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Session II – The State of the Region (Summary)

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I've been given the task, the challenge, of being the rapporteur for this session to pull together the main points of the discussion and their interrelationship. There were many different themes touched upon by the presentations in this session, and so my apologies in advance if I fail to adequately integrate all of them.

The focus of this first panel was to set the backdrop to our discussion over these two days and to talk about the state of the APEC region. Our keynote speaker Mark Johnson started out by telling us that the state of our region is good, that business in the APEC region is robust, that the private sector continues to lead the integration

process which it has done from the very beginning, and that business continues to be well ahead of APEC institutions and policy - in fact many of our panelists mentioned the gap between the institutions and the reality on the ground. In fact, one of the challenges that our panelists see for APEC's future agenda is how to bridge this gap between the institutions and the business led integration

Our keynote speaker mentioned that the paradigm for business has changed and many of our panelists echoed that. The private sector has created a world of incredibly globalised markets with integrated supply chains where logistics and components of information technology are much more critical than border barriers in actually making things work and creating competitiveness in global markets.

Business – what does it want? It wants first and foremost tariff free and barrier free world, investment barrier free world. It wants a multilateral liberalized world. We heard Allan Beattie start this morning by saying that unfortunately business might not get this anytime soon. And we heard Mark Johnson say that if this cannot be achieved we then need to focus on the integration of markets through other means – through promoting investment and through reducing behind-the-border regulatory impediments to growth such as the regulatory inefficiencies that characterize many of our institutions and the red tape involved in doing business that generates large transactions costs.

These constitute much of the trade facilitation components of the agenda of APEC's work in this area.

Looking at the trade component of APEC, we heard that the chances of a successful conclusion of the ongoing Doha Round are slim but that trade continues to grow nonetheless. This may be part of the reason that business has not been engaged in really pushing the multilateral agenda forward, as much as it wants success in the WTO producing more open markets. Therefore, Allan Beattie and others emphasized that bilateralism will remain the name of the game for trade. And although there are many unfortunate aspects of bilateralism, we nonetheless heard some of our commentators say that in fact many of the bilateral agreements really do push the envelope of trade liberalization to the maximum, thus advancing the trade liberalization agenda. And this is true not just for goods but for services.

We also heard that the principles and guidelines for regional trade arrangements (RTAs) that the PECC has elaborated and that have been adopted by APEC are excellent, but that they haven't really received a lot of attention by governments who negotiate these bilateral and regional agreements.

Yuen Pau Woo built on this point to discuss the disconnect between the institution of APEC and the integration of the Asia Pacific region through its business activities. However, he saw a growing positive development in that the thinking and work in APEC are now focusing more and more on future issues. Not on the trade policy agenda that has been stymied but rather more on how to move the behind-the-border agenda forward. Key questions in this forward-looking agenda are: How to promote structural change? How to reduce transaction costs? How to facilitate investment?

Philippa Dee concentrated her remarks on the critical relationship between the quality of institutions and economic reforms. She also emphasized that behind-the-border reforms are critical to economic growth. Markets need to be contestable for everyone, not just foreign providers, but domestic providers as well. And in this context the role of institutions are critical. Policy reviews need to be brought to the forefront in APEC economies as the centre for generating credible reforms. Reviews can help the process by building coalitions for reforms, identifying inefficiencies and working to combat vested interests. Her comments echoed other remarks made by for example, Mark Johnson and David Spencer, in discussing how APEC can take on the question of how to better use Government institutions, whose role is viewed as critical by the private sector so as to provide the appropriate environment that allows business to generate growth and to help bridge the gap between the reality of APEC institutions and the reality of APEC business practice.

Our last two speakers focused on the importance once again of economic reforms in various parts of the APEC region, namely the three APEC Latin American members and then of course on China as a new force for regional integration. Each speaker emphasized the importance of foreign direct investment as critical for future and more rapid growth in Latin America since this had played such a motor for past economic growth in China. The two speakers emphasized in the first case needed economic reforms, and in the second case the importance of economic reforms as instrumental in pushing China's rapid growth process forward.

