

**Update from the PECC Co-Chairs
APEC SOM 2
Ambassador Zhan Yongxin and Dr Richard Cantor
International Co-Chairs, Pacific Economic Cooperation Council**

On behalf of the Pacific Economic Cooperation Council, we thank you for this opportunity to update you on our ongoing work. We look forward to contributing to APEC 2023 under the *Manoa Agenda for Sustainable and Inclusive Economies: Building Partnerships to Implement the Bangkok Goals on Bio-Circular Green Economy and we welcome the focus on the digital economy through the Digital Pacific*. As we note in our annual State of the Region report, stakeholders placed measures to reduce barriers to growth of the digital economy as a top 10 priority for the region. Much of this update is based on our new State of the Region report that we released during these meetings.

Economic Outlook

Since the APEC Leaders' Meeting last year, the overall prospects for the regional economy have improved somewhat with higher growth forecasts for the region's two largest economies than previously expected. Similarly, price pressures have eased a little from previous heights, for example food prices are 14 percent down from the heights they reached during the second quarter of last year. However, there is little room for complacency with global stocks still tight and rice prices, which had not increased as dramatically as other commodities now on the upward side.

However, perceptions of the prospects for growth remain negative, with 33 percent of respondents expecting weaker growth for their own economies and 47 percent for the global economy. While this is a slight reduction in pessimism from last year when 60 percent expected weaker growth for the global economy. As for risks to growth, by far the biggest concern was the rising cost of living, followed by a set of risks closely clustered together including geo-economic fragmentation; climate change; a slowdown in world trade growth; increased protectionism and trade wars; and rising global interest rates.

We see these risks as inter-related with compounding effects, the relationship between rising interest rates and the rising cost of living are issues each of us are dealing with in our daily lives, but we emphasize the impact they have on the lowest income earners in our society. We found that only business respondents tended to consider a wage-price spiral as a top risk. While on a macro-level we recognize the egregious impact should such a risk materialize, we also recognize that wages, especially for lower-income earners have not kept up with productivity making this an even more complex issue as we try to deal with issues of inequality. We also believe that rising levels of trade restrictions can not only lead to slower trade growth but also increases in prices. Those restrictions in turn also risk fragmenting the global economy and make it even harder to resolve the existential problem of climate change.

Therefore, we see great value in the work done by APEC to emphasize dialogue and confidence-building. Keeping the end goal of the Putrajaya Vision that all of our economies have agreed to is an imperative.

As we release our State of the Region report, we underscore two major changes to the way we produce this report: (1) we have released the report and our survey findings earlier in the year, hopefully providing you with a feedback loop on the work being done as well as stakeholder concerns; and (2) tried to present our survey findings at a more granular level, focusing on differences in views among different stakeholders, sub-regions and genders.

Interconnected

This year's priority to create new connections and strengthen existing ties across the APEC region can help to shape future growth in a way that is more inclusive and sustainable and improve supply chain resilience. We underscore that stakeholders see addressing the geo-economic risks we are increasingly

facing as the top priority for APEC Leaders' discussions but strengthening Supply Chain Resilience was second.

We note that work on the Free Trade Area of the Asia Pacific (FTAAP) Agenda was ranked 8th overall albeit with some big gaps among stakeholders. For example, business ranked this work 5th while government respondents only 11th. Interestingly, it was most important for respondents from Pacific South America, who ranked it the 2nd highest priority, while it came lowest for Southeast Asians at 13th. We are continuing our work on the FTAAP and held a dialogue among our task force members on 2 May. We thank APEC members for their interest in this work. Among the issues discussed were: what do we mean by the FTAAP? The prevailing circumstances that we now operate under. The economic benefits of open trade and investment, where those come from and how they are distributed among sectors and workers with different skills levels. We also discussed prioritization – what are the issues on which progress could be made given the circumstances and those where gaps are too large.

One of the big changes to the context is how supply chains operate. There seems to be increasing emphasis on just-in-case rather than just-in-time. As seen in our survey results, even though some of the factors that led to supply chain disruptions have dissipated concerns over resilience continue. The pandemic and its impact on both demand and supply for goods and services as well on essential services, the lessons of last few years should be taken forward to improve resilience in anticipation of future disruptions. These could be another pandemic; natural disaster and climate change or other breaks in the supply chain. As has been demonstrated the supply chain is only as strong as its weakest link making cooperation an imperative. The top three areas identified as needing improved quality of regulation were: air, sea, rail and road transport services; free flows of data; and distribution services. However, above all of these, our respondents emphasized the application of new digital technologies to improve supply chain performance likely connected to the need for free flows of data.

