

PECC Statement to APEC Ministers

by
Dr. Kim Kihwan
PECC Chairman 2003-2005
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Mr. Chairman, Ministers, and Distinguished Participants:

1. I am greatly honored to be invited to participate in this 17th APEC Ministers Meeting on behalf of the Pacific Economic Cooperation Council (PECC), and I would like to thank the Ministers, especially Minister Ban Ki-moon and Minister Kim Hyun-chong, the Co-Chairs, for this honor.
2. The work undertaken by APEC this year under the theme "Towards an Asia Pacific Community: Meet the Challenge, Make the Change" is one that has a strong resonance with the activities of PECC this year, its twenty-fifth anniversary. It was my honor to chair PECC's General Meeting held in Seoul in September just before the APEC Finance Ministers' Meeting and SOM III. The meeting revisited and reaffirmed PECC's founding vision of a Pacific Community based on deeper economic integration and closer cooperation among members. It concluded that there has been significant progress in building a Pacific Community, but there are growing challenges to this vision. The challenges for the most part are the result of a deepened regional interdependence as the basis for shared prosperity, but they are no less daunting.
3. My statement today draws principally on the findings and recommendations of the General Meeting summarized in PECC's 2005 Seoul Declaration that calls upon APEC Ministers and Leaders to address several key challenges. Foremost among these is the persistence of the trans-Pacific financial and trade imbalances, which constitute a major risk to the region's economic future. The current account imbalance of the United States with East Asia, especially with China, is unsustainably large. This has not only increased the risk of a sudden fall in the value of the U.S. dollar but has further stirred protectionist sentiment in the U.S. Congress.
4. There are competing explanations for this complex problem which has global, not merely regional, dimensions, but clearly there is a link to the fiscal deficit in the United States and to the very low domestic spending in China and other East Asian economies. Yet any quick budgetary adjustment on the part of the U.S. or a large exchange rate shift by China could be destabilizing for the regional economy as would any protectionist trade policy action by the U.S.

5. APEC Finance Ministers and central bank governors would send a dramatic signal to the world financial community if they were to agree to work together with APEC Trade Ministers in addressing these international imbalances through an integrated approach. They would thereby demonstrate to markets their recognition of the complex origins of the imbalances in trans-Pacific trade and capital flows. The current context of economic growth provides a unique opportunity to undertake corrective actions. To be credible to market participants, the United States should move to restore fiscal balance. Asian member economies should expand domestic demand, rely less on export-led growth, and allow greater exchange rate flexibility. This overall policy package will reduce the risks of instability in global financial markets and curb rising protectionism.
6. Similarly a crisis is brewing due to the stalled Doha Development Agenda (DDA). In recent weeks, hopes for a successful Hong Kong WTO Ministerial Meeting have faded as preparatory talks have stalled over the issue of global agricultural subsidies. This has only added to worldwide skepticism about the capacity of the global trading regime to continue to progress in successive stages of liberalization through WTO mechanisms. This will cripple the multilateral process. For this reason, PECC urges APEC Leaders to issue the strongest possible statement designed to ensure rapid progress in DDA negotiations.
7. In the absence of such progress, preferential trading agreements (PTAs) will further proliferate both within the Asia Pacific region and outside it. We believe that unless PTAs are negotiated in accordance with APEC and WTO principles and Best Practice guidelines, they will undermine not only the WTO but also APEC's Bogor Goals. Thus, APEC would do well to focus on effective implementation of these guidelines.
8. Fragmentation of regional markets through a multiplicity of overlapping and intersecting PTAs with inconsistent provisions – the so-called "spaghetti bowl" – has been identified as a key concern of the business community because of its adverse impact on transactions costs. If PTAs are to serve as avenues to the Bogor Goals, it is important that they encourage integration rather than fragmentation of regional markets. In this connection, PECC applauds the willingness of Senior Officials to explore ways of promoting the convergence of PTAs among APEC members, building on the Best Practice guidelines. We hope that our own work may make a contribution to this effort.
9. It is already clear that the stocktaking completed this year will show that APEC economies have made impressive progress toward the Bogor Goals and that the APEC process itself has made many contributions to this progress across an exceptionally wide range of activities. At the same time, it is also clear that some of APEC's most difficult challenges in this area still lie ahead. Among the most immediate are those relating to the looming 2010 target date for achievement of the Bogor Goals by APEC developed economies. Important breakthroughs in liberalization, particularly in sensitive sectors, remain to be made by APEC developed economies before 2010.