Lastly, I have also been asked to identify what might be areas for PECC work in the future, to input into the APEC agenda. Where can PECC have a value added? Where can PECC show the way forward to investigate issues that are critical but which might not yet be at the forefront of

APEC's agenda? I would have the following suggestions to make.

First and foremost on trade, which remains one of the critical components of APEC's platform and the Bogor goals. APEC and PECC clearly should remain committed to the open multilateral trade process and to a successful conclusion of the Doha Round. If this cannot be done before the end of this year and we have to look at trade in a more medium-term context, then PECC should continue its work looking at the RTA question and how can RTAs be made to more effectively contribute to our ultimate and overriding goal which is the process of multilateral trade liberalization. PECC could usefully examine the challenge of how RTAs can be made to converge. I believe that the question of identification of elements of commonality in the many RTAs that have been negotiated in the APEC area would be a very important one for PECC's future work. PECC has identified principles for RTAs and APEC has identified model measures for RTAs, but the next step should be to contrast these principles and measures with the reality of RTA provisions, basically carrying out a reality check. PECC could look at how the principles have been or have not been reflected in the actual agreements and try to find a way to push these towards convergence in the future. If RTAs are going to be the center of trade action in the near future, then PECC's role should be to continue to look at how to make them more effective and efficient vehicles for trade liberalization.

In a longer-term context I think the prospect of a Free Trade Area of the Asia Pacific (FTAAP) should remain on the table. One never knows how the future will evolve, and this is certainly a pertinent question for debate.

Secondly, in the area of investment, much has been mentioned of investment being the heart of the new business paradigm. PECC has done a lot of good work in the

past on investment and APEC has as well, but the issue has not been seriously studied for several years. I think PECC could bring this area back into the forefront and perhaps could take up the suggestion that was made by Mark Johnson to examine the creation of a Pacific Framework on Investment and the various policy variables that would be involved in that, so as to try and push for an integrated approach to investment facilitation and liberalization for the region.

The third area of work for the PECC which was mentioned by so many speakers is that of regulatory reform and the importance of tackling behind-the-border issues. There are two aspects of regulatory reform. One is the more technical aspect of identifying the most appropriate type of reform for particular industries. The PECC has done some work in the area of looking at technical aspects of regulatory reform in service sectors. I'd like to draw your attention to the fact that the PECC published in 2003 a brochure entitled "Perspectives on Regulatory Issues for Services Liberalization" which is available on the PECC website. In the services area it is important to come to common regulatory understandings that can then be transmitted through capacity-building efforts to train regulators and supervisors. A better understanding of efficient regulations in critical economic activities can also lead to a greater convergence of regulatory standards. Then there's another aspect of regulatory reforms which is that that Philippa Dee was mentioning in her presentation. That is the institutional aspect of the regulatory process and the relationship between institutions and reforms. Reforms work better when institutions are credible and efficient. I believe that PECC should work in both of these areas of the regulatory reform agenda.

Lastly, I think that PECC's work could be oriented towards an area that was not explicitly mentioned by any of the

panelists in our session but that will be on our agenda later, namely the issue of labor mobility and regional integration. In my view there has been as much change in the labor paradigm as there has been in the business paradigm in our globalised world. Labor mobility is extensive and takes place in many forms and cuts across many categories of workers. The question of temporary migration vs. more permanent immigration is a very thorny one of course, but it's at the heart of this issue. There are questions that involve economic issues such as the portability of insurance and pension reforms; there is the critical importance of remittances and the link between labor migration, remittances and economic growth. There is the issue of the brain drain and loss of skilled labor categories in developing economies. Again, this is an area where institutions and policy are lagging behind the reality of the marketplace, and I wanted to flag this as another issue which I think is a new paradigm with which PECC could be out in the forefront for the APEC agenda.