsistency, which follows:

Table 4.3. Inconsistency Comparisons for government after revise

List of figure	Inconsistency
4.9	0.02
4.10	0.06
4.7	0.10
4.11	0.04

The table 4.2 above had shown us that from the overall results from inconsistency are acceptable. Further from Saaty (2008), the requirement of 10% cannot be smaller such as 1% or 0.1% without trivializing the impact of inconsistency. But

inconsistency itself is important because without it, new knowledge that changes preference cannot be admitted.

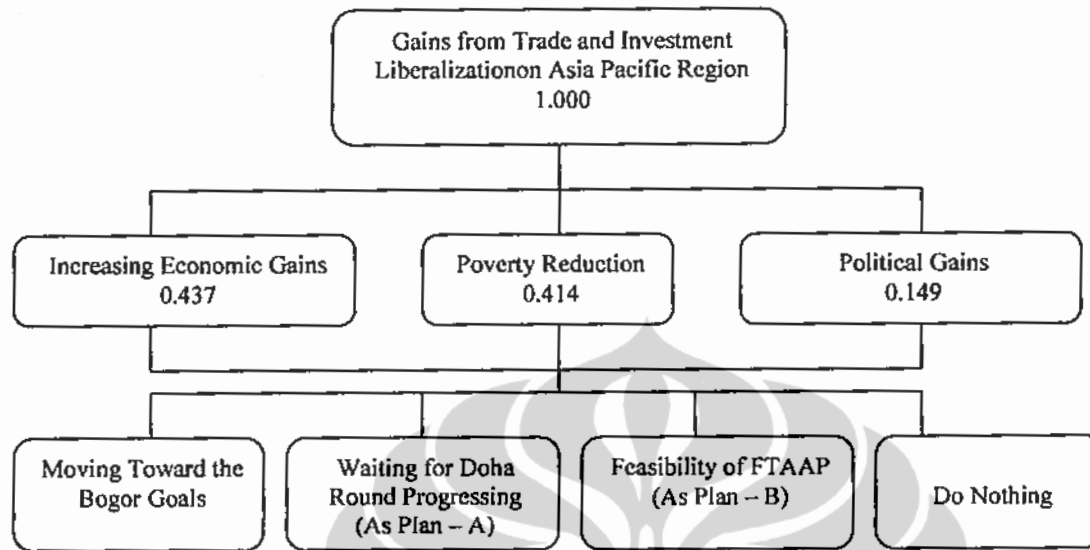


Figure 4.12 Hierarchy of government interest and strategies after the calculations revise

4.3.4.2 Entrepreneur Party

For the entrepreneurs *improving income* is the most important criteria to reach optimize action for advancing free and open trade with a priority of 0.511. *Enhancing Efficiency* is a major purpose with an importance priority of 0.254. Figure 4.13 shows the pairwise comparison matrix for the criteria from the aspect of Entrepreneurs interest and strategies.

	Impr Incom	Enhancing	Int Mar Acco
Impr Income		2.65	1.65
Enhancing Eff			1.417
Int Mar Access			

Priorities with respect to:
Goal: Optimize Action for Advancing Free and Open Trade

Impr Income	.511	████████████████████
Enhancing Eff	.254	████████████████████
Int Mar Access	.235	████████████████████

Inconsistency = 0.07
with 0 missing judgments.

Figure 4.13 Comparing criteria preferences and weights of criteria.

Related to entrepreneur interest and strategies, the author tried to evaluate *improving income* criteria. For this criterion *waiting for Doha Round* is considered more important over others alternatives by 0.479 Figure 4.14 shows the judgments obtained and importance matrix for *improving income*.

	Waiting Do	Suggest Im	Suggest Ot	No Further
Waiting Doha Round		3.0	3.893	2.5
Suggest Impl FTAAP			3.0	3.125
Suggest Other Way				3.625
No Further Suggestions				

Priorities with respect to:
Goal: Optimize Action for Advancing Free and Open Trade
>Impr Income

Waiting Doha Round	.479	
Suggest Impl FTAAP	.268	
Suggest Other Way	.159	
No Further Suggestions	.093	

Inconsistency = 0.17
with 0 missing judgments.

Figure 4.14 Comparing criteria for improving income

For *enhancing efficiency* criterion *waiting for Doha Round Goals* is also considered more important over others alternatives by 0.437 Figure 4.15 shows the judgments obtained and importance matrix for *enhancing efficiency*.

	Waiting Do	Suggest Im	Suggest Ot	No Further
Waiting Doha Round		2.5	2.75	2.75
Suggest Impl FTAAP			3.531	3.0
Suggest Other Way				3.375
No Further Suggestions				

Priorities with respect to:
Goal: Optimize Action for Advancing Free and Open Trade
>Enhancing Eff

Waiting Doha Round	.437	
Suggest Impl FTAAP	.306	
Suggest Other Way	.165	
No Further Suggestions	.092	

Inconsistency = 0.14
with 0 missing judgments.

Figure 4.15 Comparing criteria for enhancing efficiency

For *international market access* criterion waiting for *Doha Round Goals* is again also considered more important over others alternatives by 0.455 Figure 4.16 shows the judgments obtained and importance matrix for *international market access*.

	Waiting Do	Suggest Im	Suggest Ot	No Furthe
Waiting Doha Round		2.75	3.281	2.5
Suggest Impl FTAAP			3.174	3.125
Suggest Other Way				3.625
No Further Suggestions				

Priorities with respect to:
Goal: Optimize Action for Advancing Free and Open Trade
>Int Mar Access

Waiting Doha Round	.455	
Suggest Impl FTAAP	.286	
Suggest Other Way	.165	
No Further Suggestions	.093	
Inconsistency = 0.16 with 0 missing judgments.		

Figure 4.16 Comparing criteria for international market access

From the figures 4.13 until 4.16, we can summarize the inconsistency, which follows:

Table 4.4. Inconsistency Comparisons for entrepreneur

List of figure	Inconsistency
4.13	0.07
4.14	0.17
4.15	0.14
4.16	0.16

Figure 4.14, 4.15 and 4.16 shown that the inconsistency is relatively high, because of that the result needs to be repair. We don not needs to revise for the result as shown in figure 4.13, because the inconsistency is already acceptable. After using the *best fit* through Expert Choice[®], the result became:

	Waiting Do	Suggest Im	Suggest Ot	No Further
Waiting Doha Round		1.1	1.4	2.5
Suggest Impl FTAAP			3.0	5.0
Suggest Other Way				1.7
No Further Suggestions				

Priorities with respect to:

Goal: Optimize Action for Advancing Free and Open Trade
>Impr Income



Figure 4.17 Comparing criteria for improving income after revise

For this criterion *Suggestions and Support for Implementing of FTAAP (as plan-B)* is considered more important over others alternatives by 0.420 Figure 4.17 above shows the judgments obtained and importance matrix for *improving income*.

	Waiting Do	Suggest Im	Suggest Ot	No Further
Waiting Doha Round		2.5	2.75	2.75
Suggest Impl FTAAP			1.0	3.0
Suggest Other Way				1.6
No Further Suggestions				

Priorities with respect to:

Goal: Optimize Action for Advancing Free and Open Trade
>Enhancing Eff

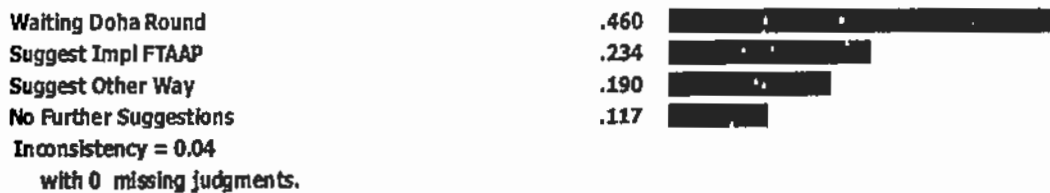


Figure 4.18 Comparing criteria for enhancing efficiency after revise

For *enhancing efficiency* criterion after revise the inconsistency, *waiting for Doha Round Goals* is considered more important over others alternatives by 0.460. Figure 4.18 above shows the judgments obtained and importance matrix for *enhancing efficiency*.

	Waiting Do	Suggest Im	Suggest Ot	No Further
Waiting Doha Round		2.75	4.6	2.5
Suggest Impl FTAA			2.2	1.5
Suggest Other Way				1.2
No Further Suggestions				

Priorities with respect to:
Goal: Optimize Action for Advancing Free and Open Trade
>Int Mar Access

Waiting Doha Round	.505	
Suggest Impl FTAA	.221	
Suggest Other Way	.126	
No Further Suggestions	.148	

Inconsistency = 0.03
with 0 missing judgments.

Figure 4.19 Comparing criteria for international market access after revise

For *international market access* after revise the inconsistency, criterion *waiting for Doha Round Goals* is also considered more important over others alternatives by 0.505. Figure 4.19 above shows the judgments obtained and importance matrix for *international market access*.

From the figures 4.13, then figure 4.17 until 4.19, we can summarize the inconsistency, which follows:

Table 4.5. Inconsistency Comparisons for entrepreneur after revise

List of figure	Inconsistency
4.13	0.07
4.17	0.03
4.18	0.04
4.19	0.03

The table 4.4 above had shown us that from the overall results from inconsistency are acceptable.

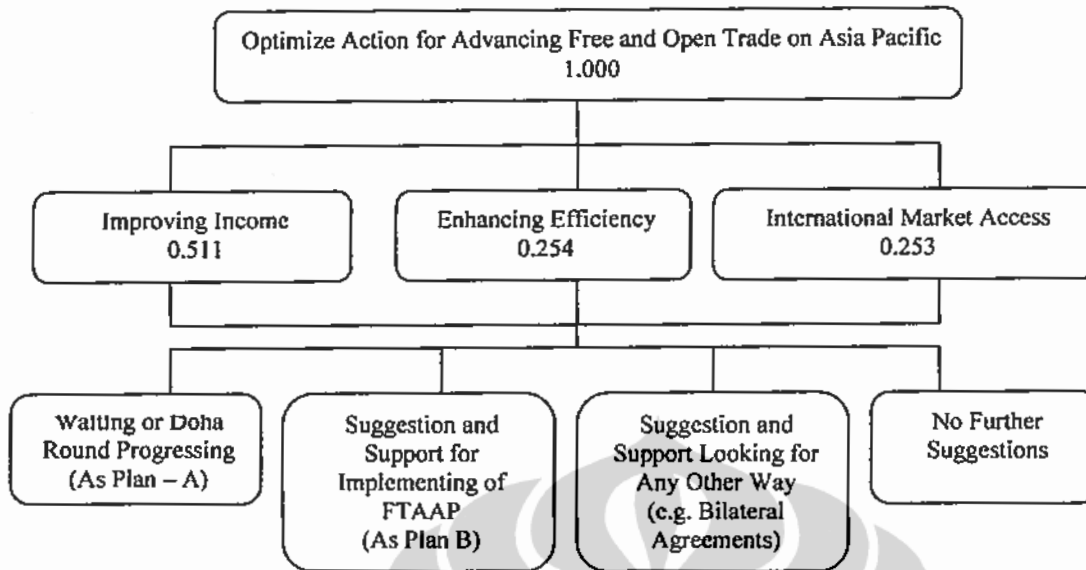


Figure 4.20 Hierarchy of entrepreneur interest and strategies after the calculations revise

4.3.5 Synthesizing the Results

Expert choice^o provides two ways of synthesizing the local priorities of the alternatives using the global priorities of their criteria; the distributive mode and the ideal mode. In the distributive mode the weight of criterion reflects the importance that the decision maker attaches to the dominance of each alternative relative to all other alternative under the criterion. In this case, the distributive mode would be the way to synthesize the result as shown in figure 4.21 and 4.22. After deriving the local priorities for the criteria and the alternatives through pairwise comparisons, the priorities of the criteria are synthesized to calculate the overall priorities for the decision alternatives.

