

PECC Update for APEC SOM 1

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Co-Chairs of the Standing Committee of the PECC**

At this time of economic volatility and uncertainty the theme of APEC 2013 “A Resilient Asia Pacific, Engine for Growth” is most appropriate. We are planning to hold a series of meetings over the next year to provide more input to this year’s APEC process: the first will be a conference in Singapore on 22- 23 February and the second will be our General Meeting which will be held in Vancouver on 3-5 June.

PECC’s work is undertaken by expert task forces established by our Standing Committee. The conclusions of these experts will, of course, be their own, but the task forces will be commissioned by the PECC and the intent is to provide a continuous source of innovative, but realistic, ideas from Track II into the Asia Pacific cooperation process. In addition to our signature projects, our member committees collaborate on international projects which are a continual source of interaction among policy-experts from the region. Our update here is based on the work of these task forces and our various project groups.

Volatile Economic Outlook

The economic outlook for 2013 remains volatile. While forecasts for the year ahead remain broadly optimistic, they are subject to many downside risks: a deepening of the expected recession in the Eurozone; and slowing growth in major emerging market economies. On the positive side, the fiscal cliff which was highlighted as a risk in our State of the Region report has been resolved. However, with monetary easing across the region, the risks of asset bubbles, especially in emerging markets loom.

The Asia-Pacific as an Engine for Growth

Given this situation, focus on the growth strategy would help to give some clear policy direction for how the region is going to cope in this environment. Since the growth strategy was formulated in 2010, APEC chairs have worked on various elements of the strategy: APEC initiatives on sustainable growth over the past two years stand out as accomplishments that could bear fruit in the coming years.

If the region is to sustain growth momentum, APEC needs to build on this work and put a greater sense of urgency to the new growth strategy. There are two other factors that stand out as risks to growth: growing protectionism in response to the slowdown and rising income inequality. Addressing these risks through the framework of the growth strategy could help to bolster aggregate demand over the short term but also help to put the region on a higher growth trajectory through making progress on the goal of achieving a Free Trade Area of the Asia-Pacific. Clear and unambiguous policy signals from the government on reform will help to unleash some of the large cash holdings of the corporate sector that would further bolster growth through greater investment and job creation.

Addressing Inequality

Growing income inequality was ranked the 5th highest risk to growth in our survey last year. It was also ranked 8th in a list of priorities for APEC leaders to address at their annual meeting. In our statement to APEC Ministers in Vladivostok we said given these inequalities APEC should prioritize its work economic and technical cooperation and consider how to bridge the development gaps that exist within and among our economies. Addressing economic and technical cooperation and development will form a major part of our discussions at our conference to be held in Singapore on 22-23 February.

As part of PECC’s work on looking at the region’s possible response to the economic crisis, we argued that investments in infrastructure, education, healthcare, and social safety nets should be considered as engines of growth to bolster domestic demand and to reduce the incidence of structural unemployment. We are seeing some progress across a number of regional economies in this area but it would be useful to put greater emphasis on this critical area, especially in helping economies design sustainable and effective programs. PECC continues to work in this area led by our Japan Committee.

Investments in Infrastructure

The aforementioned task force on the economic crisis also recommended boosting investments in infrastructure to facilitate the economic integration process. For economies to be competitive they need to address supply side constraints to their effective participation in the global economy. Investments in connectivity would not only give a temporary stimulus to those areas where the investment is taking place but also, over the longer term, help local businesses compete in the global market.

PECC has been addressing how to facilitate greater private sector investment in infrastructure for a number of years. Some of the key points from our research are that: the overall infrastructure requirements of the region are well beyond that available to governments through public expenditure but there are funds available for projects; and the second point is that for the investment to take place the right regulatory environment needs to be in place for the private sector to take on such large risks spread over long periods; the third point is that there is a lack of technical and project management expertise on the ground. These challenges point to a need to connect various streams of the APEC work program such as the structural reform agenda, supply chain connectivity, the finance ministers' process and capacity building through economic and technical cooperation.

Rising Protectionism

Rising protectionism was also a top risk to growth in our survey on the State of the Region last year, with over 27 percent of respondents selecting it as a top 5 risk. APEC needs to move beyond statements in support of the open trading system and take cooperative steps to stem the tide of protectionism measures. One of APEC's greatest strengths is its emphasis on cooperation rather than negotiation, in this regard, an open and frank high-level dialogue on trade measures, based on an independent evaluation would be a first step to minimizing misunderstandings over policy actions.

Given that Indonesia will also be hosting the WTO Ministerial at the end of the year, this region which benefits so much from the rules-based system could help to provide critical support for the multilateral system. During our Singapore conference we hope to have an in-depth discussion on the changes that have taken place in the system and how this region can respond to these changes.

Momentum on Regional Economic Integration

It is clear from our survey results that opinion-leaders are extremely pessimistic about the chances of making a breakthrough in the Doha Development Round, less than 10 percent of respondents to our survey last year thought that it would reach a successful conclusion. The WTO Bali Ministerial Meeting provides an opportunity to change that perception. At the same time as this pessimism over the Doha Round, there is much momentum in regional processes such as the TPP and RCEP. Both of these processes involve many APEC members and could serve as pathways to the creation of a Free Trade Area of the Asia-Pacific.

We have emphasized on many occasions that the largest benefits will come when all APEC members are part of a single region-wide trade area. In this respect we hope that APEC will take the time this year to focus on these agreements and try to develop a genuine dialogue between the processes to help guide their technical development and ensure that they are mutually compatible.

Changes in PECC

As we informed you last year, PECC is currently undertaking a review of our processes and priorities. We thank those of you who have provided valuable feedback on our work. This review process is due to be completed in June this year and we welcome further suggestions you might have on how PECC interacts with APEC. Many of the issues raised here and others will be addressed at our forthcoming meetings in Singapore and Vancouver.

Constituencies for Regional Cooperation

As part of the reforms we have been making to PECC over the past few years we have been emphasizing the need to engage different sectors in forging solutions to the challenges we face. Regional cooperation and integration require input and support from all sectors of society. Our member committees undertake many activities to this end and we hope that APEC will use these committees as conduits for both soliciting suggestions and also informing stakeholder communities about that the very valuable work that is done by APEC.