REPORT

Seminar on

CONNECTIVITY AND INCLUSIVE GROWTH IN THE ASIA-PACIFIC

3 October 2013
Bali, Indonesia

pecc Pacific Economic Cooperation Council

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Pacific Economic Cooperation Council

The Pacific Economic Cooperation Council (PECC) is a non-profit international organization committed to the promotion of cooperation and dialogue in the Asia Pacific. Founded in 1980, PECC is a tripartite network of 26 member committees comprising individuals and institutions dedicated to this shared mission. Of the 26 member committees, 23 represent the economies of Australia, Brunei Darussalam, Canada, Chile, China, Colombia, Ecuador, Hong Kong (China), Indonesia, Japan, Korea, Malaysia, Mexico, Mongolia, New Zealand, the Pacific Islands Forum, Peru, the Philippines, Singapore, Chinese Taipei, Thailand, the United States of America, and Vietnam. The PECC also has one associate member, France (Pacific Territories), and two institutional members, the Pacific Trade and Development Conference and the Pacific Basin Economic Council. As the only non-governmental official observer of APEC (Asia-Pacific Economic Cooperation), PECC provides independent business and research input for the regional policy-making process.

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BOAO FORUM FOR ASIA

As a non-government, non-profit international organization, Boao Forum For Asia (BFA) is the most prestigious and premier forum for leaders in government, business and academia in Asia and other continents to share visions on the most pressing issues in this dynamic region and the world at large. The Forum is committed to promoting regional economic integration and bringing Asian countries even closer to their development goals. Initiated in 1998 by Fidel V. Ramos, former President of the Philippines, Bob Hawke, former Prime Minister of Australia, and Morihiro Hosokawa, former Prime Minister of Japan, Boao Forum for Asia was formally inaugurated in February 2001. Countries across the region have responded with strong support and great enthusiasm, and the world has listened attentively to the voice coming from a tiny, quiet and scenic island at the southernmost part of China – Boao, the permanent site of the Annual Conference of the Forum since 2002.

Ambassador Zhou Wenzhong

Secretary General

ISBN-13: 978-981-07-8670-0

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Opening Session

Launch of PECC's *State of the Region* Report

When leaders of the Asia-Pacific Economic Cooperation (APEC) forum last met in Indonesia in 1994, they agreed on an ambitious course of action to free and open trade in the region by 2010 for developed economies and by 2020 for developing ones. In 2013, as APEC chair, Indonesia has made inclusive growth a key priority.

Crucial to this goal is the APEC Framework on Connectivity, which was approved by the APEC Economic Leaders at their meeting in Bali. This document outlined actions that APEC economies will take in 2014 to enhance connectivity across the region. "We share the view that seamless physical, institutional and people-to-people connectivity are critical prerequisites in attaining our APEC community vision," the Leaders agreed. APEC members, they added, would boost connectivity "by addressing the region's underdeveloped infrastructures and their networks, inefficient procedures, and hindrances to the mobility of our people and their institutional networks."

During the APEC meetings in Bali, the Pacific Economic Cooperation Council (PECC) and the Boao Forum for Asia convened a half-day seminar to consider "Connectivity and Inclusive Growth in the Asia-Pacific" and to identify policy actions and projects that could be adopted in 2014, when the People's Republic of China holds the APEC chair.

In four interactive sessions and a closing dinner, business, government, academic and civil society leaders discussed and debated ways to increase institutional, physical and people-to-people connectivity in the Asia-Pacific. One panel was devoted to the challenge of financing infrastructure development, a critical bottleneck to growth in the region. This was an especially important discussion in light of Chinese President Xi Jinping's announcement that China would support the establishment of an Asian infrastructure development bank, a proposal that attracted much attention in advance of the APEC meetings.

During the seminar, PECC launched its annual flagship State of the Region report, which includes a survey of regional opinion leaders on the priorities for Asia-Pacific cooperation and ways to deepen regional integration.

This report outlines the outcomes of the seminar discussions, including key points of action that could be included in a broad plan of action to strengthen regional connectivity during China's APEC chairmanship. Such a roadmap would be a major contribution to driving inclusive growth in the Asia-Pacific in coming years.

We thank our members and participants, particularly the speakers and moderators, for their engagement at the seminar and look forward to further opportunities for collaboration between our two organizations.