Synthesis with respect to:

Goal: Trade & Investment Liberalization

Overall Inconsistency = .05



Synthesis with respect to: Increasing Economic Gains

(Goal: Trade & Investment > Increasing Economic Gains)

Overall Inconsistency = .06



Synthesis with respect to: Poverty Reduction

(Goal: Trade & Investment > Poverty Reduction (L: .41))

Overall Inconsistency = .10



Synthesis with respect to: Political Gains

(Goal: Trade & Investment > Political Gains (L: .149))

Overall Inconsistency = .04



Figure 4.21 Overall Results of Government interest and strategies

As shown in figure 4.21, the most preferable strategies for APEC reflected by government interest and strategies in respect of the goals is moving toward the Bogor Goals, among the four alternatives with an overall priority score of 0.488.

Synthesis with respect to:

Goal: Optimize Action for Advancing Free and Open Trade

Overall Inconsistency = .05



Synthesis with respect to: Impr Income

(Goal: Optimize Action for > Impr Income (L: .511 G: .))

Overall Inconsistency = .03



Synthesis with respect to: Enhancing Eff

(Goal: Optimize Action for > Enhancing Eff (L: .254 G: .))

Overall Inconsistency = .04



Synthesis with respect to: Int Mar Access

(Goal: Optimize Action for > Int Mar Access (L: .235 G: .))

Overall Inconsistency = .03



Figure 4.22 Overall Results of Entrepreneurs interest and strategies

In figure 4.22, shown that the most preferable strategies for APEC reflected by entrepreneur interest and strategies in respect of the goals is waiting for Doha Round progressing with an overall priority score of 0.387.

4.3.6 Sensitivity Analysis

Sensitivity analyses from the Goal node will show the sensitivity of the alternatives with respect to all the objectives below the goal. A series of sensitivity analyses were conducted to investigate the impact of changing the priority of the criteria's ranking. When performing a sensitivity analysis we may vary the priorities of the objectives and observe how the priorities of the alternatives would change. There are five types of sensitivity analysis.

. First, Dynamic sensitivity of Expert Choice[®] was performed. Dynamic sensitivity analysis is used to dynamically change the priorities of the alternative choices to determine how these changes effects the priorities of the alternatives choices (*shown in figure 4.23 and 4.24*).

Figure 4.23 Dynamic Sensitivity for Government interest and strategies

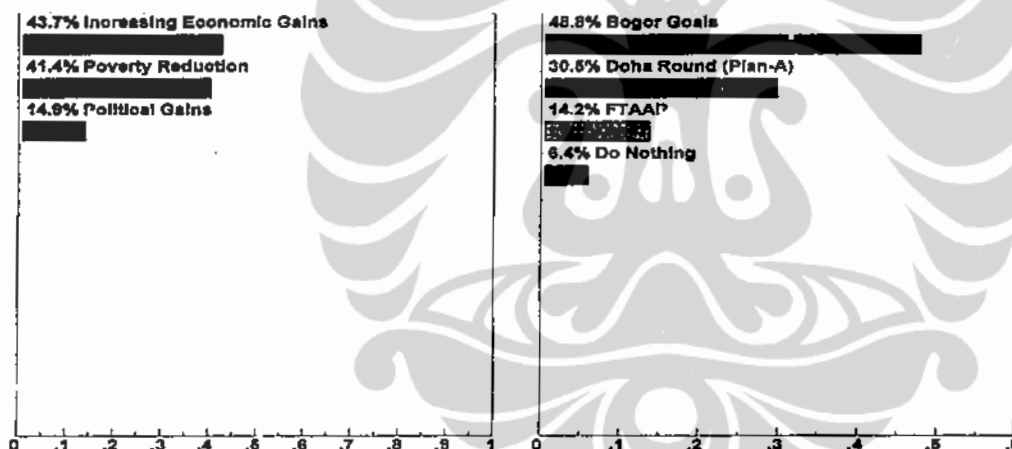
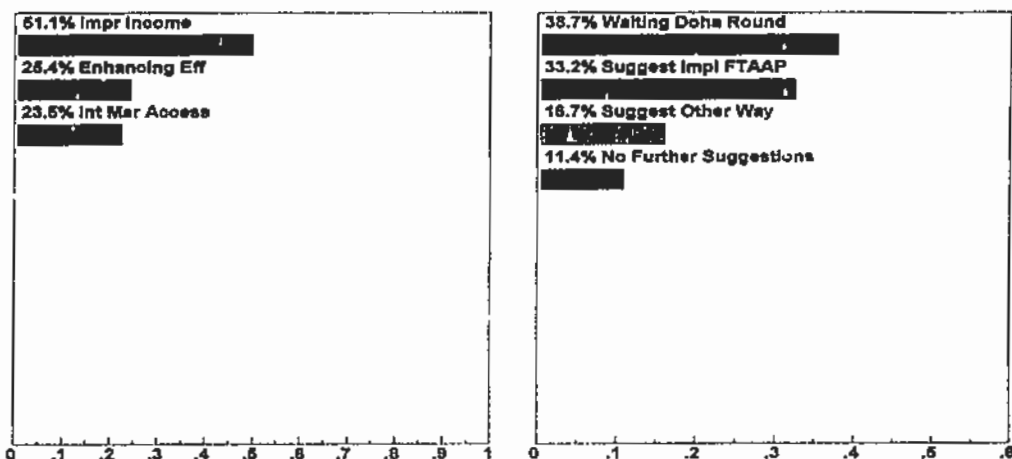


Figure 4.24 Dynamic Sensitivity for Entrepreneur interest and strategies



Then, author's changed the priorities of the sub-criteria using Performance sensitivity analysis of Expert Choice[®]. The results of the sensitivity analyses indicated that, for government moving toward the Bogor Goals is very robust. In other hand, waiting for Doha Round is also very robust for entrepreneur.

Figure 4.25 Performance Sensitivity for Government below the goal

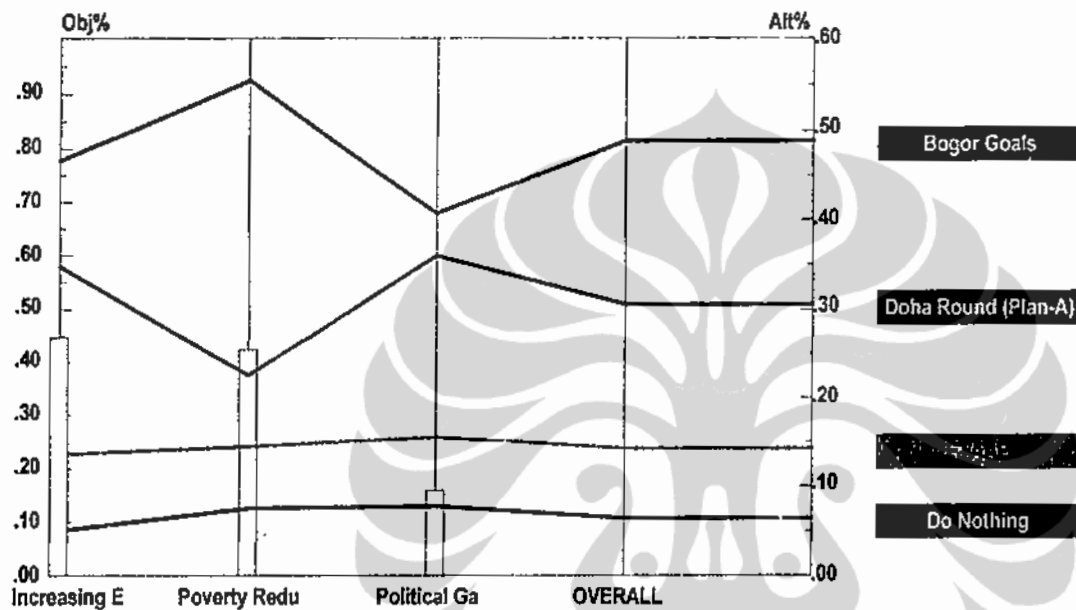
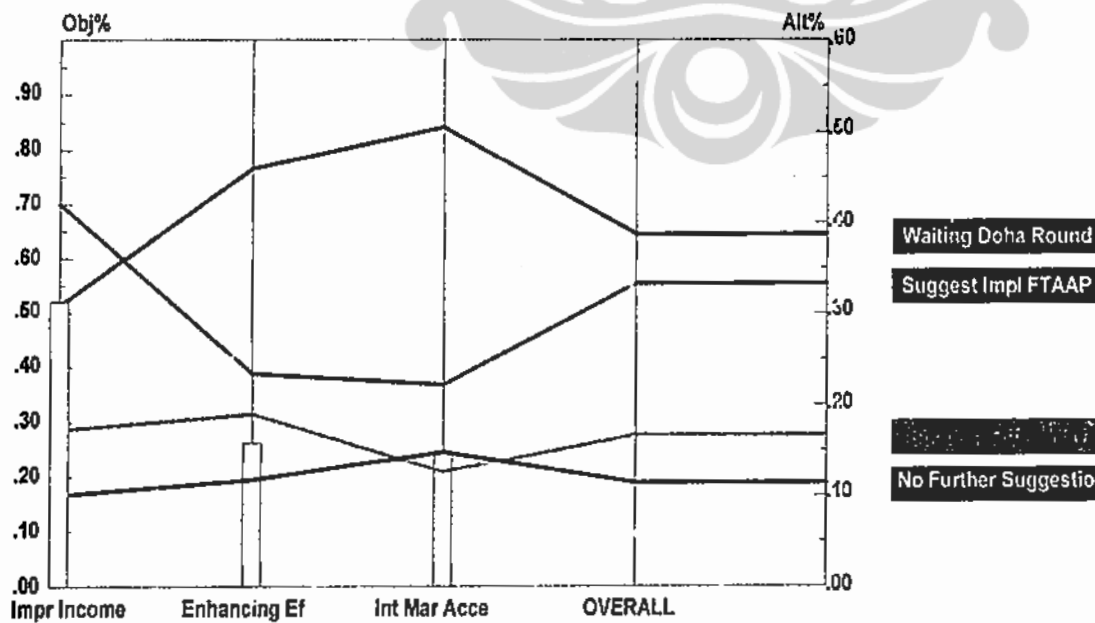


Figure 4.26 Performance Sensitivity for Entrepreneur below the goal



Performance sensitivity analysis displayed in figure 4.25 and 4.26, which shows how the alternatives were prioritized relative to other alternatives, with respect to each objectives as well as overall. In this research for government side, Bogor Goals has priority of approximately 0.48, while waiting for Doha Round is about 0.30, Implementation of FTAAP about 0.14 and Do nothing is approximately 0.6. For entrepreneur side, waiting for Doha Round has priority of approximately 0.38, while suggestion of FTAAP is about 0.33, suggestion for any other way is about 0.16 and no further suggestion is approximately 0.11.

