

PECC Update
APEC Concluding Senior Officials Meeting
15-16 November 2022
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 (PECC), we thank you for this opportunity to provide an update to this meeting on our work. Just two weeks ago we held the 29th PECC General Meeting here in Bangkok, we express our great appreciation to His Excellency Mr. Don Pramudwinai, Deputy Prime Minister and Minister of Foreign Affairs for taking the time to address our members and the International Studies Center of the Thai Ministry of Foreign Affairs for hosting our meetings. At our meeting we adopted the forward-looking theme of ‘The Asia-Pacific Economy Beyond 2022’.

The sessions of our General Meeting were largely organized around the three sub-themes of APEC this year: open; connect; and balance taking a forward look at the mega-trends in our region and their implications for Asia-Pacific economic cooperation.

Open to All Opportunities

We have highlighted for some time growing concerns over protectionist and inward-looking trends in trade and investment policy in the region which have consistently been ranked as a top risk to growth by respondents to our annual survey on the State of the Region. We learnt that while the number of trade restrictive measures was largely unaffected by the Covid-era, what has changed is their composition, with more economies in the region using subsidies. On the liberalizing side, more economies deployed tariff reductions over the course of the pandemic than they had previously done. We also note that the pandemic induced a change in the coverage of policies with policy measures restricting trade in goods reduced but an increase in measures affecting services.

As Ministers have agreed that any measures taken in response to the pandemic be targeted and temporary we look forward to seeing a reduction in the trade restrictive measures as we begin to exit from the pandemic. Given the composition of these measures, we are concerned that they become more entrenched due to the interests that they create, but then policies that incur a financial burden like subsidies may be less sustainable as governments seek to reform their fiscal positions.

While the APEC region has led the world in integration and the development of global value chains supported by trade liberalization and connectivity, we are concerned over the impact of the pandemic and ongoing geopolitical tensions. Global value chains, particularly in East Asia recovered quickly from the pandemic but moving forward we are concerned over trade policies to enhance resilience are defensive or offensive. In this respect there is great value in international cooperation to resolve concerns over resilience and establish a regional dialogue on supply chain issues to maintain trade openness.

It was evident throughout our General Meeting as well in the results of our survey that there are concerns in the region on how we will move forward in this world of increased geopolitical tensions. Indeed, the need to ameliorate these tensions and trade conflicts in the region was ranked as the top issue for APEC leaders’ discussions by respondents to our survey, with a fragmenting global economy the third highest risk to growth.

There are no easy solutions to these issues, but we underscore the value of APEC to facilitate dialogue and develop schemes to help manage economic interactions in these times of volatility.

The vision of a Free Trade Area of the Asia-Pacific remains an important tool. We now have the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Regional Comprehensive Economic Partnership (RCEP) in place but their effectiveness depends on

implementation. Ultimately all schemes should support multilateralism under the WTO. We agreed to establish a task force on “FTAAP Pathways to Prosperity” to explore how a work program focussed on the FTAAP concept can best achieve prospective opportunities and address regional challenges; and complement and add value to existing discussions on FTAAP in APEC, including in the CTI, ABAC and among member economies. We look forward to sharing the results of this work with you.

Connect in All Dimensions

We welcome the work done by APEC this year to reconnect the region. We discussed these issues under the theme “The Disruption Affecting APEC Connectivity During 2016-2022.” One impact of the pandemic has been to put logistics and transport services on top of mind. Over the course of the past 2 years, the average cost of shipping a container increased from US\$1,500 to a high of US\$12,000 with slightly lower but still significant increases for airfreight. While these have come down, they are still well-above pre-2020 levels. On top of this are the multiple delays in shipments reported, only 36 percent of container shipments arrived as scheduled in 2021 compared to 64 percent in 2020 and 78 percent in 2019. Therefore, this work is critical to reducing costs for consumers and facilitating more resilient global value chains.

However, the possible fragmentation of the global economy was ranked as the third highest risk to growth in our survey indicating a level of concern among stakeholders over the future direction of connectivity and integration in the region. Furthermore, progress on the region’s goals on connectivity was considered as the fifth most important issue for APEC Leaders’ to address at their meeting. While we learnt that international production networks were resilient over the pandemic helping to provide PPE and vaccines, we recognize that there have been problems. For example, 62 percent of respondents believe that capacity limitations on port operations and related logistics constraints had a major effect on global supply chain disruptions over the course of the pandemic. However, despite the serious temporary disruptions to connectivity over the pandemic, it has been more in form and pattern than volume. International production networks proved to be relatively resilient albeit with the higher transaction costs.

At the APEC Trade Ministers’ Meeting this year, APEC endorsed a definition of logistics-related services as part of the follow up to the statement last year on Services to Support the Movement of Essential Goods. While improving the quality of regulation of all essential services was considered as important, the top three were transport services; free flows of data and distribution services. Indeed, stakeholders believe that the implementation of new digital technologies can play a significant role in improving supply chain performance. Policy certainty, regulatory predictability and stability of business and investment environment are among the most important decision-making factors for businesses, therefore as part of the effort to reconnect the region and build back better, APEC members should work to remove as many sources of uncertainty as possible. In the context of logistics-related services and other essential services, this refers to making more serious efforts towards reducing regulatory differences between economies.

