

PECC Update
APEC Concluding Senior Officials Meeting
5 November 2021
Ambassador Zhan Yongxin and Dr Richard Cantor
International Co-Chairs, Pacific Economic Cooperation Council

On behalf of the members of the Pacific Economic Cooperation Council, we would like to express appreciation for this opportunity to update you on our ongoing work.

We thank you for your continued openness to our inputs throughout the year, especially in the process of drafting the Implementation Plan of the Putrajaya Vision.

We would like to primarily update you on two of our signature projects this year: 1) State of the Region report; 2) A Primer on Economic Integration Issues Posed by the Digital Economy.

Firstly, we would like to congratulate you and your team for your efforts to craft an implementation plan for the Putrajaya Vision. We believe this is an important document that comes at a critical time in the evolution of Asia-Pacific cooperation. As APEC Leaders agreed last year to pursue the vision of an open, dynamic, resilient and peaceful Asia-Pacific community, the implementation plan is critical to further articulate how APEC and its constituent committees and working groups will pursue the three drivers. The need for a framework for a sustainable recovery from the Covid-19 crisis places an added salience to the plan.

Our annual State of the Region report includes a survey of 598 stakeholders from across the Asia-Pacific from business, government, academia, civil society and other stakeholders. This survey is not one of the general public but those who closely follow regional policy issues. Our objective is to provide an opportunity for the community to provide feedback on what they think are the most pressing issues facing our region. We rely on our member committees as well as partners to help us to identify respondents to our survey.

The good news is that respondents are optimistic about the prospects for growth over the next year, 55 percent expect stronger economic growth for the world economy next year. However, respondents' views tend to align with forecasts that growth is likely to be stronger for those economies that have achieved higher vaccination rates. We therefore underscore the importance of vaccine equity to a broader-based recovery for the region.

Top Risks to Growth

The top risk to growth by far was future waves of Covid-19, this was followed by:

- Climate change/extreme weather
- Lack of political leadership
- Increased protectionism and trade wars
- Slowdown in world trade growth
- Failure to implement structural reforms

Our interpretation of these results is that these perceptions of risk are likely related, with respondents concerned about the capacity to lead and implement the necessary policy reforms for a sustainable and inclusive recovery. Regional cooperation can play a useful role in mitigating these risks, capacity building where needed, and building confidence in the direction of reform. This is especially important given concerns about rising protectionism. We underscore the importance of the adoption of the Enhanced APEC Agenda for Structural Reform and members' individual action plans to future growth.

While it was not one of the top 5 risks to growth overall in our survey, inflation was a top risk for business respondents. Our report includes a lengthy discussion on some of the underlying factors behind inflation. While recognizing the very different circumstances in our individual economies, some factors are common across the world. This includes the substantial increase in the international cost of transporting goods. We believe that this is an area where APEC can do more to alleviate some of the pressures facing the transport industry, especially the workers that make trade happen.

Dealing with Covid-19 and its Economic Consequences

According to our survey results, while the scope and pace of vaccination within our respective economies is the key to dealing with Covid and its economic consequences, the second set of issues that respondents believe need to be addressed are those related to the movement of people. The first is for those involved in supply chains – air and sea crews. The cost of transporting goods has increased significantly over the pandemic – while there are many factors behind this, we believe that the adoption of protocols to facilitate the safe international movement of air and sea crews would relieve some of the pressures in those industries. Our recommendations are:

- Designation of those working in supply chains as essential workers
- Mutual recognition of tests/vaccine certification for transport workers
- Identification of capacity building needs and gaps in implementation of ICAO transport corridors and IMO framework protocols
- Making vaccines available to foreign transport workers by all APEC economies

While we had discussed this issue during our General Meeting last July along with a possible WTO TRIPS Waiver, and WTO Trade and Health Initiative, it was a surprise that “international mobility” issues were seen as relatively more important. We take this as a strong signal that there is a significant gap that needs to be addressed.

Digital Economy

Our survey this year also included a special question on priority issues for the growth of the digital economy. Out of a list of 17 issues, the top 5 were:

- Cybersecurity
- Data privacy and protection
- Interoperable and cross-border digital transactions
- Digital trade
- Digital literacy

There were differences in emphasis according to sub-regions as well as stakeholders and levels of development. For example, data privacy was the important issue for business respondents, while interoperable and cross-border digital transactions was most important for government respondents.

Last year we started a project to bring together in a single document the complex scope of digital issues, and their inter-linkages. We briefed the APEC Digital Economy Steering Group on this project at their last meeting, and are pleased to share with APEC members the full report on “A Primer on Economic Integration Issues Posed by the Digital Economy.”

The Primer divides issues into key concepts: digital economy and digital trade as well as the cross cutting issues - digital and development ; driving inclusivity; closing the digital divide; green digitalization and sustainability; and digitalization of businesses.

The section on the digital economy is separated into discussions on foundational policy issues; application issues; and emerging issues such as artificial intelligence. While the section on digital trade is divided into discussions on core issues; process enablers; and emerging issues. We hope that this document will contribute to the thinking and efforts of APEC to accurately frame and therefore be

better able to address the many cross-cutting challenges arising from the spread of the digital economy.

Climate Change

The theme of this year's State of the Region report is climate change. In addition to being identified as the second highest risk to growth after the Covid-19 pandemic, 60 percent of respondent believe that immediate and drastic action is necessary while an additional 30 percent think that some action should be taken now to address climate change. In short there was a broad consensus around the Asia-Pacific policy community for action to address climate change. As for which actions, our report highlights that while a large portion of climate related funding has gone towards mitigation actions (specifically towards funding 2 sources of renewable: solar and wind) stakeholders see importance in a broad range of actions to address climate change. This indicates to us that APEC could be working in concert on sets of mitigation and adaptation, especially on how to ensure that more funding goes towards adaptation.

One very interesting and important part of the survey findings, especially in the current context, is that while 72 percent agree that climate change is having a negative impact on their economy, 31 percent also agree that climate change policy are having a negative impact in their economies. We have analyzed these survey results and found that there was overlap between the two groups.

We come to the conclusion that APEC member economies need to work on climate mitigation and adaptation policies and measures at COP26 which are consistent with the rapid resumption of economic growth and free trade to meet broadly-shared development and environmental goals. We cannot go into depth on what these are here but the chapter raises many important issues for the region. APEC member economies could play a lead role in carbon pricing by establishing region-wide carbon markets to promote emission mitigation in a market-friendly manner.

However, there are also problems. One concern is the threat of 'carbon trade tariffs'. APEC member economies could constructively strive for a cooperative outcome that avoids such threats to free trade and reciprocity norms under the aegis of the WTO.