

PECC Update to SOM 2
18 – 19 May 2022, Bangkok
On behalf of 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 thank you for this opportunity to update you on our ongoing work.

This update is organized into a general comment on the economic situation in our region based on the recent of discussions of our State of the Region project, and then our perspectives and work as it relates to APEC's priorities of being open to all opportunities, connected in all dimensions, and balanced in all aspects.

At our recent meetings we have received two clear messages from our members:

- The value of coherence and avoiding siloed thinking, strong support for trying to bring together different elements within a single framework such as Open, Connect, Balance; and
- The need for PECC and other stakeholders to respond to the call from APEC leaders in the Aotearoa Plan of Action to deepen engagement in the process of implementing the Putrajaya Vision.

We have begun that process with a call to our member committees to convene stakeholder discussions focused on this year's priorities. We have convened the first of these which was a Roundtable on the Refreshed Conversation on the FTAAP, several more will follow through the course of the year culminating in our General Meeting to be hosted by our Thai Committee.

The economic recovery that began last year now faces a new set backs. Inflationary pressures that were present in 2021 are compounded by rising energy and food prices that disproportionately impact low-income households setting back APEC's goal for inclusive growth. We therefore urge APEC Officials to consider what actions can be taken to stabilize food prices. While we address several issues on being *open to all opportunities*, we highlight attached report of our recent Roundtable on Refreshed Conversation on the FTAAP. We would like to underscore one key point in that report - that work on a framework for FTAAP provides an opportunity not only to chart the path towards capturing the full trade benefits of integration but also to build consensus around newer issues such as digital transactions, the existential issue of climate change, and respond to demands from our communities for more inclusive outcomes. Our forthcoming State of the Region report will include a significant focus on *connecting in all dimensions*, our members have underscored to us their concerns over rising transportation costs and the impact this is having on their economies We continue our work to realize more balanced growth including on 30 May a broad-ranging discussion on *Managing the Blue Economy* which will look at the sustainable use of ocean resources.

State of the Region

At our recent meeting of the editorial committee of our State of the Region project, we discussed the broad macroeconomic situation in the region. We noted that forecasts for global growth for 2022 have been downgraded considerably since we issued our report in November and expectations for inflation have also worsened. When this year began we did so with a sense of optimism, that at the very least, last year's bounce back from the nadir's of 2020 would be sustained. Instead we are confronted with a new set of problems –slowing growth, rising inflation, and conflict in Ukraine.

We agreed that the main issues to focus on for the macroeconomic chapter should be the growth implications of:

- Covid;
- Conflict in Ukraine;
- Supply chains;
- Inflation; and
- Tourism & services

We also agreed to focus on the Free Trade Area of the Asia-Pacific (FTAAP) in the thematic chapter as part of our contribution to the refreshed conversation on the FTAAP.

Food Security

Last November, in our report we expressed our concern not only about rising prices generally, but more specifically about food. At that time, we noted that a basket of food prices had risen by 28 percent since the start of the pandemic, the same World Bank index of food prices is now 68 percent higher than at the beginning of 2020. Seven months ago we were concerned about the jump in the price in fertilizers, they are now even higher. We emphasized that food consumption accounts for a higher proportion of expenditure for low-income families and these inflationary pressures jeopardise APEC's goal of more inclusive growth. We ask APEC Officials to draw the world's attention to the issue of food security. We therefore urge APEC Officials to consider what actions can be taken to stabilize food prices and proactively identify elements of the Food Security Roadmap that would contribute to resolving these issues now, as well reiterating long-standing APEC principles such as avoiding any measures that would disrupt food trade and negatively affect global food security.

This is especially important with the WTO Ministerial taking place just a few weeks after APEC Trade Ministers and the potential for APEC to help lay the groundwork for a successful Ministerial Conference. This would be fully consistent with the Putrajaya Vision driver of strong, balanced, secure, sustainable and inclusive growth and the objective of to ensure that the Asia-Pacific region is resilient to shocks, crises, pandemics and other emergencies.

Open to all Opportunities

We welcome the focus this year on openness. Although some parts of the region and many more parts of the world are still battling against the pandemic, the hope is that this can be the dawn of a new era for the Asia-Pacific. This can be an era of great opportunity for all regional economies, if we chose openness.

Roundtable on the FTAAP

In order to facilitate our input in the Refreshed Conversation on the FTAAP we organized a Roundtable on this topic hosted by our Australian and New Zealand committees. We benefitted greatly from the input a wide range of perspectives in these issues, from business, government and non-governmental stakeholders, including our colleagues from ABAC. A report on those discussions is annexed to this update.

We spent a considerable amount of time discussing the challenges and changed context in the region as well possible modalities for making progress given the enormous contribution that the FTAAP could make to the economic recovery of the region.

