

**Update for APEC Senior Officials
Concluding Senior Officials Meeting
Bali
1-2 October 2013
Mr. Jusuf Wanandi and Amb. Donald Campbell
Co-Chairs of PECC**

On behalf of the members of the Pacific Economic Cooperation Council (PECC) we thank you for this opportunity to share our views from the second track. We have had a busy year starting with a symposium we co-organized in Jakarta almost 12 months ago; to a follow-up meeting in Singapore addressing APEC's key themes for 2013; and our General Meeting in Vancouver. After this meeting we have a public seminar co-organized with the Boao Forum for Asia on "Connectivity and Inclusive Growth in the Asia-Pacific" on 3 October. We welcome participation from SOM delegates to this event. We would like to express our appreciation to the SOM Chair, Ambassador Yuri Thamrin and his team for his support in organizing this event.

There are just 5 key points we would share with you based on our work throughout the year.

- While the current economic environment remains positive, it is volatile, with the balance of risks shifting to emerging markets. We therefore urge APEC officials to make use of the opportunity here in Bali to send out a clear message to markets that this region stands together and will take concerted actions to ensure strong growth as stimulus is withdrawn by implementing policy reforms to increase productivity and provide a stable and predictable climate for business.
- We welcome the work on connectivity and look forward to seeing the results of this year's efforts. We hope that this emphasis on supply side constraints will better enable economies to benefit from integration and facilitate the process of structural change that will take place.
- We welcome the progress made on the TPP, RCEP and other regional trade agreements but urge APEC to take concrete actions to facilitate their convergence towards a Free Trade Area of the Asia-Pacific. This could take the form of regular dialogues on how specific trade issues are being addressed in various trade agreements with outside experts from other regional and global institutions as well as the business community – similar to that held in Surabaya on services.
- If such an approach is adopted, we hope that APEC will use the opportunity to respond to the recommendation of the Panel on "Defining the Future of Trade" and include a discussion on how the principles and rules adopted in FTA/RTAs can be brought into the global system. We further note that Panel also recommends an 'elaboration on best practices' – work that APEC has been doing since 2003.
- Our discussions throughout the year and our survey results indicate a need to rethink economic and technical cooperation in APEC. Our survey results show strong support for the idea that setting specific development targets would help to drive ecotech work. Such an approach would ensure that the work on connectivity delivers tangible benefits to stakeholders.

Resilient Asia-Pacific: Engine of Global Growth

It is clear that the current environment is challenging many economies around the region. The balance of concerns is shifting from advanced to emerging economies. As discussed in our *State of the Region* report, the prospects for the region remain very positive; the challenge ahead is to implement the growth strategy agreed on at the APEC leaders' meeting in Yokohama.

The recent announcement by the US Federal Reserve has allayed some fears in emerging markets, but it is clear that sooner or later the cost of capital around the region will begin to increase. We urge APEC officials to speed up work on the implementation of the new growth strategy with a strong emphasis on the structural reforms. These reforms are aimed at reducing the risks of doing business, providing an attractive climate for

long-term investment and unleashing the potential of untapped sectors for growth – including burgeoning middle-class consumers in the region.

It is clear from the results of our annual survey that there is a perception that not enough has been done to put regional economies on the course towards balanced, inclusive, sustainable, innovative, and secure growth. Strong signals from this series of meetings that highlight APEC efforts in this regard will help to reduce the uncertainty brought about by adjustments in monetary and indeed fiscal stances around the world.

Promoting Connectivity

We hope that the work done this year to make connectivity central to APEC's work will accelerate and give further focus to the growth agenda. Our own analytical work on the growth strategy recommended the identification of new 'growth engines' for the region – these included infrastructure as well as greater intra-regional trade facilitated by trade agreements.

The potential benefits of integration are large – whether they are pursued through the WTO or regional agreements, but they are only potential. The realization of those macroeconomic gains depends on the ability of businesses and households to effectively participate in the new opportunities presented. For this reason the seminar we are organizing is entitled "Connectivity and Inclusive Growth in the Asia-Pacific".

To further reinforce this point, we draw your attention to the results of our annual State of the Region survey. The first is that rising income inequality was cited as the 3rd highest risk to growth, but was more acutely felt by respondents from developing economies. The second is that while most respondents do not think that trade liberalization and facilitation have caused greater income inequality, there are substantial differences in views among sub-regions. Respondents from Southeast Asia tended to think that there was a connection between income inequality and trade which was further correlated with the view that the benefits of economic integration have been limited due to supply side constraints.

Addressing supply side constraints will better enable economies to benefit from integration and facilitate the process of structural change that will take place. We emphasize that the changes that will take place are not due solely to integration and openness but the result of technological and demographic changes in each of our economies.

There are a few things about this event we would like to highlight to you. The first is that improving connectivity in the Asia-Pacific is a long-term project that will need to be taken up by subsequent APEC hosts, the second is that while there is a lot of ongoing work in different APEC groups on this issue, the success of this initiative requires coordination between many groups - including within the APEC system like the Finance Ministers' Process as well as other regional and global groups – like ASEAN and the G20 which are undertaking their own work on connectivity. .

