

**Update from the PECC Co-Chairs
APEC SOM 1
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*.

We support the approach taken this year building on previous achievements with the objective of achieving the Putrajaya Vision and the Aotearoa Plan of Action. We highlight the emphasis placed on stakeholder engagement to improve the quality of life for all members of our community that lies behind the vision we share of a peaceful and prosperous Asia-Pacific community. One of our own key objectives is to bring together stakeholders with the most relevant experience whether they are from business, government, media, academic and civil society to focus on the sustainable development of the region.

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.

Beyond the immediate risks to the outlook we are deeply concerned with the longer-term damage to the region's economy that has taken place over the last few years. As an indication of this, at the height of the pandemic, the weighted average growth for the Asia-Pacific for the 2023-2025 period was around 3.4 percent, we are now looking at growth closer to 2.8 percent. This puts a significant weight on the need to identify reforms that can unleash more balanced, inclusive and sustainable growth. However, we are concerned that, according to our annual survey of the regional policy community undertaken for our State of the Region report there were generally low levels of satisfaction with progress made on structural reform. Across a whole range of issues from services to connectivity and sustainability net satisfaction was in the single digits (with the exception of reforms to facilitate participation in global value chains) with by far the largest group in the 'neutral' column.

We emphasize that while our respondents gave almost equal importance to all of APEC's core areas of structural reform, we did add in education which was considered by both business and non-government respondents as the most important area for work.

Interconnected

In this regard, 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. The growth of the digital economy can, if properly harnessed, open new markets and opportunities for MSMEs and others currently excluded from the benefits of the globalization process. For example, evidence from the United States suggests that small businesses that are online reach on average 17 overseas markets, while in Indonesia, research shows that while e-commerce helped businesses survive the pandemic, they also need training and support.

Of ongoing concern to us are the problems in connectivity revealed during the pandemic. While APEC made tremendous progress in highlighting the role of services in the movement of essential goods, there is more work to be done in this area. We have, throughout the pandemic underscored the increases in the price of transport. While the average cost of shipping a 40 ft container has come down from its peak of above US\$11,000 to just above US\$2,000 it is worth noting that this is still one third

higher than at the start of the pandemic. Just under two thirds of the respondents to our survey believe that capacity limitations on port operations and related logistics constraints had a major effect on global supply chain disruptions over the pandemic, with an even higher percentage of businesses highlighting this issue. There were some significant differences among stakeholders on these issues, for example business and non-government respondents scored logistics problems much higher than government respondents. This type of survey finding underscores the value of multistakeholder consultations in our work and we welcome the deepening of these discussions.

We also asked our respondents to evaluate areas where improved regulation of services could help with these issues; traditional transport services (air, sea, rail) came highest followed closely by free flows of data and then distribution services. This was closely related to what respondents considered to be the most important way to improve supply chain performance – the application of new digital technology. We look forward to continue contributing to APEC work in this area, for example we had significant participation of experts in the Public Private Dialogue on Achieving Better Policies towards Logistics-Related Services building on APEC’s previous work on essential goods and services.

Advancing a Free Trade Area of the Asia-Pacific

We recently established a task force to deliver focused recommendations on how the region can make progress on the Free Trade Area of the Asia-Pacific. Preliminary discussions of the task force suggest that the FTAAP vision provides a framework to guide, encourage and prioritise actions towards further economic collaboration, regional integration and trade openness. Our further work on the FTAAP will focus on the concept having the following features:

- It would be voluntary, non-binding and non-discriminatory;
- It would be an evolving series of undertakings; and
- The journey would be more important than the destination.

We believe that this approach is consistent with APEC’s founding principles. The project envisages that the FTAAP would not be a trade agreement but, rather, an area characterised by economic collaboration and integration, and trade liberalisation. It would entail a journey taken in a series of steps. Furthermore, the FTAAP should continue to evolve as new issues emerge with outcomes agreed at Leaders' Meetings on an ongoing basis.