While there has been considerable progress with the entry into force of the CPTPP and RCEP as well as the other regional mechanisms such as the Pacific Alliance and the DEPA, we are also cognizant of the geopolitical frictions in the region that could undermine the economic stability in the region. APEC, through its norm building and cooperative spirit, has provided a critical framework for engagement for the last 30 years, and the implementation of the Putrajaya Vision can provide that framework for the future. In this context, FTAAP can provide the scaffolding for an open, dynamic, resilient and peaceful Asia-Pacific community.

Work on a framework for FTAAP provides an opportunity not only to chart the path towards capturing the full trade benefits of integration but also to build consensus around newer issues such as digital transactions, the existential issue of climate change, and response to demands from our communities for more inclusive outcomes. It offers a blueprint for a rules-based system to resolve outstanding issues. It provides an example to the world of how to proceed to engage both large and small and higher and lower income economies. It can regenerate APEC.

An example of where APEC has the potential to make quick progress is in the internet and digital economy. The pandemic has greatly accelerated digital adoption, the ITU estimates that 780 million more people became internet users between 2020 and 2021. Moreover, it is not just the sheer number of internet users that has increased but what we do – from online and hybrid meetings to e-commerce and so on. However, we now risk the fragmentation of the Asia-Pacific without a strong guiding hand from APEC. Such fragmentation may be management for big businesses, who can navigate the maze and obstacles of multiple regulations, but small businesses cannot bear the attendant costs and will thus lose out from the benefits of global markets. In short, we risk making the digital economy an exclusive domain rather than facilitating more inclusive growth.

Multilateral Trading System

We are deeply concerned that in the absence of a fully functioning WTO, economic disputes among are either unresolved or solved on a bilateral basis without consideration on the impact they have on other economies. In this highly interdependent region, we cannot continue without a rules-based system to govern our trade.

We welcome progress in the Joint Statement Initiatives to develop new understandings amongst members albeit on a plurilateral basis. The Joint Initiative on Services Domestic Regulation is an excellent example of what can be achieved. APEC should take pride in this having first agreed to non-binding principles on services as part of its work on the APEC Services Roadmap.

We hope that similar creativity and initiatives can spring forward from the APEC Internet and Digital Economy Roadmap in accordance with the principle of open regionalism or as is seemingly now current open plurilateralism.

APEC Services Competitiveness Roadmap

We welcome the initiative to hold a cross-fora dialogue to monitor the implementation of the APEC Services Competitiveness Roadmap (ASCR). Such an approach is critical to develop a deeper and more holistic view of the work being undertaken by all of the different APEC groups tasked with its implementation.

Lessons from the pandemic continue to underscore the importance of the services sector to a balanced and robust recovery of our economies. An example of this is the shift in consumer demand towards goods over the course of the pandemic and the slow supply response to this. While the phrase ‘balance in all aspects’ as a theme for this year is more focused on the priority of sustainability, a full,

balanced, recovery requires the full reopening of the services sectors including tourism that should see consumption back to trend growth.

The ability or inability of businesses to respond to these shifts in demand has been constrained by transportation bottlenecks – services - which need to be addressed. Furthermore, a top risk to growth to identified by stakeholders in our State of the Region last year was ‘failure to implement structural reforms.’ We strongly encourage APEC members to advance cooperation between the Economic Committee and the Group on Services to implement the Enhanced APEC Agenda for Structural Reform (EAASR) and the ASCR.

Connect in All Dimensions

We look forward to hearing progress on APEC’s work under this broad theme. Our own discussions on these issues have been more related to how of these issues are inter-related. We agreed during our discussions on the State of the Region report that there is a need to continue to look at the macro-economic implications of the reconnecting our economies, especially the tourism and services sectors.

But there are also other aspects that we hope your discussions and cooperation can begin to draw out and deepen regional understanding on how we can open our economies.

In our last update to SOM 2 a year ago we expressed our concern that the price for shipping had ‘skyrocketed’ from \$1,486 per 40-foot container in May 2020 to \$5,472 by May 2021, the average cost is now at around US\$9,000. But this is not the only problem. International air cargo capacity is significantly constrained on specific routes, for example, South America to Asia is down 76 percent and Asia to South America is down 45 percent. Similar stories abound on sea-lanes with vessels waiting to offload cargo. In short, the problem is not one of trade but transportation. APEC has a comprehensive connectivity agenda but how this affects trade needs to be better understood. These issues are of course transportation but they are also connected to the problem of supply chain resilience, and also inflation.