PACIFIC ECONOMIC COOPERATION COUNCIL

Mr Jusuf Wanandi
Co-Chair

Ambassador Don Campbell
Co-Chair

BOAO FORUM FOR ASIA

Ambassador Zhou Wenzhong
Secretary General

Connectivity and Inclusive Growth in the Asia-Pacific

Nearly 20 years ago, Asia-Pacific Economic Cooperation (APEC) Economic Leaders' Meeting in Indonesia set out the "Bogor Goals" of free trade and investment for developed economies of the region by 2010 and for developing ones by 2020. With Indonesia again the APEC chair, it is fitting and timely to consider how far the Asia-Pacific has come in achieving regional integration. While tariffs have fallen and many non-tariff barriers have been reduced, true connectivity remains limited. To be sure, initiatives such as the APEC Business Travel Card have succeeded in promoting people-to-people exchanges, but the region can do more to achieve a level of connectivity that results in significant economic gains.

Ongoing trade initiatives such as the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) will bring major growth benefits once they are launched. But for the Asia-Pacific to reap the maximum potential advantages from these trade and investment arrangements will require deeper integration among economies and a willingness in all economies to be open to greater collaboration and to implement necessary structural reforms.

Two days ahead of the annual APEC Economic Leaders' Meeting in Bali, the Pacific Economic Cooperation Council (PECC) and the Boao Forum for Asia convened a seminar to consider ways to deepen connectivity in the region to drive economic growth that is inclusive. Inclusion is crucial because inequality within economies and between economies in the region has widened. Seminar participants aimed to outline a roadmap for action that can be implemented in 2014 when the People's Republic of China holds the chair of APEC.

These are key outcomes from the discussions during four sessions and a closing dinner. They constitute an agenda for promoting connectivity and inclusive growth in the Asia-Pacific over the coming year.

- ## Infrastructure

Addressing infrastructure gaps must be the top priority for each economy and for the region as a whole. New, creative financing channels are needed. The proposal by China to support an Asian infrastructure development bank can be implemented quickly, but must have the support of all governments in the region to ensure private sector participation. The aim of the bank: to facilitate the development of bankable projects and their execution with both public and private-sector investment.

- ## Travel and Tourism

APEC must move swiftly to build on mobility successes such as the Business Travel Card scheme. Travel facilitation is a priority that will require the smart use of online technology and data sharing among economies to promote tourism without compromising security. Airports and ports must be designed to be tourist friendly.

- ## Mobility

Economies in the region must focus on increasing ways to allow for greater mobility of professionals. This will address skills shortages and the demographic challenges faced by economies with ageing populations and those with youth bulges.

- ## Policy Coordination

APEC members should focus more on how better to coordinate policies to enhance institutional, physical and people-to-people connectivity. For example, developing infrastructure on a regional basis will require coordination among economies in a range of areas including planning, technical requirements, and training.

- ## Reform

To avoid the widening inequality gap in the region, each economy should pursue a specific restructuring program crucial to acquiring the capacity for better integration with other economies. Developing economies, in particular, must address persistent supply-side constraints. Without crucial reforms, these economies risk lagging further behind the developed members. Deeper connectivity will mean that economies will be able realize maximum gains from the regional trade and investment integration initiatives that are under negotiation.

"We need to develop all together – or not at all. Development can't be piecemeal."

Mostafa Faruque Mohammed
Minister of Information & Communication Technology, Bangladesh

Vision, Feasibility and Roadmap

Nearly 20 years ago, the Asia-Pacific Economic Cooperation (APEC) Economic Leaders issued their landmark declaration in Bogor, Indonesia, setting the goals of free trade and investment among developed economies by 2010 and among developing ones by 2020.

That has been APEC's guiding vision since – and members have moved forward to implement their individual action plans to achieve it. Yet today, true integration of the region is still a work in progress. What is missing is connectivity. Both in people's consciousness and imagination and in the reality on the ground, an Asia-Pacific market or economic community remains a distant ideal.

That must change. "We are in another era and have to take another step – not just in terms of liberalization but also in developing cooperation, particularly between the developed and developing economies," Jusuf Wanandi, Co-Chair of the Pacific Economic Cooperation Council (PECC), said in remarks in the opening session of the Seminar on Connectivity and Inclusive Growth in the Asia-Pacific in Bali. "Interconnectivity will be a very big part of this." Zhou Wenzhong, Secretary General of the Boao Forum for Asia, agreed, stressing the need to focus on connectivity through infrastructure development. "We are committed to Asian integration. This is high on the Boao agenda. We need to bring together the best minds on connectivity to shape a master plan for financing infrastructure in the Asia-Pacific."