Attaining the Bogor Goals

We welcome progress made to consider future steps to attain the Bogor Goals, noting that while a specific target was set for free and open trade and investment, the goals are best understood as a means to an end. That end is "equitable economic growth not only in the Asia-Pacific region, but throughout the world as well."

While progress has been made on the trade front, there is much work to do; notably in agriculture but also services. We hope that through our work to improve the understanding of services, efforts will be made in the coming years to make progress on services trade. As was discussed at the SOM Dialogue on Services at SOM 3, the efficient delivery of services is essential to any businesses' ability to join global value-chains. Moreover, many of the developmental objectives that we have, such as education, access to water, telecoms and finance, are all fundamentally services. Without a competitive environment for services, developmental goals are going to be much harder to meet; as shown by work undertaken by the PSU, structural reforms in the service sector result in cheaper and wider provision of the basic necessities to enable people to compete in the modern economy.

At the time the Bogor Goals were set, there was already a great deal of discussion in APEC on the relationship of RTAs/FTAs with the global trading system. Since then we have seen the proliferation of these trade deals to such an extent that there are now moves to consolidate them – in the form of the RCEP and TPP.

At our General Meeting in Vancouver, delegates expressed concerns about the membership of these agreements and whether they could eventually merge or converge to become an FTAAP given that each excludes a number of regional economies. We therefore urge Senior Officials to move from an update on RTA/FTA developments to a genuine dialogue on specific aspects of the various agreements. This could build on previous work such as the study on convergences and divergences in FTA/RTAs and the Capacity Building Needs Initiative for FTAAP. Following the example of the SOM Dialogue on Services trade, such an approach will help to build confidence and understanding outside the negotiating table.

As far back as 2003, APEC Ministers began work to ensure that RTAs/FTAs contribute to multilateral trade liberalization. Ten years ago, Ministers instructed Senior Officials to develop work on ways to include discussions on RTAs/FTAs on a regular basis. Since then, APEC has developed model chapters and studied convergence and divergence in RTAs/FTAs. At the track two level numerous studies have been undertaken by PECC as well as many other institutions. We have recently endorsed putting together a global network of experts who work on modelling the economic impacts of FTA/RTAs. This group will work towards improving how estimates are made which we will share with you in subsequent meetings.

While considering our own regional objectives, this region has a critical role to play in the global economic system. The Report of the Panel on 'Defining the Future of Trade' has recommended that the WTO work on best practices for RTA/FTAs. While we urge you to work to ensure that the RCEP and TPP lead to an FTAAP, we equally hope that such work will take into account how such agreements can fit in with the broader multilateral rules-based system.

Achieving Sustainable Growth with Equity

As already alluded above, equitable growth should be considered part of the Bogor Goals. This is one area where this region has not done well. While APEC has long recognized the need for capacity building that would facilitate the rapid integration of emerging economies into the regional economy, there is a perception that APEC's work on economic and technical cooperation has not been as effective as it needs to be.

There is little doubt that this region has benefitted enormously from the integration and globalization processes. However, we are deeply concerned about the rising levels of inequality both within and among APEC economies. This trend threatens to undermine the success of the past few decades, unless specific actions are taken to address the problems.

While there are many projects under the ecotech, as indicated in various reviews, there is a lot that can be done to improve coherence among projects and in identifying beneficiaries of projects. More than this, our survey indicates strong support for the idea that APEC should set some specific developmental goals to make its work on ecotech more effective.

The most important areas for such targets are: education, physical connectivity, and basic services including water, sanitation, and electricity. All of these areas are covered by the connectivity agenda. While recognizing that APEC is not a development organization, the specific targets on the TILF agenda have kept a certain focus on APEC's work on this track, and the same cannot be said for its ecotech track. We hope that as you consider future work, especially on connectivity, that you will set specific targets to drive progress on these critical issues.

PECC's Work Program

The PECC Standing Committee meeting was held alongside the General Meeting to discuss ongoing projects and to consider new initiatives. One of the main results of a year-long review of our internal processes was to proactively engage our networks of policy experts to better contribute to regional policy discussions. Over the course of PECC's history, these networks have contributed significantly to the accumulation of

knowledge on how specific policy ideas might be applied in this diverse region. We look forward to your views on how these networks could support your work.

Future Meetings

Our next immediate event will be organizing the seminar on connectivity right here in Bali after this meeting. We will include some key suggestions from this meeting in our statement to APEC Ministers.

Our next Standing Committee and General Meeting will be hosted by our China National Committee for Pacific Economic Cooperation. We will inform you of the topics we will be addressing as we develop our agenda. In the meantime, we welcome your suggestions and inputs on topics where a second track perspective would be useful.

We will also hold a conference in Singapore in early 2014 to consider our inputs into next year's APEC process.