

## **PECC Statement to APEC Ministers Responsible for Trade July 2007**

Hon. Mr Warren Truss & APEC Ministers Responsible for Trade

On behalf of the international chair of the Pacific Economic Cooperation Council (PECC), Dr Charles E. Morrison and our members, I would like to thank you for this opportunity to update you on the work we are doing in support of Asia Pacific economic cooperation.

PECC held its seventeenth General Meeting in Sydney at the beginning of May. Like APEC, this was the first time the event had returned to Australia since our organizations were founded. This was an appropriate opportunity for us to reassess our goals and objectives. We would like to express our appreciation to the chair of this meeting, Hon Mr Warren Truss, and APEC SOM Chair Ambassador David Spencer for taking the time to share their views. PECC members benefited greatly from their insights and comments on our work.

This update consists of our views on contemporary trade issues, based on our General Meeting, and an update on the PECC work program. The PECC work program is based upon policy relevant study projects approved by our Standing Committee and consisting of:

- 1) An annual State of the Regional Report
- 2) Task force studies involving a few leading regional specialists such as those on regional architecture, international labor mobility
- 3) Collaborative projects with other bodies including our recent study of the FTAAP proposal with ABAC and a proposed study of educational services with APRU
- 4) Individually sponsored international projects bearing the PECC label and
- 5) National projects designed to promote awareness of economic cooperation with PECC economies.

### **I. PECC Views on Regional Trade Issues**

#### **Region's Leadership in Doha Development Round**

We urge APEC trade ministers and officials to find ways to break the current deadlock over progress in concluding the Doha Development Round. PECC members firmly believe that the Asia Pacific and APEC can be a critical element for progress in the WTO. The Asia Pacific region has been the biggest beneficiary of the open trade system, and we hope the cooperative spirit that has developed within APEC over the past 18 years will enable the region to focus on the broader benefits to their businesses and consumers of continued momentum toward freer trade. These far outweigh foreseeable adjustment costs that individual economies may be required to implement. We would, therefore, urge you, as your highest priority, to pledge to improve offers from all the APEC economies. The APEC economies should provide a strong example and challenge to the rest of the world of courage to undertake further liberalization efforts.

#### **Implementation of Best Practices for PTAs**

We welcome APEC's efforts to tackle the issues arising from the proliferation of bilateral preferential trade agreements. We urge APEC Trade Ministers to endorse and further the excellent work being undertaken by senior officials and trade experts to minimize the distorting effects of bilateral agreements. We hope the model measures for trade agreements will be agreed on this year and become the foundation on which all future deals are based.

A Free Trade Area of the Asia Pacific (FTAAP) has been put forward as a potential solution to the spaghetti-bowl problem and as a catalyst for the WTO negotiations. Our work with ABAC last year pointed to the political difficulties of a high quality preferential agreement and also pointed to some practical immediate steps that might be taken to simplify the trading regime for businesses operating in the region. We welcome APEC's progress on the structural reform agenda and facilitation as an important building block towards the realization of the vision of fully integrated regional community.

### **Regional Trading Patterns and Trans-Pacific Imbalances**

Our PECC members remain concerned about the massive imbalances in the region, notably the surpluses on the western Pacific and deficits on the eastern Pacific. We are aware of controversies among economists about the significance of these imbalances for the Asia Pacific economic outlook. Our work suggests that as a share of GDP, the US current deficit appears to be on a declining trend, but that surpluses in East Asia are still rising. The prospect of disorderly adjustment (through currency markets or protectionism) remains a serious risk to the world economy. It is obvious to us that these issues cannot be effectively addressed in bilateral contexts and should be the subject of regional and global research and action.

### **Public Understanding and Information**

We have become increasingly aware of the inadequacy of old concepts for understanding international economic interactions, which tend to privilege mercantilist views among the public and even officials. In this regard, we call on APEC ministers and officials to enhance efforts to better understand the nature of business supply chains and their evolution in the region. While currency realignments should be expected as part of an appropriate policy reaction to imbalances, the structure of manufacturing processes and the evolution of supply chains may well mitigate against their effectiveness. The classic APEC approach of sharing of information and experiences followed by agreement on a joint objectives and reporting of individual efforts offers a way forward. We hope that through understanding business processes the region can avoid policies that will ultimately damage confidence in the rules-based trading system. We ourselves are pledged to continue research and public outreach to strengthen specialist and public understanding of the changing nature of Asia-Pacific economic interaction.

### **Infrastructure through Public Private Partnerships**

Our State of the Region Report last year emphasized the need for the benefits of globalization to reach all sectors of society and the threat that growing inequality poses to continued global prosperity and stability. To overcome this problem it will be crucial to ensure that all communities can participate in the regional and global market and share the benefits of globalization while retaining cultural identity.

Free trade is not the end objective in itself but is our chosen route to development and poverty alleviation. Serious attention to inequality and helping to smooth the adjustment of those sectors that are most adversely affected by structural reform will greatly help to overcome opposition to the reform needed to ensure the competitiveness of our economies and the improved living standards it can provide.