Figure 4.27 Gradient Sensitivity for Government below the goal

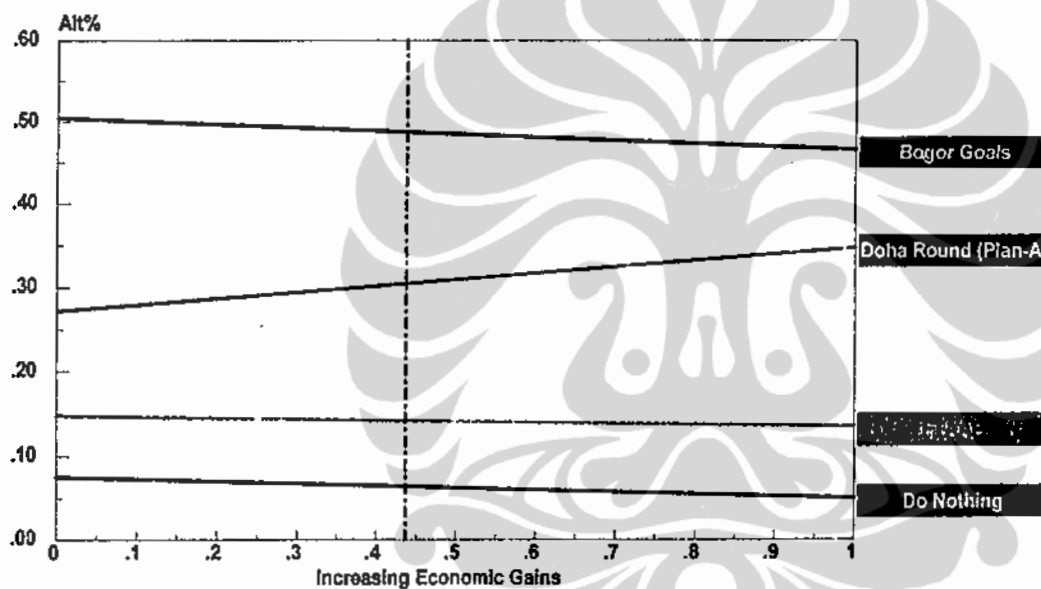
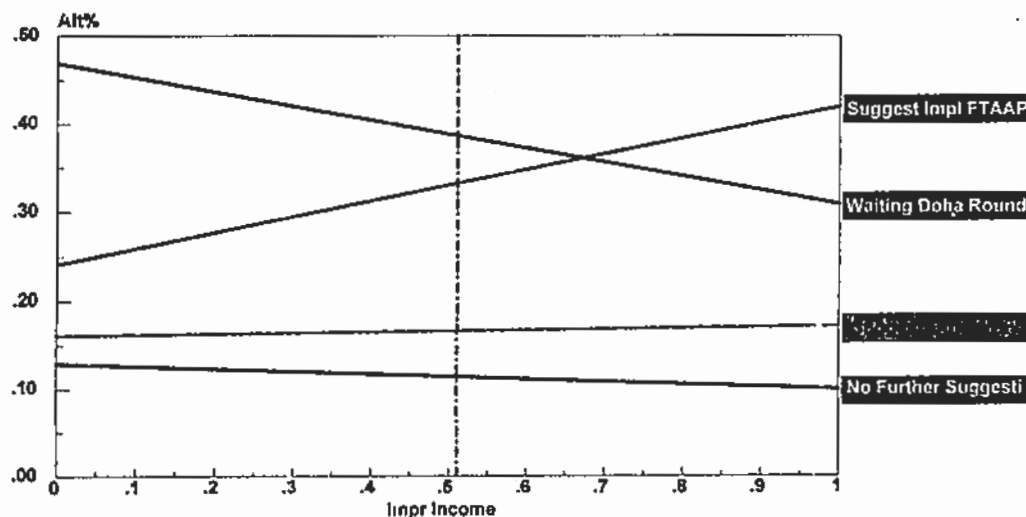


Figure 4.28 Gradient Sensitivity for Entrepreneur below the goal



From the gradient sensitivity which is shown in figures 4.27 and 4.28, we can see that increasing the priority of increasing economic gains and improving income changes the choice of the alternatives with respect to increasing economic gains (for government side) and improving income (for entrepreneur side).

4.3.7 Pay-off matrix between Government – Entrepreneurs

In order to find out an optimize solutions in game theory method as mentioned before is through looking for payoff value between both parties (see chapter 2). After the calculation, payoff matrix between actors derived in figure 4.29 and 4.30.

Payoff Matrix for APEC related to government interest and strategies

		ENTREPRENEURS			
		E1	E2	E3	E4
GOVERNMENT	G1	0.187	0.199	0.198	0.256
	G2	0.091	0.078	0.106	0.075
	G3	0.036	0.037	0.025	0.022
	G4	0.004	0.004	0.004	0.005

Figure 4.29 Performance payoff weight for government

Payoff Matrix for APEC related to entrepreneur interest and strategies

		GOVERNMENT			
		G1	G2	G3	G4
ENTREPRENEUR	E1	0.148	0.126	0.025	0.01
	E2	0.17	0.082	0.037	0.01
	E3	0.146	0.125	0.02	0.014
	E4	0.193	0.076	0.029	0.011

Figure 4.30 Performance payoff weight for entrepreneur

As a result shown figure 4.29, the highest payoff for government is 0.256 for *Moving toward the Bogor Goals* strategies confronting entrepreneur strategies. In

figure 4.30 shown that, the highest payoff for entrepreneur is 0.193 for no further suggestion confronting government strategies.

According to Cooper (1998), there is an easy numerical way to identify Nash equilibria on a Payoff Matrix. It is especially in two-person games where players have more than two strategies. Further, this rule does not apply to the case where mixed strategies are of interest. The rule goes as follows: if the first payoff number, in the duplet of the cell, is the maximum of the column of the cell and if the second number is the maximum of the row of the cell-then the cell represent a Nash equilibrium.

Each player in this study has four options of strategies. Each strategy is mutually exclusive, meaning only one of them can be chosen. The final result shown with Figure 4.31 which derived the payoff comparisons, to find out the equilibrium between both parties. Payoff also shown the optimize solutions between government and entrepreneur as win-win solutions.

Final Result: Pay-off matrix between Government - Entrepreneur

	E1	E2	E3	E4
G1	(0.187;0.148)	(0.199;0.170)	(0.198;0.146)	(0.256;0.193)
G2	(0.091;0.126)	(0.078;0.082)	(0.106;0.125)	(0.075;0.076)
G3	(0.036;0.025)	(0.037;0.037)	(0.025;0.020)	(0.022;0.029)
G4	(0.004;0.010)	(0.004;0.010)	(0.004;0.014)	(0.005;0.011)

Figure 4.31 Performance payoff matrix for both of parties

The concept of stability, useful in the analysis of many kinds of equilibrium can also be applied to Nash equilibria. A Nash equilibrium for a mixed strategy game is stable if a small change (specifically, an infinitesimal change) in probabilities for one player leads to a situation where two conditions hold:

1. the player who did not change has no better strategy in the new circumstance
2. the player who did change is now playing with a strictly worse strategy

If these cases are both met, then a player with the small change in his mixed-strategy will return immediately to the Nash equilibrium. The equilibrium is said to be stable. If condition one does not hold then the equilibrium is unstable. If only condition one holds then there are likely to be an infinite number of optimal strategies for the player who changed. Stability is crucial in practical applications of Nash equilibria, since the mixed-strategy of each player is not perfectly known, but has to be inferred from statistical distribution of his actions in the game. In this case unstable equilibria are very unlikely to arise in practice, since any minute change in the proportions of each strategy seen will lead to a change in strategy and the breakdown of the equilibrium. Figure 4.22 illustrated a game where entrepreneur is appointed as the first mover, and government is assumed to have moved with the first choice.

		E N T R E P R E N E U R			
G O V E R N M E N T	G1	0.187 0.148	0.199 0.170	0.198 0.146	0.256 0.193
	G2	0.091 0.128	0.078 0.082	0.106 0.125	0.075 0.076
	G3	0.036 0.025	0.037 0.037	0.025 0.020	0.022 0.029
	G4	0.004 0.010	0.004 0.010	0.004 0.014	0.005 0.011

**Figure 4.32 Performance two dimension for the interaction between
Government - Entrepreneur**

Figure 4.32 illustrated a game where entrepreneur is appointed as the first mover, and government is assumed to have moved with the first choice.

There are two conditions in game theory related with Nash equilibrium, first is where the condition are met, and second is where the condition are not met, like the result from this study. Due to the limited conditions in which Nash equilibrium can actually be observed, they are rarely treated as a guide to day-to-day behaviour, or observed in practice in human negotiations. However, as a theoretical concept in economics, and evolutionary biology the Nash equilibrium has explanatory power. The payoff in economics is money, and in evolutionary biology gene transmission, both are the fundamental bottom line of survival. Researchers who apply games theory in these fields claim that agents failing to maximize these for whatever reason will be competed out of the market or environment, which are ascribed the ability to test all strategies. But in other side, there are several option and opinion if the conditions are not met:

1. The first condition is not met if the game does not correctly describe the quantities a player wishes to maximize. In this case there is no particular reason for that player to adopt an equilibrium strategy. For instance, the prisoner's dilemma is not a dilemma if either player is happy to be jailed indefinitely.
2. Intentional or accidental imperfection in execution. For example, a computer capable of flawless logical play facing a second flawless computer will result in equilibrium. Introduction of imperfection will lead to its disruption either through loss to the player who makes the mistake, or through negation of the 4th 'common knowledge' criterion leading to possible victory for the player. (An example would be a player suddenly putting the car into reverse in the game of 'chicken', ensuring a no-loss no-win scenario).
3. In many cases, the third condition is not met because, even though the equilibrium must exist, it is unknown due to the complexity of the game.
4. The fourth criterion of common knowledge may not be met even if all players do, in fact, meet all the other criteria. Players wrongly distrusting each other's rationality may adopt counter-strategies to expected irrational play on their opponents' behalf.

According to the result shown in figure 4.31, can be called the game has a unique Nash equilibrium and is played among players under certain conditions, then the

nash equilibrium strategy set will be adopted. Sufficient conditions to guarantee that the Nash equilibrium is played are:

1. The players all will do their utmost to maximize their expected payoff as described by the game.
2. The players are flawless in execution.
3. The players have sufficient intelligence to deduce the solution.
4. The players know the planned equilibrium strategy of all of the other players.
5. The players believe that a deviation in their own strategy will not cause deviations by any other players.
6. There is common knowledge that all players meet these conditions, including this one. So, not only must each player know the other players meet the conditions, but also they must know that they all know that they meet them, and know that they know that they know that they meet them, and so on.

In this study, the condition with the best accumulative numbers for both parties are met, and according to the pay-offs matrix, the equilibrium will be emerge if Government implementing G1 strategy means "Moving toward the Bogor Goals", while Entrepreneur facing with E4 strategy means "No further suggestion". The reasons for G1 strategy were emerge from many side. For Indonesia itself APEC is a process. According to Soesastro (2001), the strength or weakness of this process currently lies in the annual cycle of its leadership. The APEC chair plays a critical role in influencing the direction of APEC's development, both in terms of the substance of co-operation and the nature of the process. It has a privileged position in shaping the APEC agenda. With the rotation of the chairmanship among its members, there is a built-in assurance that in broad terms the APEC agenda will reflect a balance of interest of its diverse members. The process moves forward on the basis of voluntary commitments made by all APEC leaders.

