

PECC Update for APEC SOM 2
Eduardo Pedrosa
Secretary General, PECC, on behalf of the PECC Co-Chairs
May 15 – 16, 2024, Arequipa, Peru
Cerro Juli Convention Center
Room Colca

Ambassador Carlos Vasquez, APEC Senior Officials, thank you very much for the opportunity to provide you with this update on the work undertaken by the Pacific Economic Cooperation Council. More specifically, this update is focused on *Session 2: Trade and investment for inclusive and interconnected growth*.

Trade and Investment for Inclusive and Interconnected Growth

As we reported to you at SOM 1, PECC established a task force on “FTAAP Pathways to Prosperity.” The group is finalizing three policy briefs to advance regional thinking on the FTAAP concept.

Trade and Climate Change

- The brief outlines the challenges for governments and the implications for trade arising from the range of response measures being employed across APEC (and beyond) to tackle the market failure associated with climate change.
- It notes that while a good start has been made in such areas as environmental goods and services, it finds that in four key areas, trade and investment policies are contributing significantly to climate change rather than helping to alleviate it. These areas are carbon leakage, tariff and NTB escalation, subsidies, and the incompatibility of specific trade rules with climate policies.

The brief then argues that further work on the FTAAP concept can be used to reduce and eliminate these tensions and therefore we recommend that APEC move with some urgency to develop a work program to achieve this objective.

Services and Good Regulatory Practice (GRP)

- The brief explains the importance of good regulatory practice, especially because of the increased servicification of both our individual economies as well as trade among them.
- It includes a detailed gap analysis of current arrangements on good regulatory practice and relevant provisions on services in regional trade agreements.

The brief also explores the progress made to date and the value of capacity building to support the implementation of multilateral and regional agreements and principles. Two new areas where neither existing frameworks nor common understanding exist at present are also explored. These are:

- the digitalization of services trade, and the role of services in, and
- the impact on services of the application of artificial intelligence technologies.

Our work argues for action to both generalize work to date in these two areas and to develop new frameworks that support integration alongside adoption of the new technologies.

Professional Services and Mutual Recognition Agreements (MRAs)

- The brief explores new drivers and developments impacting on professional services trade and outlines current pathways and arrangements for recognition, including existing MRAs and provisions in RTAs.
- The interrelationship between mutual recognition, professional services and digitalization is explored in detail, including the potential opportunities for digital platforms to drive greater interoperability of professional services.
- The brief then proposes potential, practical pathways an FTAAP could adopt to incrementally build common approaches that facilitate the convergence of standards to support MRAs and the movement of professional services.

Ever since the FTAAP concept was floated 20 years ago we have tried to better understand the perceptions of stakeholders to the idea as well as issues on which work should be prioritized. Most recently, we have observed significant differences among stakeholders on the relative importance of work on the FTAAP. Business stakeholders tend to place the FTAAP as a higher priority while the government and non-government sectors have tended to view work on FTAAP as less important.

These differences indicate the importance of the dialogues that Peru has been organizing on *“A New Look at the Free Trade Area of the Asia-Pacific (FTAAP).”* The *“San Francisco Principles on Integrating Inclusivity and Sustainability into Trade and Investment Policy”* underscores the importance of strengthening multi-stakeholder engagement. This presents APEC with an ideal opportunity to expand dialogue with different stakeholders to better understand views across all sectors and the capacity mechanisms needed to advance the agenda. This work stream can contribute to more effective, accountable, and inclusive trade policies.

Innovation and Digitalization to Promote Transition to the Formal and Global Economy

As outlined in the Putrajaya Vision and elaborated in Aotearoa Plan of Action, APEC Leaders emphasized the need to pursue structural reforms and sound economic policies to promote innovation as well as improve productivity and dynamism. Moreover, structural reforms, good regulatory practices, standards alignment, and anti-corruption efforts were the third highest priority for APEC Leaders. Our *“Primer on Economic Integration Issues posed by the Digital Economy”* notes that the cross-cutting nature of digitalization and digital transformation changes the landscape for policymakers and regulators. As industries, markets, and pricing strategies are transformed, the traditional industry-specific approach in policy-setting is struggling to maintain effectiveness and risk management approaches are regulatory control and adequate consumer protection.

