

PECC Update for APEC SOM 3
Agenda Item 8: Any Other Business
Medan, Indonesia
Mr. Eduardo Pedrosa
Secretary General, Pacific Economic Cooperation Council

On behalf of the co-chairs of PECC, Mr Jusuf Wanandi from Indonesia and Mr Don Campbell from Canada and all our members, we thank you for this opportunity to update you on the work we are doing in the PECC to further promote cooperation in the Asia-Pacific region from the second track.

Report on 21st PECC General Meeting, Vancouver

On June 4th to 5th, we held our 21st General Meeting in Vancouver in conjunction with the Canada-Asia 2013 Conference which brought together 500 business leaders, government officials and the academia to discuss major trends in the region and how to respond to them. We would like to express our appreciation to H.E. David Johnston, Governor General of Canada; Minister of Trade Ed Fast, David Emerson, former Minister of Foreign Affairs; and Dean Connor, President and CEO of Sun Life Financial for engaging in a dynamic discussion on developments in the region from Canada's perspective.

At this stage in the development of Asia-Pacific cooperation this kind of exchange is critical to building both understanding domestically of developments in the region as well as identifying the different challenges governments, business and societies at large face in this new environment.

Key Trends Shaping the Asia-Pacific and Risks to Growth

The Asia-Pacific region has suffered from two major crises in the last two decades. While the greater interconnectedness that came with globalization has brought us rapid growth, greater volumes of trade, increased productivity through supply chains, and facilitated more sharing of knowledge and know-how, the interconnectedness has also made each one of us more interdependent and more vulnerable to problems that originate in other economies. What used to be endemic problems can now have far-reaching effects beyond borders. It has become all the more important that we continue to address behind-the-border issues and bolster our efforts towards regional economic integration.

Unfortunately, as consistently pointed out in PECC's *State of the Region* report in the last several years, we are seeing growing socioeconomic gaps among and within economies. If the growing gaps in income distribution, welfare, and education are not addressed in a timely fashion at the highest levels of domestic and regional policy, some of our emerging economies risk becoming subject to the middle-income trap.

This set of challenges underscores the need for APEC to consider its own goals for inclusive and equitable growth and the work undertaken under its third pillar – economic and technical cooperation – to ensure that work in this area promotes these aims.

Asia-Pacific Trade Talks: Complementary or Cross-cutting?

Our discussions addressed the proliferation of regional trade negotiations such as the TPP, RCEP and Pacific Alliance. Each is gaining momentum and can each contribute positively to growth for the participating economies. However, there are concerns that these groups may undermine the global rules-based trading system, APEC should take the lead to ensure that these agreements eventually converge to become an inclusive Free Trade Area of the Asia-Pacific and also bolster the global multilateral rules based system in the WTO.

We maintain our hopes that the upcoming WTO ministerial meeting in Bali will be able to reawaken and refresh commitments towards completing the Doha Round. There are still many features and functions within the WTO that cannot be replicated by other organizations. It remains and should remain the most important global institution for international trade negotiations and dispute settlement.

Given the complexity in the various free trade initiatives and policies, it is also extremely important that businesses be well informed and assured of the benefits from participating in these FTAs. Rules regarding customs and taxation, supply chains, rules of origin, environmental regulations and others have made it

increasingly challenging, particularly for SMEs to engage in international commerce. APEC should be working towards simplifying such complex rules where possible and seeking to engage more business input to regulatory reforms.

Harnessing Asia's Massive Capital Pools: Need for Financial Market Development and Integration

Massive pools of capital are accumulating in Asia, which can be seen as welcome news in view of the infrastructure deficit in many of the emerging economies of Asia. However, with the underdevelopment of capital markets and some economies having taken stimulus measures to temporarily spur growth, the rapid capital buildup in the region should be carefully monitored in order to avoid excess credit expansion and asset bubbles. In order to avert potentially negative impact from capital inflows, it is important to mobilize a combination of appropriate macroeconomic, macroprudential and structural policies. More efficient financial markets are necessary to facilitate the next phase of growth in Asia to improve the intermediation between savings and productive investments in the real economy.

Rethinking Economic and Technical Cooperation

In both Singapore and Vancouver, we discussed in depth the role that economic and technical cooperation can play in furthering the region's objective of deepening regional economic integration. There are mainly three reasons behind our urge to rethink Ecotech: 1) The global trading system is increasingly characterized by complex value chains presenting opportunities and challenges for the region's economies; 2) APEC's own success in removing border barriers has shifted the emphasis towards behind-the-border barriers presenting a more complex set of issues that needs to be addressed; and 3) Rising income inequalities among and within the region's economies are undermining the political support for trade liberalization. From the Singapore conference, three priorities were highlighted and these were: education, infrastructure, and SMEs. Our *State of the Region* report this year will feature Ecotech and we look forward to sharing our findings with you later in the year in Bali.

Further Investment in Human Capital Development Needed

The business leaders and senior policy-makers gathered at the PECC General Meeting highlighted the need to rethink our education systems which have not quite evolved in tandem with changing times and circumstances. There is a growing disconnect between what our higher-education system offers and the skills needed by the business community. This aspect is critical to raising the competitiveness and productivity in the Asia-Pacific economies and thus we need to identify efficient ways in which businesses and educational institutions can work together to heighten the quality and relevance of skills training.