How well the Asia-Pacific economies are able to integrate tourism and travel across the region could prove a litmus test for success in deepening connectivity. "If there is one sector that has an intrinsic relationship with the level of connectivity, it is travel and tourism," remarked Taleb Rifai, Secretary General of the World Tourism Organization, in a keynote speech. Noting the substantial growth of the middle class in the region, he underscored the importance of increasing investment in education, skills training, transport systems and the mobility of people. "Air transport market liberalization is a critical issue," he asserted. "We need to have people freely moving around the world." Asked what one measure should be the top priority for boosting connectivity in the region, he replied: "Eliminate visas."

"We need to have people freely moving around the world."

Taleb Rifai
Secretary General,
World Tourism Organization,
Madrid

Rifai identified other areas where reforms are needed, including taxation and regulatory frameworks that act as barriers to greater connectivity in travel and tourism. Taxes are a major disincentive and pose a threat to what is the third biggest industry in the world, he explained. Restrictions on fifth-freedom flights, he added, are based on the principle of reciprocity and motivated by protectionism – not driven by the need to expand commerce, connect destinations and provide better and broader air services to people. "An eye for an eye makes the world blind," he warned, repeating the old adage.

Moving the Asia-Pacific towards deeper connectivity will ensure that growth in the region is inclusive. Again, travel and tourism can be a leading model. "The industry is stimulating other sectors," Rifai said. Expansion of travel and tourism typically creates jobs across a wide range of related businesses. That is the hope embedded in what must be the new vision for APEC – that greater connectivity will mean rippling benefits for all economies. If no one member is left off the grid or lags behind, then the region will prosper together.

"We are in another era and have to take another step. Interconnectivity will be a very big part of this."

Jusuf Wanandi
Co-Chair, Pacific Economic Cooperation Council (PECC)

Institutional Connectivity

Since 1999, the Asia-Pacific Economic Cooperation (APEC) Business Travel Card scheme has been in operation, allowing businesspeople streamlined immigration entry into participating economies. The card is a signature connectivity success for APEC – an initiative that has resulted in clear practical benefits. APEC has in fact done a great deal in the past two decades to facilitate trade and investment, reducing transaction costs and easing the movement of goods and services across the region. One current initiative is focused on boosting supply-chain connections.

Yet there is a lot more that can be done, acknowledged Denis Hew, Director of the Policy Support Unit of the APEC Secretariat. Making customs procedures easier and enhancing transport links are just two areas for improvement. Deepening institutional connectivity means coordinating policy frameworks, added Masahiro Kawai, Dean of the Asian Development Bank Institute.

The two major regional free-trade negotiations – the US-led Trans-Pacific Partnership (TPP) and the ASEAN-driven Regional Comprehensive Economic Partnership (RCEP) – pose ongoing challenges, given the differences in the economies that are participating and the breadth of the areas covered in each set of talks. While RCEP has wider participation – all 10 ASEAN countries and their free-trade agreement (FTA) partners, China, India and Japan, among others – the TPP agenda is much broader.

Denis Hew
Director, Policy Support Unit,
APEC Secretariat,
Singapore

Zhou Qiangwu
Deputy Director General, Asia-Pacific Finance and Development Center (AFDC)
Beijing Office, Ministry of Finance,
People's Republic of China

Combining the geographic stretch and inclusiveness of RCEP and the ambition of the TPP agenda could lead to a combination that would significantly bolster Asia's supply chain system, Kawai reckoned. Economies within the RCEP could transition into the more demanding TPP once they are prepared to meet the requirements set by the initial TPP participants. The overlap of RCEP and TPP and the proliferation of FTAs across the Asia-Pacific create complexities for businesses that must be addressed by economies in the region, especially given that the global multilateral trade talks under the World Trade Organization (WTO) continue to be at a standstill.