APEC has adopted consensus building. This requires leadership. The process in 1994 towards the adoption and subsequent elaboration of the Bogor Goals. The non-binding nature of the agreement, including the 2010/2020 target dates was explicitly referred to by Prime Minister Keating of Australia and Prime

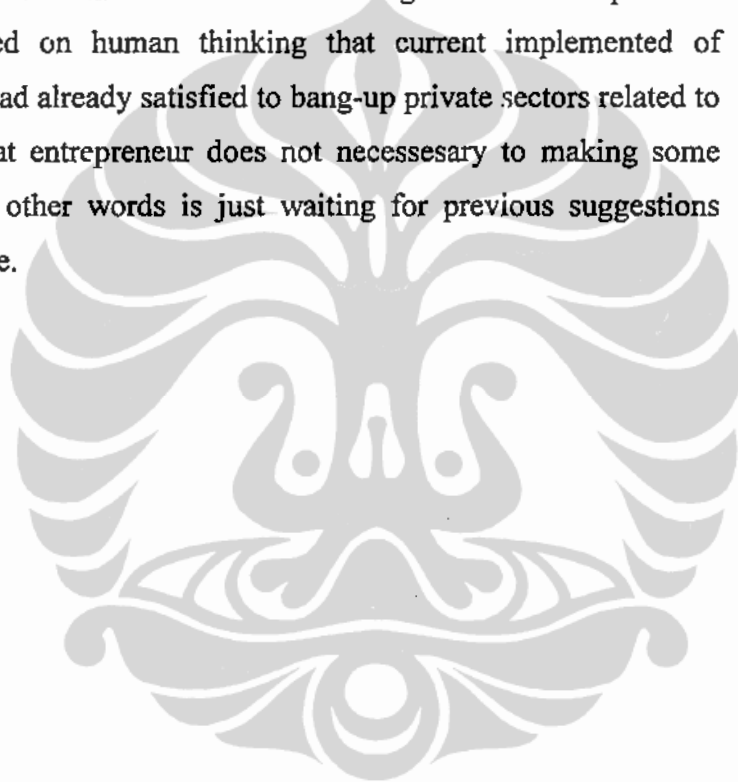
Minister Goh Chok Tong of Singapore. Non-binding (voluntary) as a nature of the Bogor Declaration should be seen as a political commitment by leaders. The value of that political commitment is that it provides the momentum to trade liberalization and that once a country makes a political commitment it has to try to implement. There was also a view that even if the agreement is non-binding, countries could be persuaded to honor it either during bilateral talks or discussion within the group. This is the basis for introduction of the peer review mechanism as integral part of the agreement to adopt the concerted unilateral action modality in APEC's trade liberalization agenda. Prime Minister Goh Chok Tong suggested that APEC should work on the basis of a flexible consensus, implying that "consensus does not necessarily mean unanimity.

Should APEC move away from a voluntary process to become an organization with binding agreement? According to Soesastro, whether a voluntary APEC and a binding APEC are different stages in the process of confidence and community building. The fundamental question is whether a binding APEC is indeed what APEC should become, and if so, how it could get there. While these issues remain to be settled, the more immediate task for APEC is to make voluntary APEC function more effectively. It would be useful for APEC to spell out more explicitly and perhaps codify the principles of a voluntary APEC and outline the architecture of it. A binding APEC is an option, perhaps for a longer term. A voluntary APEC must adopt the principle of flexible consensus if it is to progress.

According to Pangestu (2005), the concept of the FTA of the Asia Pacific goes against the grain of APEC. The concept of APEC and its way of doing business is very different to that implied by a legally binding trade agreement. The Bogor goals are pursued through self interest and peer pressure under the umbrella of open regionalism. This approach is deeply rooted and has been widely understood to signify that APEC would not seek to establish itself as a preferential trading bloc. So, now is not the time for an FTAAP. The best practice guidelines are a mechanism to move towards the Bogor goals. But there is much more than APEC can do. There are many other areas of expertise that APEC can draw on in support of the Bogor goals. According to Hadi (2008), APEC is not FTAAP and

FTAAP is not APEC. FTAAP is one of concept pursue APEC. The nature of FTAAP is on the top of contrary with APEC modality. Although, the FTAAP purposes is perhaps could harmonize with the frame of APEC. APEC should refocus with the agenda. Moreover, Indonesia still tried the best to analyses this concept.

Although, the results from best accumulative payoff for entrepreneur are No further suggestion, it does not mean that entrepreneur doing nothing at all. No further suggestion here had been choose for becoming one of the option of alternatives strategy based on human thinking that current implemented of strategy for entrepreneur had already satisfied to bang-up private sectors related to reaching the goals, so that entrepreneur does not necessesary to making some changing for strategy, in other words is just waiting for previous suggestions which have come up before.



CHAPTER 5

CONCLUSION AND RECOMMENDATION

5.1 Conclusions

The AHP is useful way to deal with complex decisions that involve dependence and feedback analyzed in the context of government and entrepreneur interest and strategies respect to their goal. What important in decisions making is to produce answer that are valid in practice. The AHP has also been validated in many examples. People often argue that judgment is subjective and that one should not expect the outcome to correspond to objective data. But that puts one in the framework of garbage in garbage out without the assurance of the long term validity of the outcome. In addition, most other approaches to decisions making are normative. What people imagine is best to do and what conditions their decisions face after they are made can be very apart from what can happen in the real world. That's is why the framework of the AHP is descriptive as in science rather than normative and prescriptive giving license to unrealistic assumptions like insisting on transitivity of preferences when we know that people are intransitive and inconsistent.

When an organization is confronted with the choosing the most important strategies, the decision can often be very complex. Strategies selection problems are related with organization policies and it is become multi-objective problems which have many qualitative and quantitative concerns. This study shows how AHP can be used to solve the problem. One of the advantages of AHP is its ability to translate qualitative considerations into quantitative results.

This study has presented the AHP as a decision analysis tool in both of government and entrepreneur strategies to enhancing trade and investment liberalization. The author proposed a comprehensive AHP model to select the best alternative strategies for both parties. The AHP models a decision making framework using a hierarchical relationship among decision levels.

In this study game theory is used combined with Analytical Hierarchy Process (AHP). Game theory, in the last decades has emerged as a powerful method to describe and to give way-outs when facing interactive problems

solving. However, one big constraint to make it more applicable seemingly is in determining alternative pay-offs. As mentioned by John L. Enos:

“to anyone who believes that game-theory offers useful approach to the choice (one kind of crucial strategic choice) priority in research should be given to the estimation of pay-offs”

Qualitative inputs can not be processed directly by game theory. They should be translated first into quantitative inputs (pay-offs). However, use AHP solely will face difficulties to solve interactive problems. Thus combine those two powerful concepts will give better way-outs in solving interactive problems.

Globalization has brought many changes in multilateral trading systems towards to free trade on the level of bilateral, trilateral and regional. Although, the established of APEC based on economic globalization but since 2001, APEC tried to puts inside another issues which unrelated with economics such as social and security. The critical point above pursuing APEC like APEC actions is not effective, less of response were emerge in the current. But agree or not, APEC still has many advantages which make this forum still relevant until today, which followed:

- Bogor Goals became APEC benchmark to measure the success level according to trade liberalization based on APEC forum.
- The principals of open regionalism (non-discrimination issue) whereas MFN treatment still become strong color on APEC
- APEC mechanism to discussed new issues like IPR, competition policy, investment and non-economic issues without negotiate in term of conditions.
- The member which covered west and east is very important reminds there are some conflicts like US-Japan and China-US in international trading.

According with the considerations above the research found that collaboration strategies dominate the highest outcome. The research found that the best strategy for government confronting entrepreneur strategy is keep on track moving toward the Bogor goals, while, in other side the best strategy for entrepreneur confronting government strategy is no further suggestions. The payoff matrix between actors, as a result shown that the highest payoff for government is for Moving toward the

Bogor Goals strategies to confront with entrepreneur strategies and the highest payoff for entrepreneur is for no further suggestions. The expectation in this study is tried to shown the analyze of the people above conflict of interest and to lay bare some structure, reasons would prevail and antagonist would be motivated to come to a reasonable and just solution.

5.2 Recommendation

Based on this research and some literatures, there are several recommendation which could be gives critical point for actors in APEC, its followed:

- It is time for APEC economies to take several bolder actions.
- As the one of Bogor Goals founder, Indonesia has responsibility to keep the process and development of these modality, so APEC could getting much gains from Bogor Goals. It can be truly happen if all actors are workout together and hand in hand in harmony, so that they could influence APEC process.
- From some data shown that Indonesia and APEC could reached the Bogor Goals in the right time if Indonesia could increase liberalization moves. Because of that it is necessary needed several constructive roles from all APEC economies in all mechanism like bilateral, regional and multilateral.
- Refocusing of APEC concern like in decision making process, meeting frequency, improving the role of APEC secretariat and ECOTECH revitalization
- It is not feasible to changing APEC become formal institution as long as China-Taipei still become the member of APEC because of some political reasons
- Bogor Goals became APEC benchmark which in that modality we can measures by the time, even WTO itself does not have their end date to reach free and open trade. So this means APEC has much more relevant role than ever has been the case.