Our survey results last year showed the importance of delivering on APEC Leaders’ commitment to deliver on tangible outcomes to reopen economies without undermining our respective health regimes. In this regard, we welcome the discussions held under the Safe Passage Task Force and the various proposals made by economies at the different expert groups. The Safe Passage Task Force is an important cross-fora mechanism that will allow APEC to coordinate various efforts undertaken by specialist groups such as the Health Working Group, Transportation Working Group, and Tourism Working Group as well as with other international and regional grouping to prevent duplication of efforts. In this regard, we welcome efforts in the TPTWG to engage with the private sector and international organizations such as IATA and IMO. These are critical to resolving the disconnect between the trade and the transportation systems that have become evident through the pandemic.

We hope that the tangible outcomes that APEC delivers this year will not only help businesses to reduce operating costs but will also focus on the welfare of workers in this sector who have been critical to keeping supply chains resilient throughout the crisis.

A good example of this is the way in which in the trading system responded during the pandemic. In response to the need for increased production of PPE and then vaccines, global production networks have responded to a massive increase in demand. However, at the same time while the trade system has largely, with the support of and encouragement of important statements from APEC refrained from adopting protectionist measures, the transport system has come under immense strain. Again,

APEC has made important strides in recognizing the role of essential services, but the linkage between trade and transport must go hand in hand.

It would be useful for APEC officials to work closely with the transportation and logistics industry to adopt principles that ensure both the safety and continuity of trade to follow through on last year's MRT Statement on Services to Support the Movement of Essential Goods and Leaders' Declaration. These may develop or build on the work of IATA and the IMO, as well as past work APEC has undertaken in this area.

Balance in all Aspects

We welcome the work done this year to make progress on APEC's goal of Strong, Balanced, Secure, Sustainable and Inclusive Growth. The Policy Dialogue on the Bio-Circular Green Economy was a welcome opportunity to discuss how to further develop regional thinking on sustainable and inclusive growth.

In a few weeks, we will be holding a seminar on 'Managing the Blue Economy' during the event we will discuss strategies and proposals for the better governance of oceans and sustainable use of ocean resources. We hope that this work will contribute to APEC's focus on the Bio-Circular Green Economy. It will consist of sessions on: Ocean Resources and Sustainable Use; Resources, Protection and Sustainable Production; Restoration and Protection of Marine Ecosystems; Sustainable Development and Tourism; and The Circular Blue Economy. We look forward to sharing the result of our discussions with you at a later stage. We are continuing our work on the Promoting Supply Chain Decarbonization in APEC and look forward to sharing the results of that project with you.

A Refreshed Look at FTAAP by the Pacific Economic Cooperation Council

1. Integration in the Asia Pacific region is not retreating. Overall, for example, intra-regional merchandise trade flows have remained at around 70 percent and trade growth resumed quickly after the pandemic-induced recession.
2. But opportunities are being lost, through economies applying trade restrictive measures. The WTO reports that since the outbreak of the pandemic 137 trade restrictive measures have been put in place by members, 56 of which are still in place. Other independent monitoring gives a yet more startling picture; at our General Meeting we heard a much larger number with 914 trade distorting measures still in place.
 - a. Big differences of position on trade have emerged at the political level, between the large economies in the region. Vicious circles of action, retaliation, and counter-retaliation have been evident, resulting in “lose-lose” outcomes.
 - b. Under these conditions it has become more difficult to apply the procedures of the rules-based system to resolve those differences. Contested unilateral policies and reactions to them have persisted. This experience has shown that the operation of the rules-based system is even more relevant in the context of interactions between big economies.
3. The experiences of the pandemic and now the war in Ukraine risk further heightening the extent of non-cooperative behaviour.
4. There has been a breakdown in trust at the inter-governmental level. The large economies have failed to show leadership to find a return to a more cooperative regime, despite their economic stake in doing so.
5. There are also specific issues in some topical areas:
 - a. The pandemic has demonstrated the scope for gains from the application of technology in business across borders but impediments are rising, partly driven by perceptions of national security;
 - b. There is also strong community interest in the role of trade in helping to resolve environmental issues, including through cooperation to align domestic carbon management regimes;
 - c. As services trade expands, it becomes clearer how differences in regulation add to the costs of doing international business and limits the scope for integration;
 - d. Supply chains have shown themselves to be resilient; what has been lost is policy resilience, coherence, and coordination;
 - e. While failures in trade policy were not negligible, they caused smaller damage than the collapse and congestion in transport and logistics which was not foreseen by policy makers who failed to take a holistic view in their decision making.
6. APEC has many assets, the application of which - if put to use - is relevant to this situation. It is a forum which contains the large economies in a cooperative setting. It has the capacity to work to resolve some of the more specific issues. But it too has failed to provide a significant response. The recent gaps in leaders’ statements illustrate a lean period for the organisation.

