

PECC Statement to APEC Ministerial Meeting
From the Co-chairs of the Pacific Economic Cooperation Council
Dr Charles E. Morrison and Mr Jusuf Wanandi
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Afternoon Session (2.00pm to 5.00pm)
Agenda Item 2: Official Observers' Statements

We thank APEC Ministers for this opportunity to update you on the views from the second track community on Asia-Pacific cooperation. The Pacific Economic Cooperation Council was created in 1980 and consists of individuals from the academia, business, and government organized into 25 member-committees who share a belief in the critical importance of cooperation in the region to our own as well as global peace and prosperity. We establish task forces and project groups to consider actions the region can take collectively to further this vision. We also undertake public outreach activities designed to demonstrate the importance of the region to its individual members.

We have long been interested in the APEC process and regard it as a key institutional mechanism for promoting trans-Pacific cooperation on trade, economic, and social issues.

Asia-Pacific's Key Role in Restoring Confidence in the Global Economy

A top priority for this APEC meeting, coming so soon after the G-20 meeting, is to restore a sense of confidence in global international economic cooperation and leadership. Such cooperation had appeared to have lost urgency and momentum. The turbulence in financial and other markets are having a debilitating effect on the global economy. As part of our work we issue an annual report on the State of the Region which includes a survey of opinion-leaders on the key issues confronting the Asia-Pacific. We found a level of pessimism not seen since the height of the financial crisis in 2008 in all parts of our region. This is in turn feeding into the real economy as investment decisions are postponed, becoming a self-fulfilling prophecy. Actions need to be taken to end this cycle.

This critical situation points to a need for regional and international institutions to take concrete steps to address both the immediate problems facing our economies and design medium term strategies to generate growth. The Asia Pacific region has a critical role in this process for two main reasons:

- the center of gravity of the global economy is now firmly in our region giving us a responsibility to maintain the global system.
- the diversity of the economies in this region is our strength, giving the region the ability to forge consensus on policy actions that can more easily be adopted by the broader international community.

Policies for Sustained Growth

In 2009 we established a task force to consider the impact of the crisis on our region and in our statement to APEC Ministers in Singapore we set out some specific actions that could form part of the medium-term growth strategy:

- Encouraging new trade flows that build on Asia's dynamic markets in order to promote greater regional integration;
- Negotiating new, deep and comprehensive regional trade agreements and promoting strategic investments in connectivity.
- Making investments in energy conservation, clean energy research and development, and energy efficient vehicles and transport systems to enhance the green economy.
- Making investments in people through programs in education, health care, and social safety nets.

- Enhancing knowledge and productivity through investments in technology and reforms to drive gains in productivity, especially more efficient service sectors.

Many of the ideas contained in our report were included in APEC's Agenda for Balanced, Inclusive, Sustainable, Innovative and Secure Growth. Policy actions in these areas and other parts of the broader rebalancing agenda will help to tip the balance in favour of making investments today and restoring the natural growth cycle for our region and the global economy. We feel, however, that there is a sense that effective APEC cooperation on these issues, so critical to growth, a sustainable environment, social equity, and employment has been lagging. We hope the APEC ministers and leaders will recommit to these strategies.

Next Steps in Regional Economic Integration

The connection between economic integration and growth is well-established though sometimes poorly articulated especially in times of economic hardship. The tremendous economic growth and reduction of poverty in the region that we have witnessed over APEC's history should provide ample evidence of the importance of this process. However, the WTO Doha Round has stalled and there are worrying increases in the use of protectionist measures, removing momentum in this process, and creating more uncertainty.

Our region has a number of plans on the table that can restore momentum to economic integration. These include the achievement of an ASEAN Economic Community by 2015, the idea of a broad East Asian Trade Area, and the Transpacific Partnership (TPP). Our survey shows strong support for continuing the approach laid out by APEC leaders in Yokohama to pursuing a Free Trade Area of the Asia-Pacific. More than 70 percent of respondents agreed that regional economic integration should be pursued on multiple tracks including the TPP and ASEAN plus agreements while less than 4 percent disagreed. A study done by the East-West Center suggests that both these tracks have significant welfare gains, but that the greatest benefit to the region will come by merging them over time into a true Free Trade Agreement of Asia and the Pacific (FTAAP). We applaud the work on the tracks, but feel that it remains essential to link these as much as possible and reaffirm support of the broader FTAAP vision.

