

PECC Statement to 22nd APEC Ministerial Meeting
Agenda Item XI: Reports to Ministers
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From the Co-chairs of the Pacific Economic Cooperation Council
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On behalf of the members of the Pacific Economic Cooperation Council (PECC) we would like to express our appreciation to APEC for its continued openness to our ideas and suggestions from the second track. We would also like to extend our congratulations to Japan for their leadership during a very difficult year for the region and the world.

We recently concluded our 19th General meeting in Tokyo which was hosted and organized by the Japan National Committee for Pacific Economic Cooperation Council. We express our appreciation to Minister of Foreign Affairs, HE Mr Seiji Maehara and Deputy Minister of Foreign Affairs Mr Yoichi Otabe for taking the time to speak to us during our meeting. A summary report of our discussions is attached for your reference.

Economic Outlook

According to the latest forecasts from the IMF, the APEC region is expected to grow by about 4.8 percent this year, a substantial rebound from the contraction of 1.4 percent last year. Looking ahead, the forecast is for a slight moderation over the next two years of around 3.5 percent growth. Some rebalancing appears to be taking place with savings rates in deficit economies increasing and domestic demand in surplus economic also on the rise. As we discussed in detail in our annual State of the Region report, looking ahead the concern is more about the composition of growth rather than the absolute number.

There are no simple solutions to this. There is a need for economies throughout the region and world to implement structural reforms to rebalance economic structures to prevent the re-emergence of unsustainable imbalances.

APEC has a critical role to play here. Since the APEC Ministerial Meeting on Structural Reform in 2008, APEC has been deepening cooperation on this issue and through the work of the Economic Committee has been creating a valuable body of knowledge of experiences and networks of reform-oriented policy-makers.

Social Resilience

An important part of the rebalancing and structural reform agenda is the enhancement of social resilience. We established a project group to look at various elements of social resilience this year and the team reported its findings at our General Meeting held in Tokyo a few weeks ago. The project had four core elements: pensions, health and medical care, unemployment and macro-economic analysis. Under each element we commissioned case studies looking at how various economies in the region have been addressing these key elements of social protection.

This project comes at a critical time for the APEC region for two main reasons:

- the economic crisis has once put the spot-light on the ability of social security to provide support for our people when jobs are scarce; and
- the demographic profile of the region is rapidly changing putting pressure on existing systems

The detailed findings of the project are too large to go into here. A detailed report of the project's findings and recommendations was released at the PECC General Meeting in Tokyo and is available from our Japan Committee.

The project's research findings indicate that the enhancement of social safety nets can make an important contribution to economic rebalancing in the region. Their availability obviates the need for households to worry about unexpected contingencies and retirement security. The research also indicates that the availability of credit is an important determinant of household savings and serves as a buffer against unexpected expenditures while increasing individuals' ability to consume. Therefore a two-pronged approach of simultaneously developing social safety nets and capital markets may be most effective way for the region to address the resilience issue.

In summary, while in many OECD economies social, health and pension insurance are provided publicly, developing economies will face challenges implementing similar systems due to large informal sectors and weak administrative capacity. But there is much we can learn from each other as our economies begin developing their own social resilience frameworks. Japan, in particular, has a longer history of social safety nets experience that could be instructive for other economies in the process of reform.

In the aftermath of the financial crisis of 1997-98, there was much talk of social safety nets but this died down as robust growth returned to the region. There is a need to ensure that as growth returns momentum on social resilience issues is maintained. We therefore welcome the outcome of the APEC Human Resource Development Ministerial Meeting held in Beijing two months ago. We hope as the forward agenda on social safety nets is developed, we will be able to contribute our research findings to APEC.

APEC needs to keep momentum on this issue and consider what infrastructure resilient against economic crises we can establish in the Asia-Pacific. A working team should be formed to discuss how to make our society more resilient against economic crises and to design effective social policies for the economies of this region.

A Post-2010 Trade Agenda

This year marks an important milestone for APEC's core agenda on trade and investment with the review of achievement of the Bogor Goals by industrialized APEC members. We established a task force to look at the elements of a "Post-2010 Trade Agenda" which met in Tokyo in July. The task force's work was divided between trade policy issues at two levels – the multilateral and the regional. At the multilateral level we discussed the completion of the Doha Round & the future of the WTO, the potential collision between climate change and trade policy, ways to make more effective progress in the vital task of services trade liberalization, the increasing attention being paid to labor mobility issues, and the trade policy dimensions of the

international food economy. At the regional level we discussed the evolution of trade architecture in East Asia and the Asia-Pacific region.