7. In these circumstances, the risk of vicious cycles of non-cooperative policy making is high. The pursuit of the FTAAP-related policy agenda is a valuable collaborative response to this situation. It is also an opportunity for the region to show global leadership.
8. The FTAAP concept was originally introduced by the business sector in 2004, which has maintained a focus on it since then. ABAC last year cited FTAAP as its “preeminent economic priority”. The official community also responded, with support from various hosts of APEC, including both China and the US.
9. In the current context, after taking a refreshed look at the FTAAP concept, PECC sees that it encapsulates a rules-based approach to wider and deeper economic integration than now exists or is in prospect. Coverage of the full APEC membership drives the scale of the gains, and many economies will experience, according to our modelling work, significant benefits relative to the size of their economies.
10. Work on a framework for FTAAP provides an opportunity not only to chart the path towards capturing the full trade benefits of integration but also to build consensus around newer issues such as digital transactions, the existential issue of climate change, and response to demands from our communities for more inclusive outcomes. It offers a blueprint for a rules-based system to resolve outstanding issues. It provides an example to the world of how to proceed to engage both large and small and higher and lower income economies. It can regenerate APEC.
11. To reach these goals, the FTAAP framework needs substance. It must be a concrete agenda, not just a vision. It will take time to design and refine the agenda to give form and substance to the FTAAP framework which will encompass a diverse set of economies. But also, like any valuable trade initiative, the FTAAP framework must be a living structure, adapting to current events, new technologies, new forms of international business and so on.
12. PECC proposes therefore two steps at this stage of the development of FTAAP.
 - a. One is a clear statement of the issues to be covered in the FTAAP framework, its ‘living’ character, and principles for making progress on specific issues in a plurilateral setting. It is important to specify the linkage to the WTO process, not just the consistency of principles but how FTAAP work can support and operate within the multilateral system, which itself is under review and reform (and possibly moving towards a variable geometry). There are other items as well to consider for what could be referred to as a ‘framework for an eventual agreement’.
 - b. The other is a work program, designed to deliver outcomes. Targets for each item in the framework should be identified in 2022, and an expectation created that members will report their progress towards targets at intervals to be agreed. The targets must not only be feasible, but clearly be related to the realisation of the overall FTAAP framework, and consistent with both already agreed APEC principles and action plans, and with WTO rules. They must support Ministers’ efforts to engage with their stakeholders in a constructive manner.
 - c. Where appropriate, elements from APEC’s existing work programs, such as the APEC Services Competitiveness Roadmap, could be incorporated in the program.
13. APEC provides an excellent home for the design and delivery of an FTAAP work program – its members are likely to be the founding members of FTAAP. The framework, a consensus

document, can be developed within the APEC region. APEC is not an organisation that negotiates binding agreements but there is much work that can be done in its existing agendas, which can be built into the FTAAP framework. Doing so would provide better direction to many of the APEC activities. Like the earlier Osaka Action Agenda it would provide a set of targets consistent with progress toward realisation of the Bogor Goals, and serving as a contribution to implementation of the Putrajaya Vision and Aotearoa Action Plan agreed over the last two years.

14. There are important pathways to FTAAP now in place. These are RCEP, CPTPP and the Pacific Alliance. There are also relevant sector-specific agreements, such as DEPA. While these pathways establish important rules, they also contain exceptions and gaps, and the processes for monitoring their implementation are either unclear or non-existent. It would be useful to monitor their implementation and have a dialogue especially in areas such as e-commerce to understand the baseline for exceptions and establish common understandings on approaches to be taken to public policy and national security exceptions. When FTAAP was originally conceived, pathways such as the large member trade agreements were only possibilities. Now that they are operational, there is scope to consider further how their elements can contribute to the FTAAP framework. This process also helps respond to the business interest to straighten out the 'noodle bowl' of differences across agreements.
15. Care is required not to divert attention from the pathways themselves. As the modelling work shows, they offer significant benefits and there is work to be done on their implementation. It is also important to show these agreements are 'really working' since that helps build confidence in the FTAAP concept. They can also demonstrate how international commitments help drive productivity-raising, more inclusive and sustainable reform within their members. However, the specification of the FTAAP framework would also provide extra impetus and a better reference point for those efforts, as well as allowing gaps to be identified and addressed.
16. Some APEC members have designed or are planning other cross-border institutional arrangements (IPEF and BRI are examples); in such cases, however, the priority should be to show how FTAAP can provide direction to those arrangements, rather than drawing upon them for the development of FTAAP.
17. PECC offers to form a task force, to which members of ABAC would be invited, to provide further ideas on the two steps proposed - the FTAAP framework and the elements of the first five-year work program, including further work on the pathways. This alliance helps capture business priorities and policy making capability.
18. Further, progress on this topic of taking a refreshed look at FTAAP aligns with the goals of the Thai year of APEC, of being open, balanced and connected.