Another crucial area requiring closer institutional connectivity in the region is infrastructure, specifically in the financing of projects. This will be high on China's agenda for when it takes the APEC chair in 2014, said Zhou Qiangwu, Deputy Director General of the Asia-Pacific Finance and Development Center (AFDC) Beijing Office, Ministry of Finance, China. He pointed to China's success in infrastructure development, aided by funds from the Asian Development Bank (ADB), the World Bank and other multilateral institutions, as an example for the region.

People-to-People Connectivity

At core, the drive to boost regional connectivity as a way to promote inclusive growth must be about bringing together people. But beyond the success of the APEC Business Travel Card scheme, how well has APEC managed to connect its citizens? People-to-people connectivity is not just about tourism but also about how to make it easier for travel that results in greater trade and investment. Two decades ago, the demand may not have been there, but "we now have the numbers," argued Mari Pangestu, Minister of Tourism and Creative Economy of Indonesia, fresh from participating in an APEC High Level Policy Dialogue on Travel Facilitation. "What we are trying to do in APEC is very similar to what we are trying to do with goods – to make people move faster."

Visa facilitation and trusted traveller programs such as the Travel Card are essential, Pangestu said. As with goods, it is possible to send traveller information ahead of time so that time for clearance on arrival is minimized. "We need tourist-friendly airports – not just building airports but designing them so that they serve the needs of the people who come through it," she proposed. To implement such measures, however, will require greater coordination of government agencies at the national and regional levels. "Let's agree on what we can do to push programs ahead faster by talking to each other and sharing data systems."

Yet any initiatives to enhance people-to-people connectivity must be aimed at promoting growth that benefits as many people as possible, added A. Didar Singh, Secretary General of the Federation of Indian Chambers of Commerce and Industry. "If you don't have inclusive growth, you will just have travel and tourism of bureaucrats. The question is what is being done for trade and growth at the bottom of the pyramid."

This means that physical and digital connectivity are essential. Infrastructure and communications links across the region are keys to unlocking the vast potential growth that can be gained by moving more people faster, Sun Ziyu, Chairman of China Harbour Engineering Company and President of China Communications Construction Company, said.

"For inclusive growth, what you need is skills."

Didar Singh
Secretary General, Federation of Indian Chambers of Commerce and Industry, India

Also crucial is making it easier for professionals to work across economies in the region and for new types of consumers to travel. Facilitating such people connectivity could help certain countries address the problem of ageing demographics. Economies with a youth bulge could be important sources of workers prepared to care for the elderly in Japan and elsewhere. Ageing countries could be a rich source of "gray" or senior citizen tourists or medical travellers seeking lower-cost healthcare abroad. More people from countries with youthful demographics would be able to study overseas.

But true mobility of skilled workers and students will require agreement on competency standards. "The issue of standards will come up again and again," Singh predicted. "For inclusive growth, what you need is skills. It is more important to connect for skills development." Also necessary is the improvement of common language skills, particularly the use of English and perhaps Mandarin as working languages of business.

"What we are trying to do in APEC is very similar to what we are trying to do with goods – to make people move faster."

Mari Pangestu
Minister of Tourism and Creative Economy, Indonesia

Physical Connectivity

Greater and better performing physical connectivity inside an economy and between economies can lead to significant welfare benefits. "You connect people to markets – and to a wider set of markets than they might otherwise be connected to," explained Christopher Findlay, Vice-Chair of the Australian Pacific Economic Cooperation Committee (AUSPECC) and Executive Dean of the Faculty of the Professions at the University of Adelaide. Improving infrastructure both nationally and regionally can have particularly significant dividends in the agriculture sector, he added. "There are tremendous gains from getting this right for inclusive growth, including a big domestic component."

A major reason behind China's sustained growth over decades is its focus on infrastructure development, noted Economist Asia Columnist Simon Long. Often quoted these days is the assertion by the Asian Development Bank (ADB) that Asia will need US$8 trillion to meet its infrastructure needs through 2030. But financing and constructing infrastructure on a regional basis pose significant difficulties, not least with the politics involved. "There are political difficulties in selling international connectivity as an electoral platform," Long explained.

Capital is not the problem, said Mark Rathbone, Partner and Asia-Pacific Leader, Capital Projects and Infrastructure at PricewaterhouseCoopers in Singapore, noting that governments and private investors have the funds. The real issue is risk, he argued. "Why invest in Indonesia for a 12 percent return when you can invest in a market you can understand such as the UK and Australia for an 11 percent return?" To surmount the risk impediment will require "a sea change in the way development markets are perceived," he said. "Another fundamental barrier is that there is a reticence or lack of willingness for governments to provide subsidies. There are limits to the funds that governments can provide for infrastructure."