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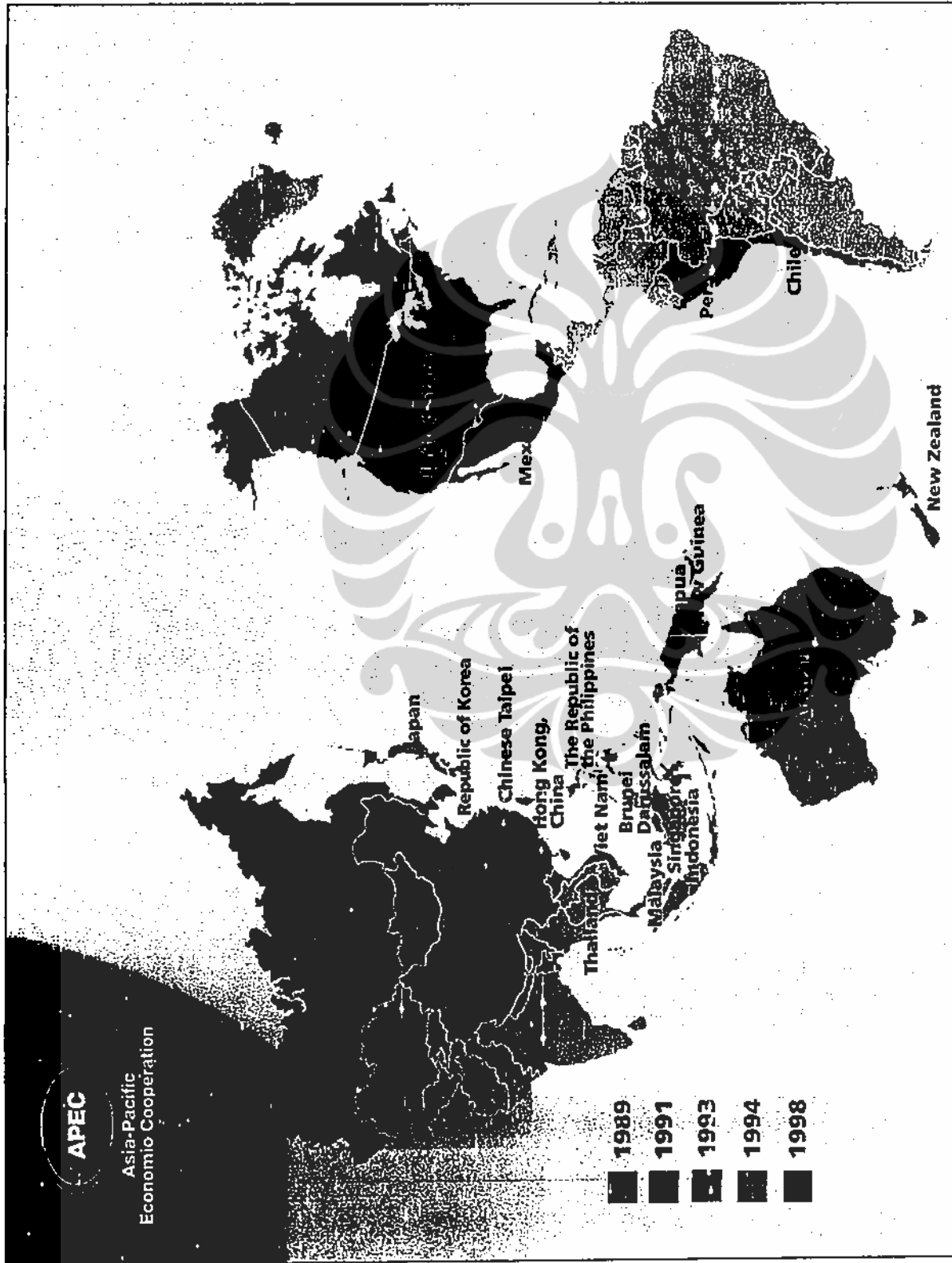
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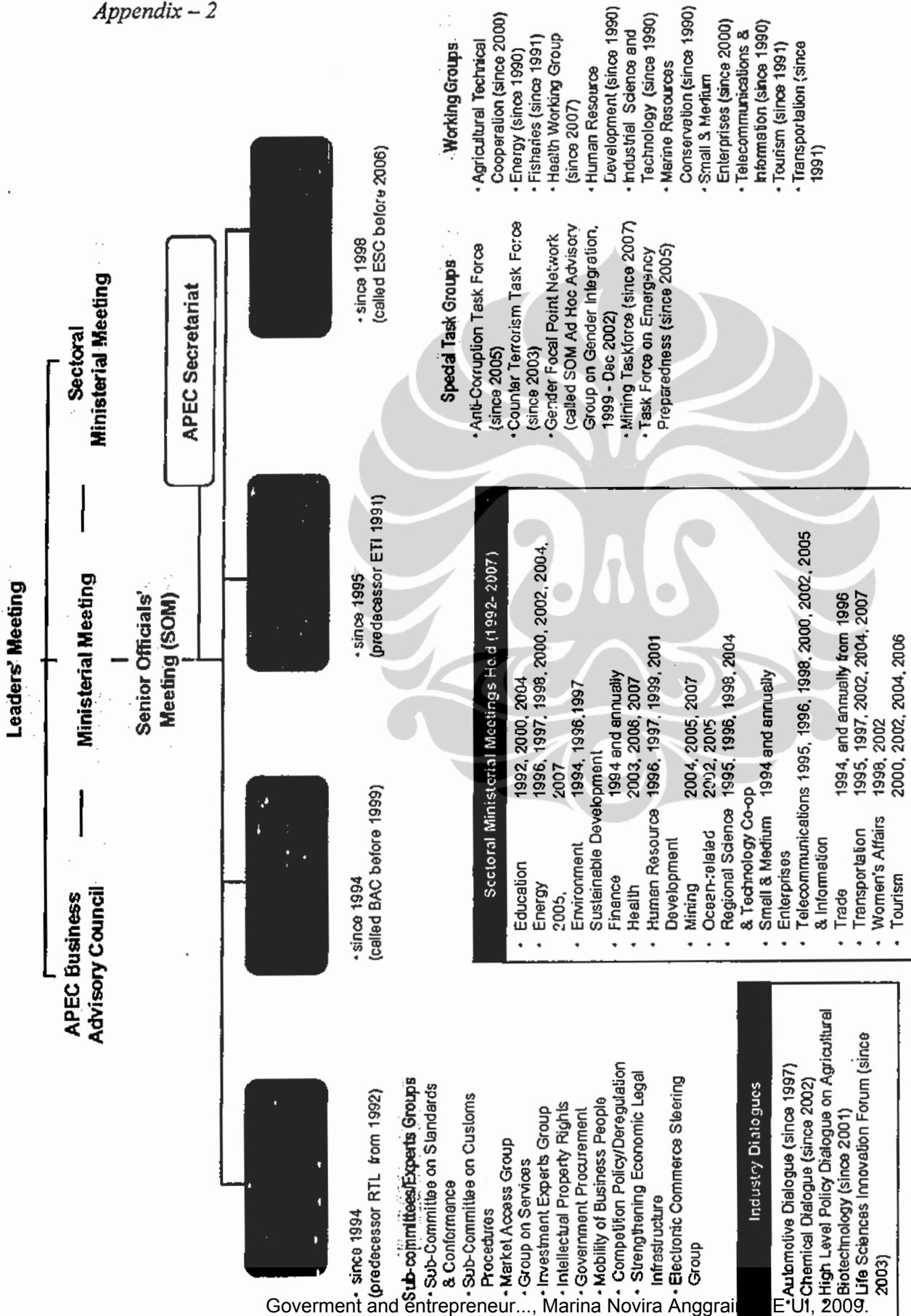
APPENDIX

Appendix - 1



APPENDIX

Appendix - 2



APPENDIX

Appendix – 3

**CALCULATION OF GOVERNMENT AND ENTREPRENEUR INTEREST
AND STRATEGIES PRIORITY**

(Output from Expert Choice[®] Software)

Actor-1 : APEC related to Government Institutions

**Goals : Gains from Trade and Investment Liberalization on Asia Pacific
Region**

Criteria :

P1 : Increasing Economic Gains

P2 : Poverty Reduction

P3 : Political Gains

Alternatives Strategies

G1 : Moving Toward the Bogor Goals

G2 : Waiting for Doha Round Progressing (as Plan-A)

G3 : Feasibility of FTAAP (as Plan-B)

G4 : Do Nothing

Actor-2 : APEC related to entrepreneurs

**Goals : Optimize Action for Advancing Free and Open Trade on Asia
Pacific**

Criteria :

O1 : Improving Income

O2 : Enhancing Efficiency

O3 : International Market Access

Alternatives Strategies

E1 : Waiting for Doha Round Progressing (as Plan-A)

E2 : Suggestion and Support for Implementing of FTAAP (as Plan-B)

**E3 : Suggestion and Support Looking for any Other Way (e.g. Bilateral
Agreements)**

E4 : No Further Suggestions

(Continue of appendix – 3)

Table APEC – 1: The most important purposes for APEC related to
“Gains from Trade and Investment Liberalization on Asia Pacific
Region”

APEC	Weight
P1	0.437
P2	0.414
P3	0.149

Table APEC – 2: The most effective strategy for APEC related to *Increasing
Economic Gains.*

P1	Weight
G1	0.467
G2	0.347
G3	0.135
G4	0.050

Table APEC – 3: The most effective strategy for APEC related to
Poverty Reduction

P2	Weight
G1	0.555
G2	0.226
G3	0.144
G4	0.075

Table APEC – 4: The most effective strategy for APEC related to *Political Gains*

P3	Weight
G1	0.408
G2	0.359
G3	0.155
G4	0.078

(Continue of appendix – 3)

Intrinsic weight from APEC related to government interest and strategies

	P1	P2	P3			
G1	0.467	0.555	0.408		0.437	0.495
G2	0.347	0.226	0.359	*	0.414	= 0.299
G3	0.135	0.144	0.155		0.149	0.142
G4	0.050	0.075	0.078			0.064

Table APEC – 5: The most effective strategy for APEC in order to *confronting* *Entrepreneurs strategy --- Waiting for Doha Round*

E1	Weight
G1	0.377
G2	0.306
G3	0.252
G4	0.065

Table APEC – 6: The most effective strategy for APEC in order to *confronting* *Entrepreneurs strategy --- Suggestion and Support for Implementing of FTAAP*

E2	Weight
G1	0.402
G2	0.263
G3	0.263
G4	0.071

Table APEC – 7: The most effective strategy for APEC in order to *confronting* *Entrepreneurs strategy --- Suggestion and Support Looking for Any Other Way (e.g. Bilateral Agreements)*

E3	Weight
G1	0.400
G2	0.355
G3	0.175
G4	0.070

(Continue of appendix – 3)

Table APEC – 8: The most effective strategy for APEC in order to *confronting*
Entrepreneurs strategy --- No Further Suggestion

E4	Weight
G1	0.517
G2	0.251
G3	0.159
G4	0.074

Table Entrep. – 1: The most important purposes for Entrepreneurs related to
“Optimize Action for Advancing Free and Open Trade on Asia
Pacific”

Entrepreneur	Weight
O1	0.511
O2	0.254
O3	0.235

Table Entrep.– 2 : The most effective strategy for Entrepreneurs related to
Improving Income

O1	Weight
E1	0.309
E2	0.420
E3	0.172
E4	0.100

Table Entrep.– 3 : The most effective strategy for Entrepreneurs related to
Enhancing Efficiency

O2	Weight
E1	0.460
E2	0.234
E3	0.190
E4	0.117

(Continue of appendix – 3)

Table Entrep.– 4 : The most effective strategy for Entrepreneurs related to *International Market Access*

O3	Weight
E1	0.505
E2	0.221
E3	0.126
E4	0.148

Instristic weight from APEC related to Entrepreneur Interest and Strategies

	O1	O2	O3			
E1	0.309	0.460	0.505		0.511	0.393
E2	0.420	0.234	0.221	*	0.254	= 0.326
E3	0.172	0.190	0.126		0.235	0.166
E4	0.100	0.117	0.148			0.115

Table Entrep.– 5 : The most effective strategy for Entrepreneurs in order to *confronting APEC strategy --- Moving Toward the Bogor Goals*

G1	Weight
E1	0.378
E2	0.388
E3	0.151
E4	0.088

Table Entrep.– 6 : The most effective strategy for Entrepreneurs in order to *confronting APEC strategy --- Waiting for Doha Round Progressing (as Plan-A)*

G2	Weight
E1	0.434
E2	0.253
E3	0.221
E4	0.092

(Continue of appendix –3)

Table Entrep.– 7 : The most effective strategy for Entrepreneurs in order to confronting APEC strategy --- Feasibility of FTAAP

G3	Weight
E1	0.372
E2	0.384
E3	0.122
E4	0.122

Table Entrep.– 8 : The most effective strategy for Entrepreneurs in order to confronting APEC strategy --- Do Nothing

G4	Weight
E1	0.491
E2	0.232
E3	0.178
E4	0.099

Payoff Matrix for APEC related to government interest and strategies

		ENTREPRENEURS			
		E1	E2	E3	E4
G O V T	G1	0.187	0.199	0.198	0.256
	G2	0.091	0.078	0.106	0.075
	G3	0.036	0.037	0.025	0.022
	G4	0.004	0.004	0.004	0.005

(Continue of appendix – 3)

Payoff Matrix for APEC related to entrepreneur interest and strategies

		G O V E R N M E N T			
		G1	G2	G3	G4
E	E1	0.148	0.126	0.025	0.010
N	E2	0.170	0.082	0.037	0.010
T	E3	0.146	0.125	0.020	0.014
P	E4	0.193	0.076	0.029	0.011

Final Result: Pay-off matrix between Government - Entrepreneur

	E1	E2	E3	E4
G1	(0.187;0.148)	(0.199;0.170)	(0.198;0.146)	(0.256;0.193)
G2	(0.091;0.126)	(0.078;0.082)	(0.106;0.125)	(0.075;0.076)
G3	(0.036;0.025)	(0.037;0.037)	(0.025;0.020)	(0.022;0.029)
G4	(0.004;0.010)	(0.004;0.010)	(0.004;0.014)	(0.005;0.011)

Note:

According to the pay-offs matrix, the equilibrium will be emerge if Government implementing G1 strategy means *"Moving toward the Bogor Goals"*, while Entrepreneur facing with E4 strategy means *"No Further Suggestions"*

APPENDIX

*Appendix – 4***Questionnaire of Analytical Hierarchy Process
“Advancing Trade and Investment Liberalization”****(From the Aspect of APEC Interests and Strategies)****I. Research Background and Purposes**

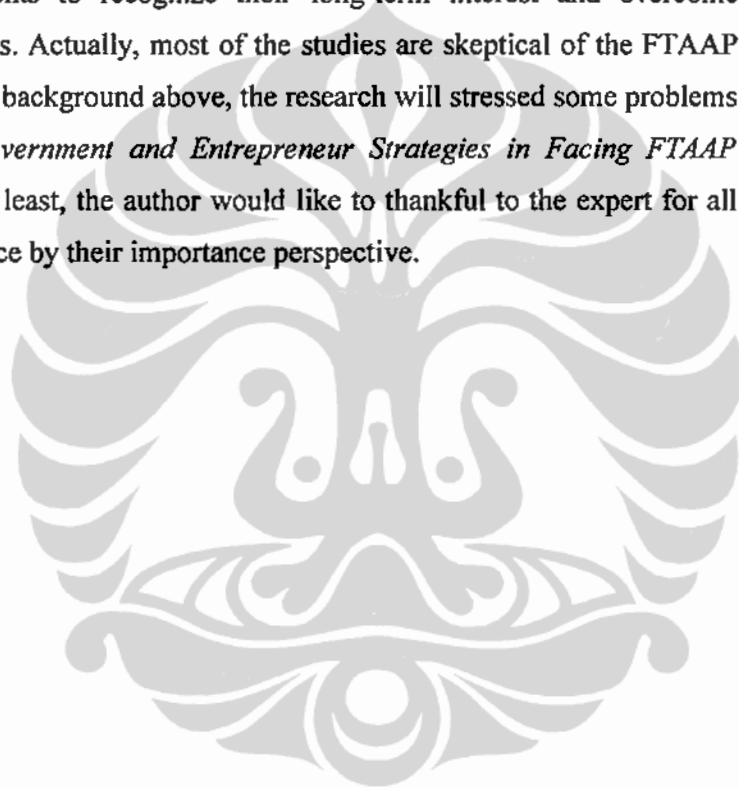
A Free Trade Area of the Asia Pacific (FTAAP) has been proposed for many years. The call for achieving a FTAAP was renewed in recent APEC Economic Leaders' Meeting. In 2004, the APEC Business Advisory Committee (ABAC) has recommended to the APEC Leaders' for launch a study of Free Trade of the Asia Pacific (FTAAP).

According to some economist, the Leaders have been unwilling to do so for at least two reasons. First, is a fear that even such a limited move in the direction of an FTAAP could undercut the ongoing Doha Round in the World Trade Organization (WTO), which remained their trade policy priority and was already in the parlous conditions, and secondly, the unwilling of the major APEC powers (China and Japan) to endorse the idea. ABAC thus decided to launch its own study of the FTAAP, and alternative trade policy ideas for APEC (plan-B), in effort to restore APEC's contribution to global trade liberalization and to revitalize APEC as an institution.

Indonesia has been following other countries in paying more attention to regional trade agreements (RTAs) and free trade agreements (FTAs), for Indonesia itself, the best way that APEC can maximize the benefit from trade and investment and then achieve the Bogor Goals, in recent years the action of APEC members have changed and most APEC members have negotiated or are actively seeking out new FTAs with other APEC members and non-members, including those APEC countries which previously were against the preferential trade arrangements approach such as Japan and China. According Japan and Indonesia, FTAAP as a plan-B for advancing is an option maybe for a long term.

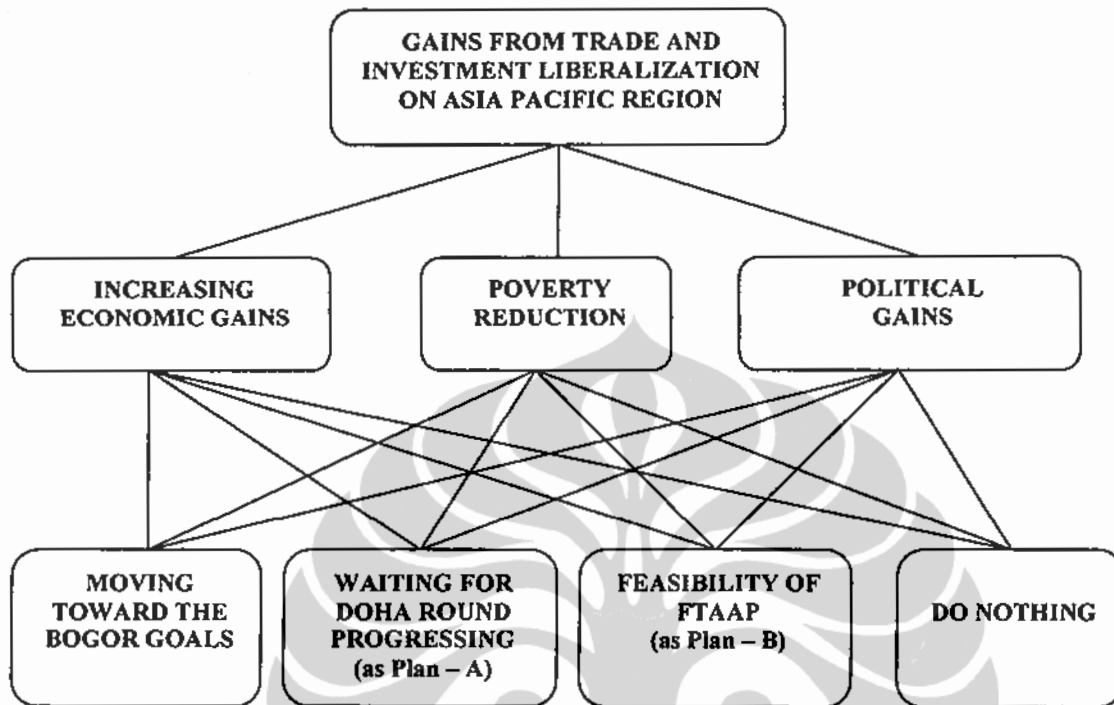
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In more recent times, American economist, C. Fred Bergsten, has been the foremost advocate of a FTAAP. In his view, if the FTAAP could be realized, it would provide the largest single liberalization in history. Moreover, the FTAAP would provide a framework for the US and China to head off trade tensions and revitalize APEC. He believes that because the economic logic of the FTAAP is so compelling, it is also politically feasible, although he acknowledges the difficulty of getting governments to recognize their long-term interest and overcome protectionist pressures. Actually, most of the studies are skeptical of the FTAAP concept. From all the background above, the research will stressed some problems which covering “*Government and Entrepreneur Strategies in Facing FTAAP Issues*”. Last but not least, the author would like to thankful to the expert for all attention and assistance by their importance perspective.

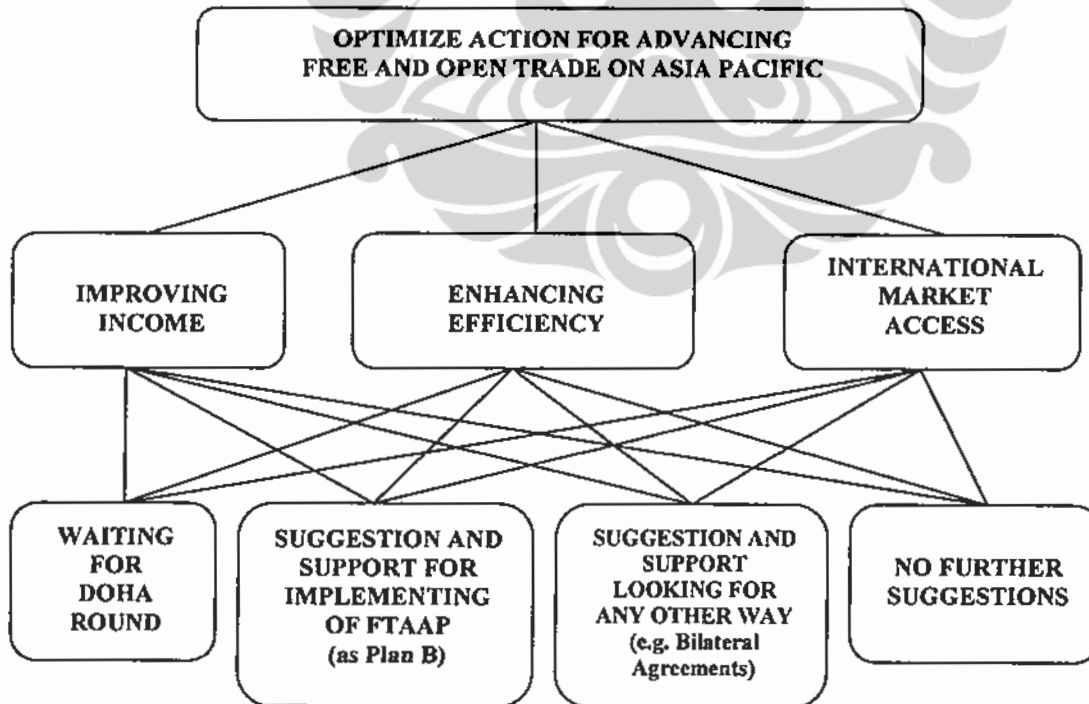


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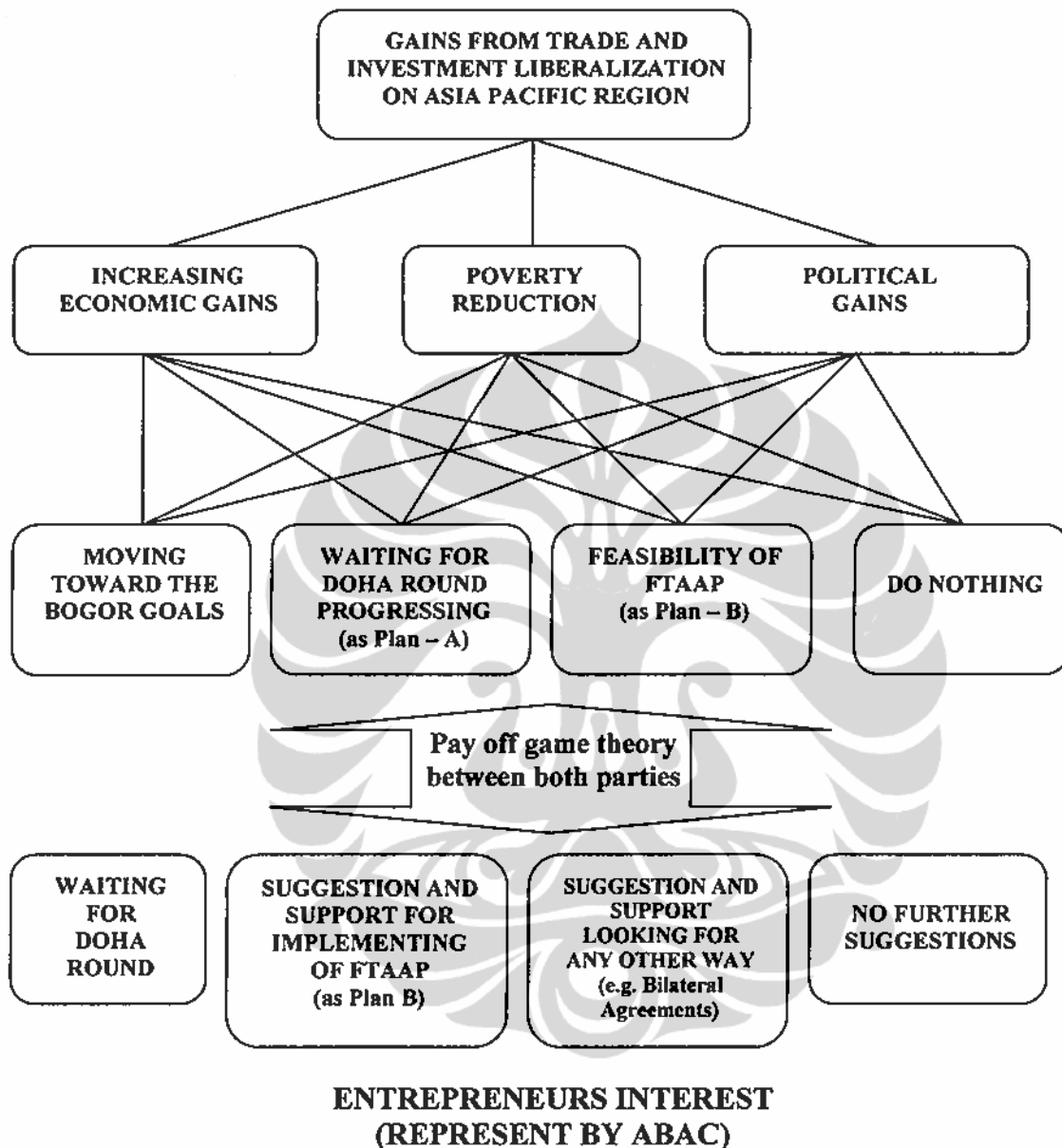
II. Hierarchy of Interest and APEC's Strategies