Stepping back, we note that issues of supply chain management and performance, while fashionable today, used to be limited to the realm of operations management. Today, they are front and center, with a doubling of mentions of 'supply chain' in earnings calls. Moreover, investment in supply chain technology has more than doubled since before the pandemic. At the same time, out of a sample of firms from 58 economies around the world, only 30 percent of firms reportedly now have back-up suppliers in place, while another 30 percent say they are increasing inventories. But just under a quarter say that they are using technology to manage supply chains.

Sustainable Growth

Respondents not only selected climate change as top risk to growth for their economies, but also thought that updating the region's ambitions on climate and clean energy should be a top priority for APEC Leaders' discussions in November. We recognize that there are inherent challenges with this, as according to the latest report of the APEC Energy Outlook, the region is well on its way to meeting its climate-related goals on reducing energy intensity by 45% by 2035 compared with 2005 levels and increasing the share of modern renewables in the energy mix.

However, it was striking that business respondents were considerably less concerned about the risk that climate change poses to economic growth than both non-government and government respondents. They also see updating the region's goals on climate as much less of a priority than other stakeholders. Furthermore, we note a considerable gender gap on this issue, female respondents selecting updating the region's ambitions on climate and clean energy as the top priority while it was only 5th for males. We therefore emphasize the need for greater dialogue among different stakeholders on these issues, noting the desire of APEC Leaders to promote engagement with a broader range of stakeholders to reflect the breadth of the Putrajaya Vision.

Similarly, while we place a high degree of importance on the digital agenda, we also note that our respondents underscored two issues as having the biggest impact on inequality: the education system and rapid technological change. The ability of people and business to adjust to the accelerated pace of

change will test all of our economies and societies. By coming together to develop solutions to these challenges we can not only take advantage of the benefits of these innovations but also ensure that we address issues of inequality at the same time. This includes insuring that our business and especially MSMEs are ready to compete in this new environment by building their capacity, and avoid imposing unnecessary costs on them.

We have finalized our report on Opportunities for Supply Chain Decarbonization in APEC Economies and continue to work through blue economy related issues.

Inclusive Growth

The focus of our survey was on inclusion, and close to 60 percent of respondents selected MSMEs as a sector that had lagged behind during the recovery from the pandemic. They were followed by the informal sector; the elderly; youth; and ethnic minorities. As already mentioned there were significant differences in perspective by gender, none more so on this issue. While 41 percent of females thought that women had lagged behind during the recovery, only 26 percent of male did. This was echoed in gender perspectives on priorities for APEC Leaders, with females ranking Women's economic participation in the economy as the 7th highest priority while it was only 15th for males. Moreover, we found that only one third of respondents to our survey identified as female. While this is generally higher than participation in key positions, from Ministers through to members of legislative bodies, boards of directors and researchers at universities.

Ensuring more balanced representation is key to more inclusive decision-making. For example, while over 50 percent of respondents thought that government's had consultation with businesses and legislatures just right, less than 25 percent thought that consultations with other stakeholders – from academics to civil society, organized labor, MSMEs and local governments was at the same level. Moreover, while consultation with trusted advisors and chambers of commerce was seen to take place frequently by over 50 percent of respondents, more inclusive mechanisms from open forums to workshops and public submissions were believed to take place on a far more infrequent basis.

As for what governments can do to promote a more equitable and inclusive future, there was little difference in how important they saw a whole range of policy tools ranging from improved access to education, training and childcare opportunities and structural reforms through to strengthen active labor market policies and social safety nets. However, while the range of views among different types of stakeholders tended to be relatively small, there were significant differences at the sub-regional level. This indicates the value of regional dialogue on these issues to better understand the underlying reasons for policy choices and the outcomes from them.

For example, views at the sub-regional level diverged the most on promoting broader, easier and more secure access to credit and investing in infrastructure for remote and rural areas with a range of over 30 percent on their importance to making growth more inclusive. While among sectors, the spread of views was largest on the importance of active labor market policies. Whereas between female and male respondents the difference of views was largest on strengthening social safety nets with 16 percent more women rating this as an important to making growth more inclusive.

Future Meetings

As part of our efforts to engage more closely with you and energize stakeholder participation in APEC, we look forward to having our General Meeting in August alongside the SOM 3 series of meetings. We welcome your inputs on themes and issues we should address at that meeting.