

PECC Update
APEC SOM 1 Plenary
March 7 – 8, 2024, Lima, Peru
Lima Convention Center (LCC)
On behalf of Dr Richard Cantor and Ambassador Zhan Yongxin, PECC Co-Chairs

- Ambassador Carlos Vasquez, APEC 2024 SOM Chair, Senior Officials

On behalf of the members of the Pacific Economic Cooperation Council (PECC), we thank you for this opportunity to update you on the work PECC is undertaking to promote the vision of an Asia-Pacific community. Our Executive Committee met on 6 February to discuss the current regional situation and our response to it. There were concerns expressed that it has become increasingly difficult to promote openness and open regionalism in the evolving international context across the Asia-Pacific and changing political dynamics in various economies. Members emphasized the need for a dual approach in addressing strategic topics within PECC, which involves validating openness while recognizing challenges such as resilience to shocks, security issues, and geopolitics. In spite of this, we remain confident in the ability of the region to provide global leadership on key issues.

For example, our member committees are working on a diverse range of issues from services competitiveness, promoting sustainable growth to ways of dealing with artificial intelligence. Additionally our members expressed concerns about the current financial situation in the region with a need to look at both revenue and expenditure issues, as well as the low birth rates in many regional economies and its impact on productivity. We are grateful to Peru for providing an overview of APEC's priorities this year.

In response to APEC Leaders' call to deepen stakeholder engagement as part of the implementation of the Putrajaya Vision and in the San Francisco Golden Gate Declaration we plan to once again hold our annual General Meeting during the SOM 3 cluster of meetings in Lima. We look forward to working closely with Peru and continuing our close cooperation with APEC across a wide range of issues.

Session 1: APEC 2024 Scene-setter

We recognize the work done last year to achieve consensus and issue the 2023 APEC Leaders' Golden Gate Declaration. It is indicative of the continued importance that members place on working together to achieve the Putrajaya Vision of an open, dynamic, resilient and peaceful Asia-Pacific community by 2040, for the prosperity of all our people and future generations.

When APEC Leaders met in November, global growth was expected to slow from 3.5 to 3.0 percent in 2023, and slow further to 2.9 percent this year. However, the latest forecasts for global growth have been revised upwards to 3.1 percent this year. That said, this is well below the average growth rate of about 3.8 percent over the past 20 years.

There are other headwinds that need to be considered, such as the reappearance of inflation, increasing protectionism, and the impact of climate change. These are issues that our annual survey of regional stakeholders have consistently flagged as risks to growth.

These issues are not simply ones discussed by economists but have real consequences for living standards and others such as food security. We urge APEC members to consider what reforms are needed to raise growth potential and productivity as part of the work to achieve the 2040 vision. These include

implementation of the APEC's structural reform agenda, working on the Bangkok Goals, and consideration of how to best address slowing trade while also addressing social concerns including rising income inequality.

Session 2: Trade and investment for inclusive and interconnected growth.

When Peru last hosted APEC in 2016, significant work was done to produce the Collective Strategic Study (CSS) on a Free Trade Area of the Asia-Pacific (FTAAP), we look forward to a similarly robust and constructive year to progress the vision of an inclusive and interconnected region. We thank the Committee on Trade and Investment and the Ministry of Foreign Trade and Tourism for their openness to our inputs.

In our submission to the 2016 CSS, we recommended that the FTAAP consider the concerns that have arisen through the changing nature of international commerce. We emphasize our use of the term 'commerce' since it refers to all steps needed to complete transactions, including insurance, transport, and investments, and all forms in which business occurs including services, while trade usually denotes the buying and selling of goods and services. We also underscored the importance of engaging with non-business sectors which have real interests in international commerce.

These concerns are related to climate change, employment and labor markets and the distribution of income. In some economies, the vocal opposition to liberalization has little to do with openness as such and more to do with the quality of employment available, the rising levels of income inequality, and the stagnation of real incomes on average. Successful integration strategies depend on the ability to mobilize and to engage a wide range of stakeholder groups. This matter must be considered 'front and center' in any integration strategy.

Therefore, we welcome the San Francisco Principles on Integrating Inclusivity and Sustainability into Trade and Investment Policy and the priority that APEC is placing this year on trade and investment for inclusive and interconnected growth.

Since 2004 we have produced a considerable literature on the concept and continue to do so through an ongoing project on FTAAP Pathways to Prosperity Progress. This project is led by a core team: Australia; Canada; Chile; New Zealand and Thailand, with inputs from experts including from China; Indonesia, Peru, and the United States. We have also consulted with processes and institutions including ABAC, ASEAN, the Pacific Alliance, and the CPTPP and RCEP.

We started our current project 2 years ago, over that time, we have discussed: the changes in the global and regional current economic context; the background of the FTAAP concept; the progress made in the building blocs; what do we mean by an FTAAP; why a refreshed look at the FTAAP concept; how can the FTAAP concept add value on specific issues; and what initial topics we might address for further work.