Those regulatory differences in logistics also threaten to impede the growth of the digital economy. Since the pandemic, governments have been implementing regulations for the digital economy especially in areas of data governance; online content moderation and competition law. While motivations for digital sector measures are often common across economies, solutions differ and the heterogeneity adds to trade costs.

As mentioned, issues in value chain operations related to resilience and robustness are not going to be resolved without the application of digital technology. The enablers are regulatory reform and standards alignment. It is also possible to adopt digital technology at a single point in the chain but change will occur if it is at the ecosystem level. The benefits for SMEs in particular of getting this right are very large. An important cross cutting item is the application of standards – these could be technical standards applied to goods, professional standards in services, or various standards applied to data.

We heard calls for the need to measure progress on connectivity in light of the Covid-19. Recalling that in 2013 APEC regional leaders recognized that the achievement of the vision of an Asia-Pacific community required seamless physical, institutional, and people-to-people connectivity and adopted an APEC Connectivity Blueprint in 2014, we established a task force to develop a Connectivity Index. The first version of this was published in 2019, there were three main conclusions from this work:

- The three pillars are self-reinforcing and inter-related;
- No one size fits all – no matter how one looks at the data – economies in the region for a variety of reasons are pursuing different models and approaches.
- The region-wide priorities for improvement were: physical – transport and infrastructure; institutional – trade facilitation and intellectual property; and people-to-people: educational mobility and labor exchange

While these differ from economy-to-economy and are likely to have changed significantly since the index was published, at our meeting emphasis was placed on institutional aspects of connectivity to reduce uncertainty and increase resilience. We will be looking into this as part of our work over the coming months.

Balance in All Aspects

Related to this theme we had an in-depth discussion on APEC Cooperation to Enhance the Development of the BCG Economy: Impact on Climate Change. We heard presentations on the role of carbon markets; and case studies on BCG Economy strategies. Last year we reported to you on the dramatic increase in the percentage of respondents to our survey who selected climate change as a risk to growth for their economies. This came with the caveat that the results may have been affected by the timing of the survey which coincided with the IPCC's Report and that the theme of our report was climate change. However, the elevated percentage has remained with 38 percent of respondents making climate change the 4th highest risk to growth.

We found strong support for adopting the Bio-Circular Green Economy approach, emphasizing its value as a single coherent framework to achieve sustainable and inclusive growth. The recognition of climate change as a risk to growth reflects the increasing view from both the business community and consumers on the need to prioritize sustainability. Businesses have been incorporating environmental, social and governance issues into their reporting and used to screen investments, which is then reflected in the cost of production. Consumers for their part are increasingly willing to pay for this as part of their subjective value – we discussed whether this 'sustainability theory of value' would apply more broadly across sectors of our economies.

Over the past 12 months we have been working on a project on 'Opportunities for Supply Chain Decarbonization in APEC Economies'. We note that modern supply chains are multinational, involve a diverse range of industries and suppliers, and are governed by a range of international jurisdictions. It is important for businesses and governments to work together to decarbonize the supply chain since no single company or government can tackle this challenge alone.

While many of the actions are those that need to be addressed by businesses who are increasingly trying to address these issues while navigating diverse policies, there are four key policy areas where governments have a core role to play in promoting the decarbonization of regional supply chains. These include: *trade and investment policies* to liberalize trade in environmental goods and services; *structural reform policies* to promote competitive and innovative markets to facilitate competition from green technologies; *finance policies that strengthen the private sector's climate-related disclosures and risk management* and *sectoral, industry and innovation policies* to ensure that adequate infrastructure is available for the uptake of green technologies as well as work with the private sector. Looking at these issues it is clear that greater coordination is required, the study

suggests that a “supply chain decarbonization lens” be taken to help wider cross-organization coordination.

As discussed during our General Meeting, the Paris Agreement, of necessity, is flexible and allows for different approaches for economies to reach the same end goal. However, in the process there are likely to be shifts in individual economy’s competitiveness which brings trade policy into play. There are different ways of dealing with this, but it necessitates coordination and cooperation if we are to achieve our goals. We underscore the need not only for a ‘just transition’ but an inclusive one. The study emphasizes the need for a focus on capacity building, technological scalability, and support for a realistic and low-carbon energy transition can help ensure regional decarbonization does not jeopardize the economic security of developing economies and MSMEs.

In short, the BCG Economy initiative builds on existing work and provides a useful framework for APEC economies to achieve the goals in this area as laid out in the Putrajaya Vision. We underscore the value of the interface between the three elements: bio; circular; and green which provides a coordinated approach to reducing emissions and bio-diversity loss while emphasizing inclusive growth.