III. Hierarchy of Interest and Entrepreneurs Strategies



(Continue for appendix – 4)

IV. Decomposition of the Decision Problem

(Continue for appendix – 4)

V. Verbal Scale and Numeric Values**Questionnaire Directions:**

Please fill the blank matrix comparison by using of the fundamental scale as follow:

The Fundamental Scale

Intensity of the Importance	Definition	Expianation
1	Equal Importance	Two activities contribute equally to the objective
3	Moderate Importance	Experience and judgment slightly favor one activity over another
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2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Compared of these degrees of comparison within problems / activities in advancing trade and investment liberalization in the APEC region in case of current free and open trade in Asia Pacific problems

Table APEC – 1: The most important purposes for APEC related to
“Trade and Investment Liberalization on Asia Pacific Region”

	B	INCREASING ECONOMIC GAINS	POVERTY REDUCTION	POLITICAL GAINS
A				
INCREASING ECONOMIC GAINS		X		
POVERTY REDUCTION			X	
POLITICAL GAINS				X

(Continue for appendix – 4)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

The Fundamental Scale

Intensity of the Importance	Definition	Explanation
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2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Compared of each pair of action/activities according step of priority for each follows factors:

Table APEC – 2: The most effective strategy for APEC related to *Increasing Economic Gains*.

	B	MOVING TOWARD THE BOGOR GOAL'S	WAITING FOR DOHA ROUND PROGRESSING (as plan-A)	FEASIBILITY OF FTAAP (as plan-B)	DO NOTHING
A					
MOVING TOWARD THE BOGOR GOAL'S					
WAITING FOR DOHA ROUND PROGRESSING (as plan-A)					
FEASIBILITY OF FTAAP (as plan-B)					
DO NOTHING					

(Continue for appendix – 4)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

The Fundamental Scale

Intensity of the Importance	Definition	Explanation
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2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Compared of each pair of action/activities according step of priority for each follows factors:

Table APEC – 3: The most effective strategy for APEC related to
Poverty Reduction

	B	MOVING TOWARD THE BOGOR GOAL'S	WAITING FOR DOHA ROUND PROGRESSING (as plan-A)	FEASIBILITY OF FTAAP (as plan-B)	DO NOTHING
A					
MOVING TOWARD THE BOGOR GOAL'S					
WAITING FOR DOHA ROUND PROGRESSING (as plan-A)					
FEASIBILITY OF FTAAP (as plan-B)					
DO NOTHING					

(Continue for appendix – 4)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

The Fundamental Scale

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2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Compared of each pair of action/activities according step of priority for each follows factors:

Table APEC – 4: The most effective strategy for APEC related to *Political Gains*

	B	MOVING TOWARD THE BOGOR GOAL'S	WAITING FOR DOHA ROUND PROGRESSING (as plan-A)	FEASIBILITY OF FTAAP (as plan-B)	DO NOTHING
A					
MOVING TOWARD THE BOGOR GOAL'S					
WAITING FOR DOHA ROUND PROGRESSING (as plan-A)					
FEASIBILITY OF FTAAP (as plan-B)					
DO NOTHING					

(Continue for appendix – 4)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

The Fundamental Scale

Intensity of the Importance	Definition	Explanation
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9	Extreme Importance	The evidence favoring one activity over another is of the highest possible order of affirmation
2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Compared of each pair of action/activities according step of priority for each follows factors:

Table APEC – 5: The most effective strategy for APEC in order to *confronting* *Entrepreneurs strategy --- Waiting for Doha Round*

	B	MOVING TOWARD THE BOGOR GOAL'S	WAITING FOR DOHA ROUND PROGRESSING (as plan-A)	FEASIBILITY OF FTAAP (as plan-B)	DO NOTHING
A					
MOVING TOWARD THE BOGOR GOAL'S					
WAITING FOR DOHA ROUND PROGRESSING (as plan-A)					
FEASIBILITY OF FTAAP (as plan-B)					
DO NOTHING					

(Continue for appendix – 4)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

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2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Compared of each pair of action/activities according step of priority for each follows factors:

Table APEC – 6: The most effective strategy for APEC in order to *confronting* *Entrepreneurs strategy* --- *Suggestion and Support for Implementing of FTAAP*

	B	MOVING TOWARD THE BOGOR GOAL'S	WAITING FOR DOHA ROUND PROGRESSING (as plan-A)	FEASIBILITY OF FTAAP (as plan-B)	DO NOTHING
A					
MOVING TOWARD THE BOGOR GOAL'S					
WAITING FOR DOHA ROUND PROGRESSING (as plan-A)					
FEASIBILITY OF FTAAP (as plan-B)					
DO NOTHING					

(Continue for appendix – 4)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

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2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Compared of each pair of action/activities according step of priority for each follows factors:

Table APEC – 7: The most effective strategy for APEC in order to *confronting* *Entrepreneurs strategy --- Suggestion and Support Looking for Any Other Way (e.g. Bilateral Agreements)*

	B	MOVING TOWARD THE BOGOR GOAL'S	WAITING FOR DOHA ROUND PROGRESSING (as plan-A)	FEASIBILITY OF FTAAP (as plan-B)	DO NOTHING
A					
MOVING TOWARD THE BOGOR GOAL'S					
WAITING FOR DOHA ROUND PROGRESSING (as plan-A)					
FEASIBILITY OF FTAAP (as plan-B)					
DO NOTHING					

(Continue for appendix – 4)

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2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Compared of each pair of action/activities according step of priority for each follows factors:

Table APEC – 8: The most effective strategy for APEC in order to *confronting* *Entrepreneurs strategy* --- *No Further Suggestion*

	B	MOVING TOWARD THE BOGOR GOAL'S	WAITING FOR DOHA ROUND PROGRESSING (as plan-A)	FEASIBILITY OF FTAAP (as plan-B)	DO NOTHING
A					
MOVING TOWARD THE BOGOR GOAL'S					
WAITING FOR DOHA ROUND PROGRESSING (as plan-A)					
FEASIBILITY OF FTAAP (as plan-B)					
DO NOTHING					

APPENDIX

Appendix – 5

**Questionnaire of Analytical Hierarchy Process
“Advancing Trade and Investment Liberalization”
(From the Aspect of Entrepreneurs Interests and Strategies)**

I. Research Background and Purposes

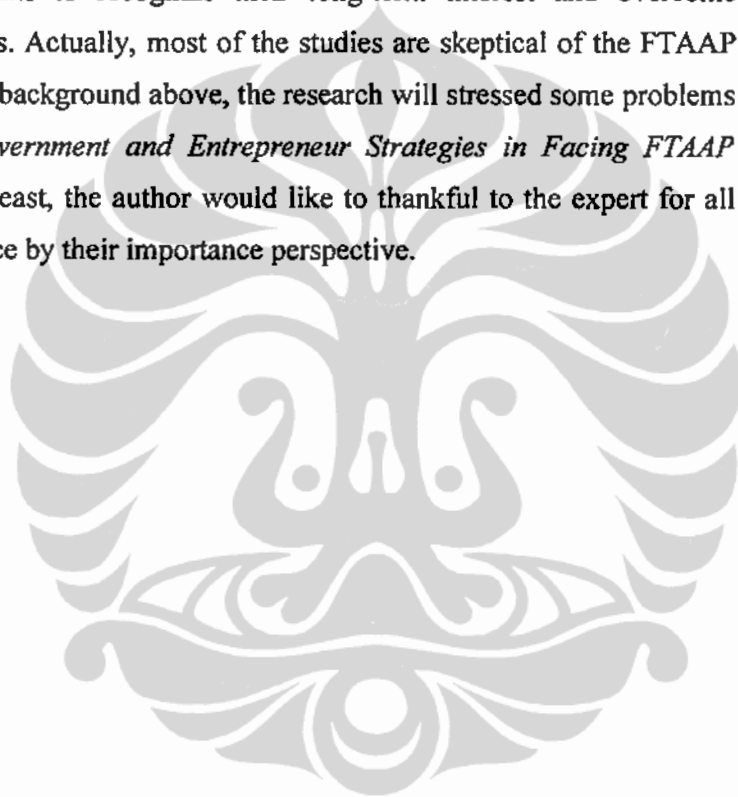
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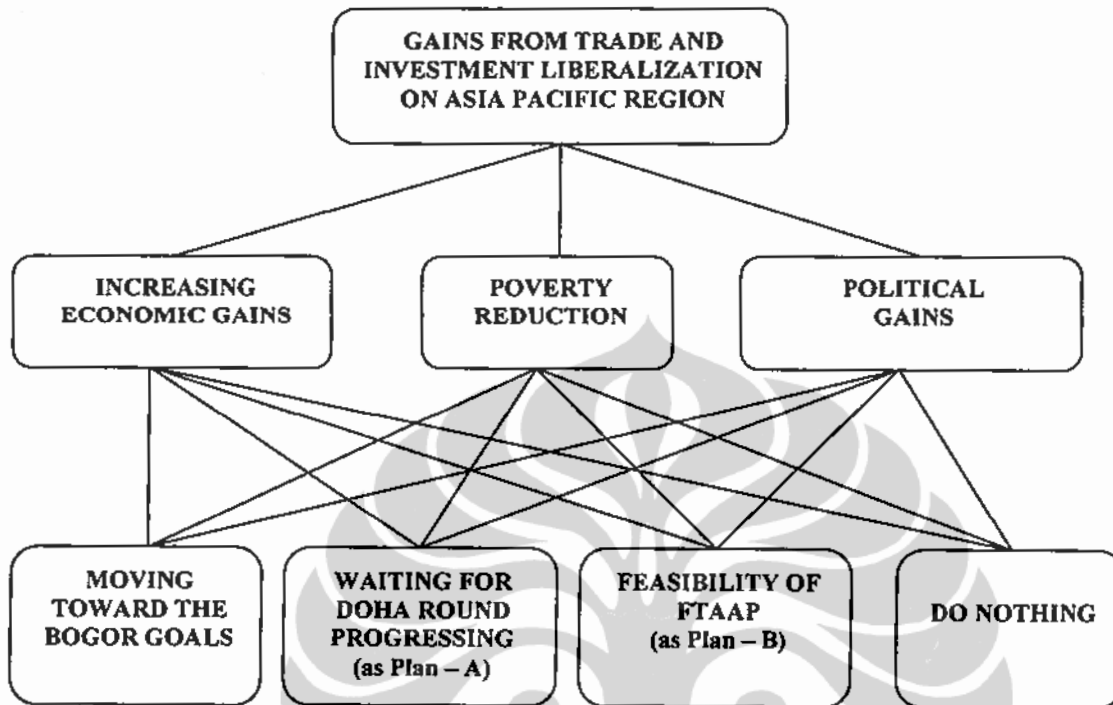
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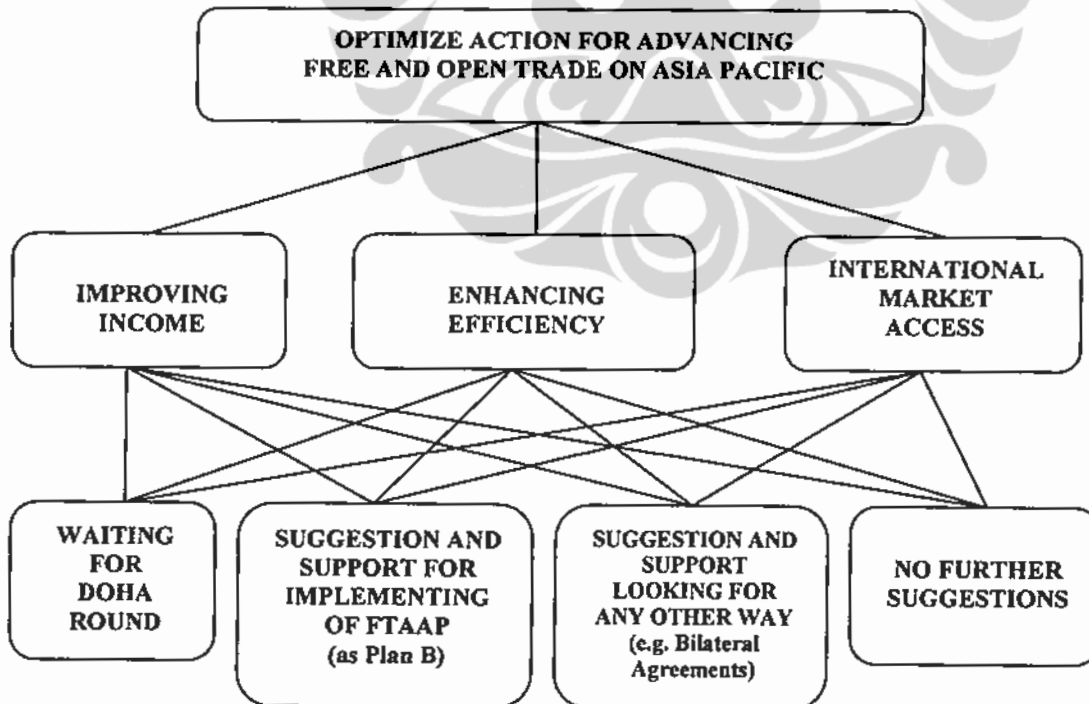