Some key messages arising from our discussions are:

- 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;
- The very high cost of potential economic fragmentation;
- There are substantial economic benefits from moving in the direction of the FTAAP concept, with the largest gains coming from addressing regulatory barriers, especially those on services;
- The implementation of agreements such as CPTPP and RCEP has increased the potential pathways for advancing the FTAAP concept;
- Work on a framework for FTAAP provides an opportunity to:
 - Develop a blueprint for a rules-based system to resolve outstanding issues.
 - Capture the full trade benefits of integration;

- Build consensus around newer issues, such as digital transactions, climate change, and respond to demands from our communities for more inclusive outcomes.

Given these discussions, the next step in our work was to identify topics for early attention to advance longer-term FTAAP vision. The issues we are focusing on are:

- Services good regulatory practice;
- Trade and climate change; and
- Mobility of professional services.

We plan to finalize policy briefs on these issues by May 2024. But our early discussions have raised the following:

- A more integrated regional economy requires greater coherence between economies' approaches to services regulation – reducing frictions through GRP.
- Whether the 'traditional' approach to MRA delivery in APEC still fit for purpose – with the digitalization of professional services.
- The links between the evolving climate change and the rules-based trading system and the role FTAAP could play to develop mutually supportive strategies between them.

Session 3: Innovation and digitalization to promote transition to the formal and global economy.

Our survey last year highlighted the impact that the Covid pandemic has had on the informal sector, with 44 percent of respondents making it the second highest group after micro, small and medium enterprises (MSMEs). Three issues dominated stakeholders' views on factors that impact inequality: rapid technological change; the ability of the education system to prepare people for jobs; and the lack of social safety nets with over 80 percent of respondents evaluating their impact as either moderate or major.

As to what governments should do to make growth more inclusive moving forward, the top 3 were improve access to education, training and childcare opportunities; promote equal access to new opportunities and employment through structural reforms; strengthen human resource development policies for the digital age targeting workers displaced by structural changes. However, notably most respondents thought that every option was important ranging from enabling better access to digital platforms and quality social services to promoting broader, easier and more secure access to credit.

Session 4: Sustainable Growth for Resilient Development

As mentioned above, over the last 4 years, climate change was ranked as a top 5 risk to growth for respondents' economies. In addition, updating the region's ambitions on climate change and clean energy was the fourth highest priority for APEC Leaders.

Two issues stood out as being either important or very important issue for APEC to work on reducing /eliminating environmentally harmful, fossil fuel subsidies; and reducing barriers to trade and investment in renewable energy components and equipment in the region. However, views were more nuanced on the difference between climate change and climate change policy. An overwhelming 72 percent of respondents agreed with the statement that climate change was having a negative impact on their economies, while views were more divided on the impact of climate change policy. While 39 percent of respondents disagreed with the statement that climate change policies were having a negative impact on their economies, a significant 31 percent agreed that climate change policy was having a negative impact on their economies.

Understandably, views differed across the region on which sectors will be to your economy's greenhouse gas emissions in 30 years. Respondents expect emissions from electricity generation from coal to drop the most. By far, North Americans expected the highest fall in the importance of emissions of electricity from coal, while those from Pacific South Americans expected a drop of 15 percent. After coal, the next two sectors that respondents expected the highest decrease in importance were transport and electricity from oil. It should be noted that some sub-regions of the Asia-Pacific expect emissions from certain sectors to increase in importance. For example, those from Pacific South America expect emissions from buildings to increase, and those from Northeast and Southeast Asia expect emissions from agriculture to increase.

Members of PECC have been working closely with the APEC Economic Committee over the past few years in thinking about the role of the structural reform agenda, the connections between these reforms and competitiveness of the service sector. We welcome the continued focus APEC places in these reforms which are essential to increasing productivity in the region. The dynamics of reform are complex, 28 percent of respondents selected the failure to implement structural reforms making it the 9th highest risk to growth, but at the same time structural reforms and associated issues ranked 3rd highest in the priorities for APEC Leaders.

Importantly, there is a large gap in perceptions between business and governments respondents in their satisfaction with the progress APEC has made on structural reforms. For example, 20 percent more business respondents were dissatisfied with APEC's progress on structural reform for improving agricultural productivity while the case for government respondents was almost the opposite with 22 percent more expressing satisfaction than dissatisfaction. While structural reforms and agricultural productivity may not have received as much attention as other sectors, given APEC's goals for food security, it is important to look at the intersection of these two streams of work. But even for issues where there has been considerable effort to align work, there remain large gaps of satisfaction - the 'net approval' for work on structural reform and services from business respondents was minus 4 percent, while for government it was 28 percent. The reforms highlighted by stakeholders as being critical moving forward were: ease of doing business; regulatory reform; and educational reform.

Once again we thank you for this opportunity and supporting efforts for successful outcomes of this year.