10. Investment is also an area that is ripe for further progress within APEC. After a promising beginning, APEC's work on investment liberalization has languished somewhat in recent years. A revitalized work program on investment liberalization would pay substantial dividends for APEC members.
11. Of course, the prospects for achieving any of these objectives will depend on the regional political environment for cooperation. In this regard, PECC is concerned about the deterioration of political relations among some East Asian neighbors within just the past year even as regional economic integration has increased. Without prejudice to any particular viewpoint in these disputes, it should be evident that any efforts to advance the cause of a Pacific Community or an East Asian Community would bear no fruit amid actions and statements that incite nationalist fervor, resentment, suspicion, and even retaliation towards a neighbor. Unfortunately, the burden of historical legacy continues to weigh upon East Asia, but it should not be allowed, indeed must not be allowed, to encumber progress towards a closer Pacific Community. In this regard, PECC believes that the East Asian region has yet to fully examine and apply the lessons to be found in the reconciliation process that took place among European countries after World War II.
12. Let me conclude by noting that as an independent tripartite process for collaboration across academic, business, and government sectors, PECC is committed to strategic and focused outputs, including sharper input into the APEC agenda. We applaud APEC's efforts at institutional reform and, like APEC, we have been re-examining our working arrangements in light of regional developments and the increasing challenges of Pacific economic cooperation. Now that PECC has made major amendments to its Charter, we expect our organization to be able to address policy issues more flexibly and effectively. PECC will continue in its role as a vigorous independent forum for discussion and consensus building. We look forward to further excellent and collaborative relationships with APEC and will keep you informed of our activities.

Thank you.



Seoul Declaration

The Pacific Economic Cooperation Council (PECC) marks its twenty-fifth anniversary this year in Seoul. PECC revisited and reaffirms its founding vision of a Pacific Community based on deeper economic integration and closer cooperation among members. In the past quarter century there have been significant achievements towards a Pacific Community but there are many risks to this vision.

Renewing the commitment to a Pacific Community

Persistent and growing imbalances in cross-Pacific trade and capital flows and new threats to “open borders” are the most important threats.

The growing deficit in the United States current account and the large current account surpluses and stocks of foreign exchange reserves in the East Asian economies place future world economic growth and stability at risk. Unsustainable domestic policies underlie these trends. This problem is fuelling domestic protectionism.

Concerns about international terrorism are giving rise to new impediments to trade and people movement. An influenza pandemic could present even greater challenges to open borders.

Some of the current problems are consequences of the region’s own success and integration, leading to growth but also pressure for changes in domestic economic structures, as well as resistance to this. There are other implications: increased demand for resources and renewed concerns about supply security and infrastructure bottlenecks.

The proliferation of free trade agreements and regional trade agreements in the region presents another challenge to the Pacific Community based on open regionalism. Bilateral arrangements are proliferating and concentrating around a few select economic hubs. Competition among the hubs is intensifying.



Tackling these risks requires cooperation across the Pacific. At the same time, there is increasing interest in sub-regional institutional arrangements and alternative conceptions of regionalism. Sub-regional institutional arrangements can become “communities within a Pacific community”, provided they remain consistent with the principles of open regionalism.

There are common interests in meeting the risks to integration but political tensions will need to be managed. New economic powers have emerged in the region. Constructive political relationships between the major member economies will be critical to success. Political leaders need to lay historical grievances to rest, recognising their responsibility for developing a shared political future. They should draw on the Atlantic experience.

The stakes in favour of Pacific regional integration are higher than they were twenty-five years ago when PECC was established. Responses are best designed and implemented according to market oriented policies and non-discriminatory practices. Open international trade, investment and financial policies and economic cooperation are the optimal basis for an integrated community of economies in the Pacific.

Call to action

APEC has a key role to play in strengthening trans-Pacific relations, including non-economic related aspects such as human security. PECC calls upon APEC and its member economies to take action, particularly in the lead up to the APEC Leaders meeting in Busan in November, as follows:

- Financial imbalances are spilling over into trade policy problems. APEC Finance ministers and central bank governors should work together to reduce international imbalances. APEC Trade and Finance ministers should work more closely by integrating their respective separate meetings.
- APEC ministers should demonstrate to markets their recognition of the complex origins of imbalances in trans-Pacific trade and capital flows. They should take responsibility for crafting a cooperative solution. The current context of economic growth provides a



unique opportunity to initiate these corrective actions. To be credible to market participants, the United States should move to restore fiscal balance. Asian member economies should expand domestic demand, rely less on export led growth, and allow greater exchange rate flexibility. This overall policy package will dispel growing uncertainty and reduce the risks of instability in global financial markets, and rising protectionism;

- The Bogor Goals are vital to growth and development. APEC members should reaffirm their commitment to these goals, including through the WTO. A priority APEC's work will be to address "behind the border" regulatory issues more comprehensively, backed by substantial capacity-building.
- APEC must step up efforts to ensure the proliferating preferential trade agreements in the region are developed in accordance with APEC principles and best practices guidelines, and that they contribute to Bogor goals;
- It is vital that bold steps be taken now to conclude in 2006 the Doha Development Agenda round of multilateral trade talks. These include completing essential preparatory tasks in time for the Hong Kong WTO Ministerial meeting.

In order to move ahead, urgent institutional reform of APEC is required. PECC is concerned that APEC has operated for too long as simply a "forum". A commitment to further institutional development of APEC could be made by establishing work program priorities and committing enough resources to the Secretariat and the working groups.

PECC has been an opinion-leader forum whose outputs complement and enhance APEC's agenda. To strengthen this role, PECC has enacted a new Charter which strengthens the role of our member committees and expert task forces as mechanisms for opinion leadership in the Pacific. In order to progress action on the above items, PECC will produce a State of the Region report which will be presented to APEC leaders.