We would like to express our appreciation to the Asian Development Bank Institute, the Inter-American Development Bank, the Japan Institute of International Affairs, and the Ministry of Foreign Affairs of Japan for their help in organizing the meeting of the task force. The task force reported its findings to us during our General Meeting in Tokyo a few weeks ago.

Regional Economic Integration

Applied tariff rates in the region have come down substantially. Furthermore, the proliferation of trade agreements in the region has led to a substantial increase in the number of items that can enter each other's markets duty-free.

However, we note that the utilization of preferential rates is relatively low, although slowly increasing. It is clear that small and medium enterprises in particular face a variety of handicaps in taking advantage of the trade opportunities opened up by RTAs/FTAs. We would urge APEC to actively pursue ways of overcoming these handicaps, for example by developing a simplified region-wide approach to rules of origin, including the streamlining of compliance requirements.

Looking ahead, we look forward to the emergence of a coherent regional trade architecture that will allow us to fully realise the vision of a prosperous region integrated by the free flow of trade and investment. Two major gaps in the regional trade architecture stand out. The first is the lack of an agreement to liberalise trade between East Asia's biggest economies – China-Japan-Korea. We hope that efforts to find a way forward on liberalising the trade between these three economies will begin to bear fruit. The second gap is the absence of a coherent approach to achieving trans-Pacific free trade. The Trans-Pacific Partnership has emerged as a potential step toward filling this latter gap. We hope for a constructive approach on all sides towards realising the TPP's potential contribution to regional economic integration.

Challenges to the Trading System

The completion of the WTO Doha Development Round is a major issue that the region needs to confront. In spite of numerous calls by APEC leaders to complete the round it remains unfinished. Looking beyond the Doha Round, we see a need to begin thinking about steps that need to be taken to ensure continued support for the WTO and the multilateral trading system as the core institutions in global trade. Alternative modalities for negotiating trade liberalization in the WTO may need to be considered.

We foresee the possibility that policy responses to climate change may give rise to a fundamental challenge to the multilateral rules-based trading system. With the failure to reach agreement on a successor to the Kyoto Protocol, individual economies and businesses are left to implement their own plans for reducing greenhouse gas emissions and will face pressures to use trade policy measures to compensate for resulting changes in cost competitiveness.

Existing WTO rules do not provide an adequate framework for resolving the trade disputes that will inevitably follow. Our region, which is so dependent on trade, should be taking the lead in seeking international agreement on how the relevant

issues should be addressed, which is essential if we are to avoid the risk of damaging trade conflict and even the potential breakdown of the multilateral trading system.

Climate Change and Green Growth

We also discussed at our General Meeting recent developments in international negotiations to reduce greenhouse gas emissions. Clearly there are differences between major economies on this important issue. Without adding to an already broad agenda, APEC and the Asia-Pacific can play an important role in contributing to a solution.

As discussed above, there is an important connection between policies to combat climate change and APEC's core agenda on trade and investment. One angle that we hope economies can agree on is that the adoption of 'green growth' and energy efficient policies can serve two important roles: the first is to lower our greenhouse emissions on a per unit of GDP ratio; the second is that the early adoption of these technologies can enable developing economies to leapfrog over industrialized economies with high energy intensity industries.

In other words, adopting a green growth strategy need not jeopardize developmental goals and poverty reduction targets. Over the coming months PECC will be considering how we might contribute to deeper understanding on this issue.

Cooperation Essential for Restoring Confidence

While there are many issues which bring our region together there are also issues that divide us. APEC has come a long way over its now 21 year history. Before APEC there was no forum that brought together such a wide-range of both developed and developing economies with such different histories. The narrative has always been one that looked towards a shared future rather than the past. We need to remind ourselves of that.

Over the past 24 months cooperation between leaders at the G20 summit and indeed APEC helped to restore confidence and prevent a global meltdown and a descent into protectionist policies. This is an important achievement that should not be overlooked. This recovery is fragile. Investments in both new jobs and productive capacity need to be made, for this to happen, businesses and the public need assurance from policy-makers about the future. We have a unique opportunity with the G20 summit now happening in Seoul and the APEC leaders who will meet here over the coming days to send a strong message that in spite of differences, our region is united in finding solutions to our common problems and is committed to a shared vision of a stable and prosperous Asia-Pacific region.

At the Standing Committee meeting held back-to-back with the 19th General Meeting, we are pleased to report that the PECC members have agreed to embark on the following priorities throughout 2011 in the form of new signature and international projects: unemployment, trade and investment in services, protection and management of marine resources, how the region cooperation can facilitate the adoption of green growth strategies, while continuing the current projects, *State of the Region*, and social resilience.

Thank you.