Unleashing the Potential of Services Sector

Given the critical importance and yet underappreciated recognition of the role that services play in economic growth and trade, this year PECC and the Asian Development Bank Institute (ADBI) set up a task force to look at services trade and organized a major conference of international services experts last June in Hong Kong. We would like to express our appreciation to APEC's Group on Services, the Committee on Trade and Investment and the Economic Committee for taking the time to hear our views on these issues in San Francisco.

Our task force finds that the services sector accounts for the largest share of output and of employment in nearly all our APEC economies and that services are the most important generator of productivity gains at the national and global level for our economies. Business services are the fastest growing component of world trade and account for the best paid, most productive jobs. According to econometric studies, the gains to be realized from the removal of barriers to services output and trade would outweigh those from liberalization of goods and agriculture by more than four times over, although this fact is little appreciated. All of this highlights how important services are to our national economies despite the fact that they have received less attention than other areas.

Most of the constraints to services trade are in the form of behind the border measures which underlines the importance of the regulatory reform agenda not only for services efficiency but also for services trade. APEC is well-suited to making progress on the services agenda with its emphasis on concerted unilateralism as well as its organizational structure where services are dealt with by the CTI, GOS, EC and ABAC. Bringing these groups together for a comprehensive dialogue on how regulatory systems

affect business operations could result in a breakthrough and innovative thinking about the most dynamic part of our economies. A policy brief from our task force is attached to this statement which outlines the key findings from their work.

In our annual survey over 70 percent of respondents agreed that APEC should take the lead in promoting a plurilateral agreement on services. Our task force report gives some details on this but the point is that our region can be an effective incubator for such an initiative. Within the APEC region a critical mass of economies exists with enough economic importance to serve as a core for a services plurilateral agreement. This agreement could be negotiated either within the WTO, or outside the WTO and then taken to the WTO for incorporation by other trading partners. The APEC region would act as a pathfinder for this important initiative.

Structural issues

Structural shifts that come with economic development and changes in comparative advantage are taking place much more rapidly in this era of globalization. This places a high priority on three related areas: the structural reform agenda; social safety nets and the labor market.

Enhancing Social Resilience

In light of two major economic crises that this region has had to confront over the span of little more than a decade, regional and international policy coordination needs to expand into the social policy area. Our Japan committee has been leading our work in this area with a particular emphasis on comparative analysis of different systems around the region. Comparative analysis and experience sharing in this area will help those economies planning to implement reforms better design their systems to make them more effective and sustainable over the longer term. While social safety nets are of critical importance to helping our peoples through difficult times, there are important second order effects including encouraging the shift from export-driven growth to domestic consumption in surplus economies.

We welcome the work of the Human Resource Development Working Group on Advancing Inclusive Growth through Social Protection. We hope that this work will find its way into the mainstream APEC process and form a critical part of the narrative of APEC

Policies to Address Structural Unemployment

During our General Meeting we also discussed some of the medium to long term trends in structural unemployment and policies being adopted to address this increasingly important issue. Our Chinese Taipei committee has been working on a region-wide project on this issue and there are significant lessons we can learn from experience sharing on the effectiveness of different types of policies being used around the region. The full report from this project will be available shortly and we hope to report to relevant APEC working groups including the Economic Committee and Human Resource Development Working Group in due course.

Potential for Transpacific Energy Trade

As part of our State of the Region report this year we focused on the potential for transpacific energy trade. While energy products are among the top traded products within the region, there is virtually no trade in energy across the Pacific. As a result, there is a substantial price differential between Asia and North America, especially in natural gas. The discovery of unconventional oil and gas in North America, technological advances in extraction, and growing Asian interest in North America energy assets have raised the possibility of energy exports across the Pacific. There are political, regulatory, infrastructure, and environmental challenges that need to be overcome, but the emergence of a trans-Pacific energy market would be positive for economic welfare and regional integration, and would help address energy security concerns.

Innovation Essential for Sustained Growth

Our annual survey highlights the importance of investment in new technologies and innovation systems as the key to achieving sustained growth, with over 60 percent of respondents ranking this as the most important or next to most important policy objective. Previous work we have undertaken with the Association of Pacific Rim Universities (APRU) highlights the critical role of the education sector in innovation. The research community is increasingly being asked to respond to issues that apply across borders, having policy frameworks that facilitate cooperation are essential to helping solve these issues.