Forging public-private partnerships could mitigate the risk problem and move more infrastructure projects to financing, said Amin Subetki, Executive Director of the APEC Business Advisory Council (ABAC). "A common language between the public and private sectors can be developed. Hopefully private sector investment in infrastructure will then move significantly." Because of the APEC platform, one economy's moves can give others the inspiration and confidence to act. This "spillover effect" can catalyze infrastructure development across the region, he suggested.

"There are tremendous gains from getting infrastructure right for inclusive growth, including a big domestic component."

Christopher Findlay
Vice-Chair, Australian Pacific Economic Cooperation Committee (AUSPECC), and Executive Dean of the Faculty of the Professionals, University of Adelaide, Australia

The Financing Challenge

Across the region, infrastructure and how to get projects financed is the proverbial gorilla in the room. In many economies, the lack of adequate roads, ports, airports, communications and other necessary tools of connectivity is a biggest impediment to growth – and indeed to growth that is inclusive. The Asian Development Bank (ADB) has estimated that Asia will require US$8 trillion in investment to meet its infrastructure needs to the year 2030.

The challenge for the region is not the lack of funds, but more often the weakness of will – whether political or commercial – to take the risk on investing in a venture that typically costs a lot and requires a long time to realize any returns. Yet some economies are scoring successes. Consider the high-speed rail systems that have been built in France and China. The nature of the governments in both – the fact that their central state administrations are strong – may have something to do with it, Steve Howard, Secretary-General of The Global Foundation of Australia, conjectured.

China's focus on infrastructure development is often cited as a model for how building connectivity can be a fundamental catalyst for inclusive growth. So it is not surprising that the proposal by Chinese President Xi Jinping for the creation of an Asian infrastructure investment bank has drawn a great deal of attention. To be sure, there are vital national interests involved. But China's support for a regional platform for infrastructure development could prove to be a lynchpin for securing connectivity in the Asia-Pacific. "That he has mentioned the idea three times in one year means that China is determined to establish such a bank," reasoned Zheng Xinli, Permanent Vice Chairman of the China Center for International Economic Exchanges. "If you want to get rich, you need to build roads."

"A missing link has been the overall government planning and facilitation. The key is planning."

Fang Fang
Vice Chairman, Asia, and CEO, China,
J P Morgan Investment Banking,
Hong Kong

By involving governments, a regional financing mechanism could address the risk problem and help produce more bankable projects, especially since an infrastructure venture usually takes years to complete. "A missing link has been the overall government planning and facilitation," said Fang Fang, Vice Chairman, Asia, and CEO, China, at J P Morgan Investment Banking in Hong Kong. "The key is planning. This bank will hopefully lead to multilateral government participation to facilitate infrastructure investment." Government involvement will lead to the flow of private money, Fang reckoned. "Execution has to be through private enterprise-like entities. Otherwise, they will not be sustainable."

Joaquim Tres, Integration and Trade Lead Specialist at the Inter-American Development Bank (IADB), agreed, noting that the IADB has played a facilitating role that can remove the bottlenecks to infrastructure development in Latin America and help address market failures and coordination problems. Infrastructure has to be conceived with a regional approach, but cross-border project development and construction entails particular risks – what if one party does not do what it is required to? It also requires vision and skilled management, which can be costly, Tres explained. Public-private partnership is essential because public-sector spending can spur much more private-sector funding, particularly if government involvement lessens the perceived risk.

The number of infrastructure projects progressing to the financing stage is insufficient, said Conor McCoole, Managing Director and Head of Project Finance at Standard Chartered Bank in Singapore. What is needed, he added, is a single central organizing authority armed with a clear set of rules that takes the lead and champions projects. Some governments have a dedicated ministry to oversee infrastructure.

For the regional infrastructure development bank to succeed, the initial partners should prepare well and be unified in purpose, Zheng said. They should develop a sustainable mechanism that will ensure that the bank is commercially viable. This should entail creative ways to tap the enormous savings of Asian economies and to channel these funds efficiently to infrastructure projects. There will be challenges – for example, how projects that might have low rates of return can get financed. Another issue is corruption, which can drive up costs and forces investors to demand higher returns. Transparency would ensure greater predictability and lower risk. "Corruption is a very serious tax on good infrastructure," explained McCoole.