Achieving this goal will require substantial investment in infrastructure ranging from social – such as education - to the economic - including transportation and information technology. Meeting these needs requires substantial cooperation between the public and private sectors. For this reason, PECC has developed a set of “Guidelines for Effective Public Private Partnerships”. We hope that these guidelines will be useful to APEC governments as they begin to implement ambitious investment plans throughout the region.

## **II. THE PECC WORK PROGRAM**

We include a brief explanation of the other elements of the PECC work plan as a matter of information. We also certainly welcome either further comment or inquiries.

### **State of the Regional Report**

As part of our efforts to build understanding about the issues the region is confronting, we will be issuing an annual State of the Region report which will underline the major developments in the region over the past year and the impact they have had on building an Asia Pacific community. The report will include the economic outlook for the region, a survey of the region's opinion-leaders and essays on the issues underlying developments in the region.

We hope that APEC Ministers and officials will find this a useful tool for gauging perceptions on the work you are doing and to aid in priority setting. This year's report will focus on the impact of Asia's growing importance in the global economy, perceptions of the regional economic integration process, energy and the environment, and the role of regional institutions in managing the issues between the economies of the Asia Pacific.

### **Institutional Architecture**

The PECC task force on regional architecture will examine the institutional bases of cooperation in the Asia-Pacific, including the adequacy of current regional organizations. A questionnaire to our membership last year disclosed considerable doubt about the effectiveness of many regional organizations and institutions, including APEC and other organizations of importance to Asia-Pacific regional integration. Accordingly the Regional Architecture task force will review the growing needs and responses, perhaps making significant suggestions for changes.

The task force consists of five eminent persons broadly representative of the different parts of the region: Ali Alatas, a diplomat; Toyoo Gyohten, a prominent expert on finance; Long Yongtu, a former trade negotiator; Joseph Nye, a prominent intellectual and former government official; Ernesto Zedillo, an economist and former President of an APEC member economy.

This group will be assisted by a broader list of specialists and expects to finish its report early in the coming year.

### **Changing Demographics and International Labor Mobility**

A second task force will examine the increased demand for labor across much of the region. International flows of labor have accelerated in recent decades in parallel with flows of goods and services and of capital and investment. Demographic and economic projections suggest that labor migration in the Asia Pacific will accelerate. These flows should be considered an important and integral part of the overall process of economic integration in the region.

However, such flows already create serious political and social challenges and require careful management. The PECC task force will analyze relevant information and make policy recommendations to promote mutually beneficial cooperation in managing international labor mobility in the Asia Pacific. We will share with APEC officials the findings of our research, recognizing that our recommendations will go into area beyond the jurisdiction of most trade ministries.

### **Trade in Services: The Asia Pacific Education Market**

PECC is in the early stages of developing a third study group on the changing nature of educational services in the region. Our work is being undertaken with the Association of Pacific Rim Universities (APRU), which is a grouping of the region's leading educational institutions.

Education is increasingly being delivered as a service across borders with movements of students overseas as well as by movements of staff and through delivery via the internet. In Australia alone there are some 280,000 overseas students, in the United States over 500,000, in China over 140,000, Japan, over 100,000, Singapore, over 50,000; and Malaysia, over 45,000.

This project will examine developments in the education sector and the opportunities and challenges they present for regional economic integration and community building in the Asia Pacific. For this purpose, this study will report on trends in the various modes of supply of education services across international borders and identify impediments to efficient international cooperation in this sector. Getting policy right in this sector is matter of significant concern for all economies in the region, to remove constraints to growth and to promote structural change. We hope to work with various APEC fora addressing similar sets of concerns over the coming months on this project.

### **Energy and the Environment**

Another issue that would benefit from regional leadership on the global stage is the environment. We note that some 80% of global emissions come from economies outside of the Kyoto framework and that for the foreseeable future this region will be the largest source of carbon emissions.

We believe that this is a problem where it is critical that we have global and regional cooperation. No single country acting alone can solve this problem. This provides an obvious role for cooperative arrangements, such as through APEC, to finding creative and long lasting solutions.

Our discussions at PECC XVII focused on the role that market mechanisms and technology can play in reducing carbon emissions. PECC members have begun a project looking at the region's energy markets with the view that regulatory and market-based reforms can play an important role in the more efficient use of energy without jeopardizing developmental objectives. This will obviously have to be with regard to other international efforts.

APEC is well placed to contribute to international agreement in these critical areas for sustained development within the region and globally. The APEC approach of economic and technical co-operation provides a basis for identifying an approach which is appropriate to both developed and developing economies.

### **Conclusion**

We appreciate our opportunities to work with APEC. While we try to identify future problems and design ways in which they can be addressed creatively and positively, we are well aware of the urgency of regional issues, and the pressures on APEC for immediate deliverables. We welcome your thoughts on how our work can contribute whether in the short-term or over the longer-term.