Reforms to PECC

An important outcome of the 21st General Meeting was the 'Vancouver Statement' which outlined the global context in which PECC operates and gave recommendations that emanated from our year-long internal exercise. Key messages contained in this Statement include: our determined commitment to work towards open regionalism, our hopes to see the global trading system reflect the business reality better, our urge to the APEC for leadership in seeing the upcoming WTO ministerial in Bali achieve success, our expression of welcome towards Canada re-engagement with the region, and the importance of engaging the next generation of leaders.

PECC's Work Program

The PECC Standing Committee meeting was held alongside the General Meeting to discuss ongoing projects and to consider new initiatives. We have several ongoing projects that may be of interest and relevance to APEC.

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.

State of the Region 2013-2014

This is an annual flagship publication of PECC that contains: 1) a narrative essay on the macroeconomic situation of the Asia-Pacific region; 2) results of annual PECC survey of opinion-leaders on perceptions and viewpoints on varying agenda; 3) an index of regional economic integration; and 4) a thematic chapter(s)

that the editorial committee considers salient and timely for the region. This year, we will be highlighting economic and technical cooperation. As we have done in the previous years, we plan to release this report during the APEC Leaders' Week in October in Bali.

Sustainable Management of Marine Resources

As reported in our last update to SOM, PECC undertook a project on the Sustainable Management of Marine Resources from 2011 to 2012. This work was led by our France (Pacific Territories) Committee and the publication comprising contributed articles from speakers who participated in a series of three seminars is now available from PECC website. The project covered three dimensions: protecting the oceans and sharing marine resources; oceans as a source of renewable energy; and the management of oceans' natural resources/oceans as a means communications. This is an important topic that pertains to all members of APEC and we would be pleased to further our contribution in your ongoing work in the area.

Cooperation and Competition in the Extractive Industry

This project aims to address concerns associated with production, consumption, trade and investment in the minerals and energy sector such as: the consequences of the rents that occur during periods of high prices, changes in markets and prospects of minerals and energy trade across the Pacific, and the environmental impacts of activities in these sectors at local and global levels, especially in the presence of faults or gaps in environmental policy.

Monetary Regimes in the Pacific Region

This year, our Pacific Economic Outlook Structure team led by the Japan committee for PECC, looked at how the current monetary policy regimes are affecting macroeconomic performance in advanced and emerging economies of the region. The project aimed to address the macroeconomic policy trilemma in the context of ongoing global financial volatilities, i.e. exchange rate stability, free capital mobility, and monetary autonomy. The publication is now available for download from PECC website.

Strategies to Enhance Competitiveness and Facilitate Regional Trade and Investment in Services

At the last SOM held in Surabaya, PECC and ABAC co-organized a policy dialogue on services and we thank the Senior Officials for the opportunity. Our contribution to this area was possible thanks to work undertaken by our taskforce established in 2011 in collaboration with the Asian Development Bank Institute. The policy dialogue covered two main themes: 1) Attaining the Bogor Goals - critical role of services trade and investment; and 2) Services as a critical element of enhancing connectivity. We welcome SOM's decision to hold a regular dialogue on services in the future and we look forward to further contributing to this area of work.

Social Resilience

The PECC international project on social resilience led by our Japan committee for PECC was launched at the end of 2009. During the initial two years, we focused on: pension, health insurance, and unemployment insurance systems accompanied by a macro analysis. The next phase of this project during 2013-2014 will focus on policy approaches that would make socioeconomic infrastructure more resilient against risk. The final report will become available in time for APEC 2014 in the second half of next year.

Global EPAs Research Consortium

A new international project was approved in Vancouver to look at the state of bilateral and multi-regional economic partnership agreements. The research will cover: China-Japan-Korea FTA negotiations, TPP, RCEP as well others. The proposed Consortium aims to contribute to improving the estimation of changes in economic welfare, production, trade, investment and job creation by looking at tariff concessions, non-tariff barriers, and ways of improving computable general equilibrium (CGE) models.

Energy Transition and New Economic Models for Urban Centers

Led by the France (Pacific Territories) committee, this international project will highlight best practices and explore efficient ways of ensuring smooth transitions from traditional fossil fuels to non-traditional fossil fuels, and renewable energy. Through a series of three seminars planned throughout 2013 and 2014, the project will study the technological advancements, market viability and competitiveness of alternative energy, and the new public policies that would be required to optimize and integrate low-carbon, high-efficiency energy into the existing urban infrastructures.

Singapore Conference Report

As reported to you in Surabaya, we held a major conference in Singapore on 22-23 February on “Asia-Pacific Economic Integration and Connectivity: Pathways for Resilient and Inclusive Growth”, a summary report is available on our website. We would like to express our appreciation to the many officials from the Indonesian APEC team who contributed and helped to frame our discussions. These in turn have greatly informed our work moving forward.

Future Meetings**APEC Leaders Week**

In addition to the release of our State of the Region report we are exploring the possibility of holding a conference in Bali in cooperation with other regional organizations to further discuss developing connectivity in the region.

PECC General Meeting

We would like to inform Senior Officials that we will be holding our next General Meeting in Beijing next year.