While welcoming the regional infrastructure investment bank initiative, seminar participants said that financing is not the only issue of concern. There should be focus on project preparation. The bank should be a catalyst for spreading best practices in infrastructure development. "We need resources for good project development – such as funds for feasibility studies and procurement and draft contracts, which are expensive," infrastructure and public-private partnership specialist Laila Horton of Indonesia concluded.

"Corruption is a very serious tax on good infrastructure."

Conor McCoole
Managing Director and Head of Project Finance, Standard Chartered Bank, Singapore

A View from China: "Speed Up Connectivity"

At the closing dinner of the Seminar on "Connectivity and Inclusive Growth in the Asia-Pacific", Li Ruogu, Chairman and President of the Export-Import Bank of China (China Eximbank), offered his insights on connectivity in the region and the challenge of addressing the infrastructure deficit. He also expressed his views on the global economy and on the growth outlook for China.

The global economy is still experiencing profound changes unleashed by the crisis that broke more than five years ago. In developed economies, "the deleveraging process still has a way to go," Li reckoned. "By contrast, emerging and developing economies had a much better performance and have steadily restructured their economies and reshaped national industrial supply chains." Added Li: "The crisis has accelerated the shift in the balance of power between North and South. South-South cooperation is now more important to the world's economic development."

The transfer of production and consumption centers to developing markets has accelerated, Li said, noting that emerging economies have been upgrading and optimizing their manufacturing processes. China and ASEAN economies, in particular, will become more important drivers of growth in the global economy, he argued. In this context, it is crucial for developing economies, particularly those in the Asia-Pacific region, to deepen integration and cooperation. "Speeding up connectivity is therefore a matter of great importance," Li explained.

Resolving the region's infrastructure gap, in particular, "will facilitate development and is very crucial," Li said. Existing infrastructure networks can no longer satisfy the needs of the region's economies. Modernizing transport and logistics systems will not only improve the mobility of people and goods but also lower distribution costs. New investment will stimulate growth and boost social equity by creating jobs, Li maintained.

But developing infrastructure on a regional basis will be challenging, he acknowledged. Technical standards have to be unified. There is a shortage of top-notch engineering and management professionals able to handle major projects, particularly those that involve more than one economy. Managers and workers have to be trained, and some economies will need technical assistance, especially with complex projects such as bridges. Economies in the region will have to broaden financial channels to raise sufficient funds, mobilizing the private sector. And they must also build up industries needed to support infrastructure construction.

Turning to the Chinese economy, Li dismissed predictions of a serious slowdown of the Chinese economy. He concluded: "So many people have been forever forecasting that the Chinese economy will slow down. I don't believe that. Those forecasters have disappeared, but the Chinese economy steadily grows and grows. And in the next 50 years, the Chinese economy will continue to grow." ■

"So many people have been forever forecasting that the Chinese economy will slow down. I don't believe that."

Li Ruogu
Chairman and President, Export-Import Bank of China, People's Republic of China

The Restructuring Imperative

Five years since the outbreak of the great recession, the global economy continues to experience unsettling volatility. The recovery in the US is weak, while Europe still roils from its debt and currency crisis. The Asia-Pacific, particularly China and other emerging economies, led the rebound, the persistent anemia in developed markets has caught up with them. Chinese growth has slowed to around 7 percent, while India and Brazil have stumbled, stymied by lingering structural problems including poor infrastructure and over-reliance on certain sectors.

For APEC members to weather this prolonged period of uncertainty and instability, the challenge is to drive new growth by pursuing the economic and human resource development goals set out in the Growth Strategy adopted by economic leaders at their meeting in Yokohama, Japan, in 2010. Among the aims: job creation; increasing economic opportunities for women, the elderly and other vulnerable groups; developing education and training for green jobs; skills development; improving preparation for emergencies and natural disasters; and addressing the threat of climate change.

"In this period of great volatility and instability, the whole pack needs to fly in formation and work together so that it does not get tired," said Pacific Economic Cooperation Council (PECC) Secretary General Eduardo Pedrosa in a session to launch PECC's annual *State of the Region* report, which he coordinated. What is required is closer policy coordination and deeper connectivity across the region, he argued. "The first period has been the breaking down of barriers like tariffs; the next stage is to build bridges." Average tariffs in the Asia-Pacific are now down to 5 percent, he pointed out.