Some of the initial work will be to consider how the range of existing undertakings might fit together in the context of the FTAAP idea, where the gaps are and what the next steps might be. We would look to apply lessons drawn from the APEC agreement on environmental goods to a broader set of issues, based on a voluntary, non-binding and non-discriminatory approach, to articulate a step-by-step path to implement the FTAAP concept.

We would also seek to identify best-practice provisions of existing arrangements such as CPTPP, RCEP, AANZFTA, USMCA and the Pacific Alliance and consider their relevance to FTAAP if they were adopted by other APEC economies. In the same vein, PECC could identify where existing provisions in these agreements could be strengthened. We would also look at how new issues are being dealt with in a range of existing agreements.

In our annual State of the Region survey we found that 59 percent of respondents agreed with the proposition that *‘the best way to achieve an FTAAP is through the eventual convergence in terms of product coverage and level of liberalization in various regional agreements in the region.’* At the same time, respondents believe that existing initiatives/agreements were likely to have a positive impact on their economies. This perception is confirmed by economic models that we review in our report. The general conclusion is that the bigger and deeper integration the larger overall welfare gains. At the same time we recognize significant problems moving ahead, as 60 percent of respondents believe that rising income inequality and 57 percent believe that job insecurity, have a serious or very serious impact

on attitudes towards freer trade and investment. We also note that concerns differed among different stakeholder groups: business; government and non-government respondents as well as among different sub-regions of the Asia-Pacific underscoring the need for multistakeholder consultations.

We are currently developing the work program for our task force on the FTAAP and look forward to feedback from APEC and ABAC on specific topics.

Inclusive

We look forward to contributing to discussions on inclusion, reiterating our view that despite the undoubted contribution of trade and investment liberalisation over the last three decades to economic growth and the reduction of poverty, support for globalisation has been undermined, in the Asia-Pacific as elsewhere, by the perception, deeply held in some quarters, that its benefits have not been and are not being equitably shared. In our report to you on the post-2020 vision for APEC we noted that this perception is supported in some economies by the falling labour share of aggregate income; and wages and living standards of low-skilled and lower middle-class workers lagging behind as productivity increases.

This was confirmed by our survey findings last year, while respondents generally did not believe that the lack of overall benefits from freer trade and investment had an impact on attitudes, there was a relatively strong view that rising income inequality and job security did have a substantial impact. Moreover, we also found that more business and non-government respondents believed that both income inequality and job security had a larger influence on attitudes towards trade compared to government respondents, underscoring the need for greater dialogue on these issues.

Innovative

We welcome APEC work to find innovative solutions to the problems we are facing. For example, there has been a clear shift in the regional policy community's view posed by climate change, with the average share of respondents selecting it as top 5 risk to growth for their economy from just over one fifth to just under 40 percent. We believe that there are significant opportunities for more resilient and inclusive growth by investing in technologies for both mitigation and adaptation. We are, however, concerned that less than 29 percent of respondents expressed satisfaction with structural reforms that contribute to APEC's sustainability objectives and 22 percent were unsatisfied. The biggest group were at 33 percent were neutral and 17 percent did not know. This underscores the need for further work in this area. While financial funds available seem to be increasing with ESG Funds estimated to reach US\$4 trillion, getting businesses to make long-term investments in this era of unprecedented volatility will be challenging. We therefore urge APEC, with its strong tradition of public-private dialogue to build on the work over the past few years to deliver concrete results in this area as it has previously done through voluntary commitments such as the environmental goods list and to decrease carbon intensity and increase the use of renewables. One area where more work is needed is to find ways to direct more funding towards adaptation efforts. Our region is the most vulnerable to natural disasters emphasizing the need for our economies to adapt to these circumstances.

Furthermore, looking at these issues through a 'business' lens can be helpful for increasingly mutual understanding and dialogue. For example, in today's environment of complex value chains, understanding the challenges businesses face in supply chain decarbonization can help identify priority areas for cooperation. In this regard we have been reviewing work on supply chain decarbonization with a view to contributing a useful forward-looking framework.

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 May alongside the SOM 2 and MRT series of meetings. We welcome your inputs on themes and issues we should address at that meeting.

Thank you.