This failure jeopardizes the opportunities that the digital economy can deliver for more inclusive economies and trade. While previous development models required enormous capital expenditure. Digital technologies open opportunities at a reasonable cost for previously underserved communities to engage in broad ranges of economic activities, for example, access to education, healthcare, and banking services.

Among the challenges we confront are the lack of widespread reliable and affordable internet access but insofar as building trust is concerned, not only do people need to be better informed about the benefits of digitalization but also the risks involved with the number of fraud and scams. Governments around the region and the world are experimenting with different policy tools and approaches to address these issues. APEC has an important role to share approaches to these issues without the pressure of making

commitments. Rules of the road can then be set at the global level either through the multilateral trading system or among like-minded groups of economies such as the Digital Economy Partnership Agreement (DEPA), the negotiations underway on the ASEAN Digital Economy Framework Agreement (DEFA), among others.

In addition to providing a ‘half-way house’ between individual approaches that might fragment the global economy and binding agreements that potentially constrain innovation, APEC can place the spotlight on how the technological revolution facilitates the transition of informal actors to the formal and global economy. There are many examples over the course of APEC’s history in which it has done this, in 2015 the Boracay Action Agenda (BAA) focused on how micro and small and medium enterprise can directly participate in global trade. The final review of the BAA reported that MSME trade with all sizes of businesses was significantly higher than trade among MSMEs. The report also concludes that only a few MSMEs are making full use of the opportunities that the digital economy provides for more inclusive trade.

The types of policies that enable MSME trade are even more important to informal actors. The asymmetric cost of regulatory compliance makes this especially important for micro and small companies without large teams of compliance officers nor the money to hire consultants. This is especially true for those companies outside of major urban hubs that can now reach far-flung consumers around the world while encouraging innovation, jobs, and income. But again, complying with what is swiftly becoming a highly fragmented regulatory environment poses more costs for those who can least afford them.

By sharing experiences on the policies around the region to address these issues, APEC can begin to develop toolkits on the vast range of policy instruments available to governments to minimize trade frictions while allowing economies to take approaches best suited for their specific circumstances. APEC’s focus on structural reforms allows for a cross-cutting approach that avoids the creation of policies that pose additional costs on businesses, especially micro and small and medium-sized businesses. Previous work on the ease of doing business has addressed issues critical to assisting informal actors from starting a business, access to credit and enforcing contracts. As APEC’s current phase of work on structural reform ends in 2025, work this year provides an ideal opportunity to embed the topic of informality in APEC’s work.

Sustainable Growth for Resilient Development

Over the past few years we have emphasized the increase in the perception of the risk that climate change poses to economic growth. Average temperatures across the region have been rising steadily over the past few years.

In our State of the Region report last year we emphasized that the economic damage due to natural disasters has been increasing over the last 20 years. However, one issue not receiving adequate attention is the sharing of the cost of risks. In recent years, only 35 percent of the economic damage caused by disasters were insured . At the macro level this places an enormous fiscal burden on government but also for families. Over recent years, housing insurance premiums have been rising especially in disaster prone areas.

As noted above with respect to the digital economy, APEC members are taking a variety of measures to deal with climate policy, the scale and diversity among APEC members provides an opportunity to provide

an approach that can be adopted globally through the multilateral trading system as well as through smaller groups in agreements that support a rules-based trading system.

Future Events

As we continue to work on the FTAAP we plan to hold an online meeting to gain further input on the policy briefs. Our General Meeting will be held as part of the SOM 3 cluster of meetings. We thank Peru and the SOM Chair for this opportunity in the spirit of fulfilling the Putrajaya Vision of stakeholder engagements.

We also try to address issues that we believe are important to regional growth and development that need greater attention. This year's State of the Region report will address the issue of Ageing Populations and Productivity in the Asia-Pacific. Although we have issued reports on this topic in the past, we believe this issue needs to be addressed with greater urgency with the rapidly changing demographics in the region.