The Future of the World Trade System

Among the many recommendations of our task force on services, there are two that could be particular interest to APEC: the first is to think in terms of a cross-sectoral services reference paper, akin to the telecoms reference paper. The second is to do as APEC did with the ITA and create the critical mass for stand-alone services negotiations in the WTO.

With respect to this first end point, APEC's work on regulatory coherence this year could be the starting point for a more targeted discussion on services where regulatory incoherence has the greatest impact. With respect to the second end point, there are many initiatives within the region such as the ASEAN Framework Agreement on Services, the Transpacific Partnership and others that demonstrate willingness in the region to go further than the current WTO bindings. Our task force members believe that there is substantial evidence that such an agreement would be a win-win situation where all members stand to benefit from lower costs, increased productivity and broader-based development.

Future Work

At the PECC we remain committed to supporting Asia-Pacific cooperation from the second track. Over the next 12 months our international work will be working issues related to: the role of the Asia-Pacific in the global financial system; monetary policy regimes; social resilience; competition and cooperation in minerals and energy, market volatility to food security, services trade; and the sustainable management of marine resources.

Policy Brief: Services Trade: Approaches for the 21st Century

Jane Drake-Brockman, Gloria Pasadilla, Sherry Stephenson, and Christopher Findlay
Coordinators, PECC-ADB Task Force

Services now account for 68 per cent of value-add in the Asia Pacific region making it the biggest sector in the regional economy and the biggest creator of jobs in the region accounting for 61 per cent of employment in the Asia-Pacific region, up from just 27 percent when the Asia Pacific Economic Cooperation (APEC) forum was founded in 1989.

However, while services have come to dominate the modern economy, international trade in services lags behind. Exports of goods from APEC member economies are 5 times larger than exports of services although both have grown by close to 115 per cent over the past 10 years.

The Pacific Economic Cooperation Council and the Asian Development Bank Institute established a task force in 2011 to consider what actions can be taken to unleash the potential of services sector trade for increased productivity and job creation.

The task force brought together in dialogue international experts from the WTO, OECD, World Bank, ADBI, UNESCAP, ICTSD, ASEAN and APEC Secretariats as well as from the local and regional business community, including the APEC Business Advisory Council (ABAC) and the various business associations allied with the Global Services Coalition (GSC).

This work comes at a time when regional and global institutions such as APEC and WTO are considering how to get momentum behind global trade as the WTO Doha Development Agenda (DDA) is stuck.

Services have been the neglected component of international trade and the missing element in the search for increased productivity and economic dynamism. The task force found three major sets of explanations for this lack of progress.

Lack of awareness of contribution of services to the economy

- The first part of the explanation lies in relative public ignorance of the dominant contribution services make to industry value add, to employment, to productivity, to export revenue, to GDP growth, to poverty reduction and of what factors influence competitiveness.
- While there remain concerns in some economies that a more open services regime might lead to significant adjustment in the structure of activities of locally owned services providers, the consequences of greater openness for the competitiveness of the sector as a whole, indeed the economy as a whole, are important. Services producers are themselves significant users of other services – tourism and air transport for example or telecom services used in business processing. A more open sector also offers more variety to users of services.
- A more competitive services sector contributes to productivity growth elsewhere in the economy. Research is now establishing the links between services sector reform and manufacturing sector productivity.
- The factors affecting competitiveness in services are firmly linked to openness to services trade and investment and greater regulatory efficiency. There is evidence that very big productivity gains are available from services trade and investment reform. This linkage has not been well understood but the level of appreciation of its significance is rising

- Businesses are often more aware of these linkages than policy makers. Business is frustrated by prolonged policy failure on services trade reform in the WTO and insufficient progress at a regional or bilateral level.

Concerns over impact of services openness

- Governments however remain concerned about the implications of greater degrees of openness for the operation of their regulatory systems. Partly as a consequence of this concern, and this is the second major factor in the lack of progress in commitments on services, there are large differences between bound and applied commitments on services reform. This gap meanwhile continues to hold back urgent investments in key infrastructural sectors which are critical to the development of a modern economy and especially bringing the benefits of economic integration to the broader population.
- Governments would value more extensive guidance than the GATS provides on best regulatory practice for services

Negotiating modalities

- The third factor in the stalemate on services in the DDA derives from the modalities of those negotiations. The request-offer process has failed and that situation demands an urgent response. In particular, services reform can make the trading system work better, in a supply-chain world where logistics, communication and finance are critical to trading costs and the organization of production across all sectors of the economy.