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II. Hierarchy of Interest and APEC's Strategies

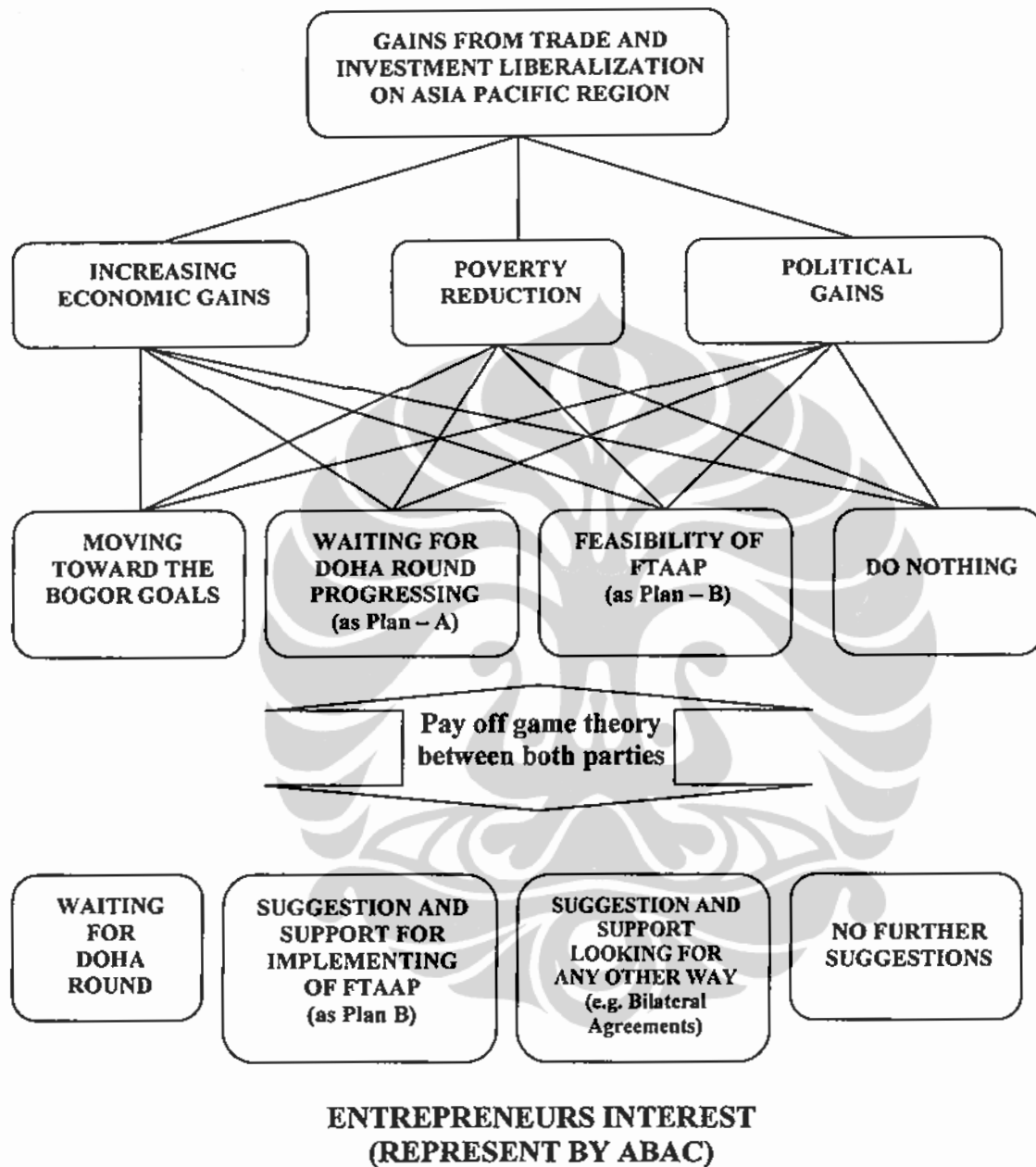


III. Hierarchy of Interest and Entrepreneurs Strategies



(Continue for appendix – 5)

IV. Decomposition of the Decision Problem



(Continue for appendix – 5)

V. Verbal Scale and Numeric Values

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Compared of these degrees of comparison within problems / activities in advancing trade and investment liberalization in the APEC region in case of current free and open trade in Asia Pacific problems

Table Entrep. – 1: The most important purposes for Entrepreneurs related to “Optimize Action for Advancing Free and Open Trade”

	B			
A		IMPROVING INCOME	ENHANCING EFFICIENCY AND PRODUCTIVITY	INTERNATIONAL MARKET ACCESS
	IMPROVING INCOME	X		
	ENHANCING EFFICIENCY AND PRODUCTIVITY		X	
	INTERNATIONAL MARKET ACCESS			X

(Continue for appendix – 5)

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Compared of each pair of action/activities according step of priority for each follows factors:

Table Entrep.- 2 : The most effective strategy for Entrepreneurs related to *Improving Income*

		B				
		WAITING FOR DOHA ROUND	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)	NO FURTHER SUGGESTIONS	
A						
	WAITING FOR DOHA ROUND					
	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)					
	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)					
	NO FURTHER SUGGESTIONS					

(Continue for appendix – 5)

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Compared of each pair of action/activities according step of priority for each follows factors:

Table Entrep.– 3 : The most effective strategy for Entrepreneurs related to *Enhancing Efficiency*

		B				
		WAITING FOR DOHA ROUND	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)	NO FURTHER SUGGESTIONS	
A						
	WAITING FOR DOHA ROUND					
	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)					
	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)					
	NO FURTHER SUGGESTIONS					

(Continue for appendix – 5)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

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Compared of each pair of action/activities according step of priority for each follows factors:

Table Entrep.– 4 : The most effective strategy for Entrepreneurs related to *International Market Access*

		B				
		WAITING FOR DOHA ROUND	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)	NO FURTHER SUGGESTIONS	
A						
	WAITING FOR DOHA ROUND					
	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)					
	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)					
	NO FURTHER SUGGESTIONS					

(Continue for appendix – 5)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

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2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Table Entrep.- 5 : The most effective strategy for Entrepreneurs in order to confronting APEC strategy --- Moving Toward the Bogor Goals

		B				
		WAITING FOR DOHA ROUND	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)	NO FURTHER SUGGESTIONS	
A						
	WAITING FOR DOHA ROUND					
	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)					
	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)					
	NO FURTHER SUGGESTIONS					

(Continue for appendix – 5)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

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9	Extreme Importance	The evidence favoring one activity over another is of the highest possible order of affirmation
2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Table Entrep.-- 6 : The most effective strategy for Entrepreneurs in order to confronting APEC strategy --- Waiting for Doha Round Progressing (as Plan-A)

		B				
		WAITING FOR DOHA ROUND	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)	NO FURTHER SUGGESTIONS	
A						
	WAITING FOR DOHA ROUND					
	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)					
	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)					
	NO FURTHER SUGGESTIONS					

(Continue for appendix – 5)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

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2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Table Entrep.- 7 : The most effective strategy for Entrepreneurs in order to confronting APEC strategy --- Feasibility of FTAAP

		B				
		WAITING FOR DOHA ROUND	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)	NO FURTHER SUGGESTIONS	
A						
	WAITING FOR DOHA ROUND					
	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)					
	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)					
	NO FURTHER SUGGESTIONS					

(Continue for appendix – 5)

Please fill the blank matrix comparison by using of the fundamental scale as follow:

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2, 4, 6, 8	For compromise between the above values	Sometime one needs to interpolate a compromise judgment numerically, because there is no appropriate word to describe it

Table Entrep.– 8 : The most effective strategy for Entrepreneurs in order to confronting APEC strategy --- Do Nothing

		B			
		WAITING FOR DOHA ROUND	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)	NO FURTHER SUGGESTIONS
A	WAITING FOR DOHA ROUND				
	SUGGESTION & SUPPORT FOR IMPLEMENTING OF FTAAP (as plan-B)				
	SUGGESTION & SUPPORT LOOKING FOR ANY OTHER WAY (e.g. Bilateral Agreements)				
	NO FURTHER SUGGESTIONS				