In a survey included in the *State of the Region* report, 560 opinion-shapers identified the slowdown of the Chinese economy as the top risk to growth in the Asia-Pacific, with over 60 percent of respondents expecting weaker growth in China over the next 12 months. Those polled, meanwhile, tended to be positive on the prospects for the US, with 60 percent expressing positive sentiments compared to just 30 percent last year. As for Japan, where a new government has been pursuing a major stimulus and restructuring program, more than 55 percent of respondents were optimistic.

"While the overall economic outlook is positive for the region, the trajectory of growth is a concern so we must continue to implement the APEC Growth Strategy."

Don Campbell
Co-Chair, Pacific Economic Cooperation Council (PECC)

"While it is encouraging to see more positive prospects in regards to the US and Japan, we are conscious that these two economies have had to rely on some quantitative easing measures," said PECC Co-Chair Don Campbell. "While the overall economic outlook is positive for the region, the trajectory of growth is a concern so we must continue to implement the APEC Growth Strategy."

Indeed, addressing structural problems must be an urgent priority for both the developed and developing economies in the region. Inequality is growing both within economies and between economies, warned Chen Bo, Associate Department Chair in the School of Economics of Shanghai University of Finance and Economics. Even as regional integration deepens, economies will have to pursue reforms specific to their particular conditions.

There will be significant benefits from the regional trade initiatives that are under negotiation, said Kenichi Kawasaki, Adjunct Fellow of the Japan Institute of International Affairs. According to the PECC study, the US-led Trans-Pacific Partnership (TPP) could increase global GDP by US$223 billion, while the ASEAN-driven Regional Comprehensive Economic Partnership (RCEP) could lead to US$644 billion in gains. Taken together, an integrated, region-wide Free Trade Area of the Asia-Pacific (FTAAP) could lead to a US$1.9 trillion rise in global output.

But "developing economies face serious supply-side constraints to realizing the benefits," cautioned Pedrosa. Infrastructure gaps, for example, must be addressed. There is also a need to build the capacity to help economies attract and handle more investment efficiently and with lower risk. Failure to implement the structural reforms that each economy requires will lead to greater inequality not just domestically but regionally as well.

"Growing inequality in the region is going to be a problem," Federico Macaranas, Professor at the Asian Institute of Management in Manila, predicted. "People are impatient for results. Capacity building is a way to address this. But why join an APEC project if there is no value added for us? This is a serious concern. We cannot make haste slowly." APEC has to act quickly to build connectivity in the region – or risk being dismissed as a talking club, Macaranas concluded.

"Growing inequality in the region is going to be a problem."

Federico Macaranas
Professor, Asian Institute of Management, Manila

ACKNOWLEDGEMENTS

The Pacific Economic Cooperation Council (PECC) and the Boao Forum for Asia are sincerely grateful to the seminar keynote speakers – Dr Mari Pangestu, Minister of Tourism and Creative Economy, Indonesia, and Dr Taleb Rifai, Secretary General, World Tourism Organization. We also thank Mr Li Ruogu, Chairman and President, Export-Import Bank of China, and Mr Mostafa Faruque Mohammed, Minister of Information & Communication Technology of Bangladesh, who spoke at the closing dinner.

This event would not have been possible without the work behind the scenes of many individuals. We are especially indebted to Mr Arfiendi Juni Jahja, Chief Accreditation Officer, Indonesia APEC Organizing Committee, and Head of Section for Individual Action Plan, Directorate of Intraregional Cooperation in Asia Pacific and Africa, and Mr I Gusti Ngurah Ardiyasa, Director of Diplomatic Security, both at the Ministry of Foreign Affairs, Indonesia; Mr Ketut Gita and Ms Atika Sari Desi and their team at the Grand Nikko Bali hotel for their hospitality and logistic support; and the staffs of the Centre for Strategic and International Studies in Jakarta, especially Ms Clara Joewono, Ms Titik Anas, Ms Lina Alexander and Ms Rosita Ramdani, and of the co-organizing institutions, PECC and the Boao Forum for Asia.

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ISBN-13: 978-981-07-8670-0