Based on this analysis, the Taskforce has put forward specific proposals for further policy attention and follow-up. The proposals were clustered around two big ideas for improving regional and global governance in services, both of which have implications for APEC.

Regulatory Principles for Services

The first big idea is that governments should develop a set of regulatory principles for services. One specific suggestion was for development of a generic cross-sectoral Services Reference Paper setting out pro-competitive principles which might have application to all services sectors.

There were many potential sources mentioned from which such work might draw inspiration: the WTO Telecommunications Reference Paper; the OECD/APEC Integrated Checklist on Regulatory Reform; the Insurance Principles developed by the services business community during the GATS negotiations on Financial Services; the work over many years of the APEC Group on Services. While regulatory regimes for network services might differ in some aspects from regulatory principles applicable to natural monopolies or to services affected by information asymmetries, with some economic analysis and some conceptual imagination, it should not be difficult to arrive at a useful set of principles with relevance across the services economy.

APEC should initiate inter-governmental discussion, drawing in their discussions inputs not only from policymakers and regulators but also from the knowledge community, on principles for all-of-services regulation, including with a view to generating global interest in development of such principles. It was suggested that APEC should experiment with new ways of bringing services regulators together with trade officials, both sector-by-sector and at whole-of-services level, to share regulatory experience, to raise awareness of regulatory incoherence, to consider options for improving regional practice, to encourage domestic regulatory audit and to benchmark progress.

There was also evident support for the suggestion that governments should consider designing practical regulatory mechanisms, in consultation with the business community, to increase recipient economy confidence regarding specifically mode 4.

A Stand-alone Negotiation on Services

The second big idea is that governments might have a higher degree of inter-governmental negotiating success than has been achieved to date, if they were to pursue services negotiations within a new set of arrangements. We see three components to this structure – stand-alone, plurilateral and new formats for commitments.

First, services negotiations could be organized on a stand-alone basis, ie independently of the additional complexities of negotiations on agricultural and manufactured goods. This option is already open to WTO members. Stand-alone services negotiations are mandated in the Uruguay Round built-in agenda and these could and should be recommenced, irrespective of developments in the DDA. A number of economies in the region have significant experience in this, under the ASEAN Economic Community Blueprint, consecutive rounds of negotiations take place every two years until 2015 which are designed to achieve commitments in a minimum of 10 new sub-sectors by 2008, 15 by 2010, 20 in 2012, 20 in 2014 and another 7 in 2015.

Second, given that less than one third of the WTO members have made services offers in the DDA, new negotiations could commence plurilaterally.

Third, the request-offer process having effectively failed, consideration needs to be given to the alternative possibility of a new multi-modal framework accord, such as a standstill and rollback type deal (with or without individual schedules of commitments, on either a positive, negative or hybrid list basis).

Progress will depend finally on the effective use of the burgeoning body of research on services policy and close consultation with the services business community. There will be, for example, widespread interest in exploring ways in which services negotiations might benefit from the insights from the soon-to-be-published work on services sector restrictiveness measurement, including those of the OECD and World Bank and also recent work commissioned by the Policy Support Unit of APEC. ABAC's work on services, as well as that of the GSC, will also be instructive.

APEC leadership role

APEC was seen as uniquely well-placed to build a "critical mass" of political will for a stand-alone services plurilateral, just as it did in the case of the ITA.

It is the hope of the task force that APEC members will take heed of these two considered recommendations and take the opportunity that APEC as an organization provides, to incubate these new ideas.

There are different ideas on the form such a stand-alone discussion should take. A study group in APEC could be created to better understand the ramifications of a services agreement and the incentives for economies.

APEC must have concrete outcomes visible to business if it is to sustain regional business interest. A services trade initiative from APEC would achieve this objective, especially if linked, as ABAC has suggested, to dealing with the choke points in regional supply chain operations. The initiative should bring new depth and energy to APEC work on regulatory cooperation, including specifically to develop principles for regulatory coherence in services.

APEC should meanwhile look beyond the DDA and open the way forward for consideration of new negotiating processes, and flexibility with respect to negotiating modalities, including specifically in services as a way of showing leadership on the global issues that will most impact on job creation for future generations.

Papers contributed to the task force discussions can be downloaded from:

<http://www.pecc.org/component/eventlist/details/194-pecc-adbi-services-trade-new-approaches-for-the-21st-century>

or

<http://www.adbi.org/catalog/index.php?tab=1&modid=21&breadcrumblabel=Conference%20and%20Seminar%20Materials&pageset=4>