

**Update for APEC Senior Officials
Agenda Item 7: Other Business
Concluding Senior Officials Meeting
Vladivostok,
Ambassador Don Campbell, Co-Chair
Pacific Economic Cooperation Council**

On behalf of the members of the Pacific Economic Cooperation Council (PECC) we thank you for this opportunity to update you on the work we are doing to promote economic cooperation in our region.

Since we last updated APEC Senior Officials on our work in Kazan, our major activity has been the completion of our annual State of the Region report.

The State of the Region

Our annual State of the Region report this year is focused on regional economic integration initiatives, it includes analysis of the different pathways being pursued as well as suggestions on how to ensure that the pathways ultimately lead to APEC's objective of a Free Trade Area of the Asia-Pacific. Our survey garnered the views of regional opinion-leaders on these issues.

Priority Issues for APEC

Opinion-leaders were also asked what they thought the top 5 issues should be for APEC leaders to discuss, the results were:

- Regional economic integration (including the TPP and the ASEAN Plus agreements among others);
- The region's response to the Eurozone crisis and lessons from the crisis for Asia-Pacific regional integration;
- The APEC growth strategy;
- Regulatory impediments to business; and
- Regional cooperation to foster innovative growth

As indicated by Russia's themes and the initiatives being discussed throughout this week, it is clear that Russia's priorities for APEC are well –supported by stakeholders around the region.

Priority Issues for Regional Trade Agreements

The results of the survey also support the generally held view that behind-the-border issues such as regulatory issues are the most important trade barrier. The top three issues that opinion-leaders thought should be addressed in regional trade agreements were:

- Transparency in regulations
- Investment access
- Services market access

However, there were important differences in evaluating issues depending on where respondents came from and the level of development of their economy. For example, emerging economy respondents placed a much higher priority on manufacturing market access compared to those from developed economies. While respondents from developed economies placed higher importance on services market access than those from emerging economies.

As far as some of APEC's ongoing work is concerned, of interest is that respondents from developed and emerging economies placed almost equal importance on transparency in regulations. Moreover, lack of regulatory transparency was cited as the most serious challenge to doing business in the region.

However, there were much sharper differences in views on regulatory coherence. This points to a need for great capacity building and experience sharing in this key area.

Pathways to a Free Trade Area of the Asia-Pacific

Survey respondents were also asked to evaluate the likelihood of success of various regional economic integration initiatives and their suitability as pathways to a Free Trade Area of the Asia-Pacific. Respondents were most positive about the success of the ASEAN Economic Community and least about the prospects for the WTO Doha Development Round. There is a great deal of uncertainty about the broader ASEAN Plus track (whether plus 3, plus 6, or plus X – EAFTA, CEPEA and RCEP) and the Trans-Pacific Partnership. Even though the TPP is well advanced - now into its 13th round of negotiations - only a plurality of respondents thought it was likely to succeed (34 percent); subtracting those respondents who think it is not likely to succeed, there is a net positive of less than 4 percent.

Policy Challenges

The challenge to policy makers and analysts is to determine whether, and how, the two tracks can provide pathways toward a truly integrated regional trading system. APEC and other Asia-Pacific organizations can take actions that will help achieve this goal:

- Reconcile high standards with the capacities and needs of diverse economies. One operational goal might be to limit agreements to provisions that “lead by a decade”—that is, to standards that are high, but no higher than could be accepted by a reform-minded economy in 10 years.
- If the FTAAP is to be achieved then the pathways have to be inclusive and should include innovative provisions for cooperation to help reduce development gaps.
- Establish a high-level dialogue that would guide the technical development of the different agreements. Such a dialogue could encourage substantive overlap between the tracks and also reduce political frictions. Formats might include technical exchanges, discussions among senior officials, or an Eminent Persons Group. APEC, WTO, the ADB and other groups could provide technical support for such a dialogue.

Need for Greater Communication with Stakeholders

What is evident is that even among the policy community there is a great deal of uncertainty about the different pathways being pursued. For example, almost a fifth of opinion-leaders responded ‘don’t know’ when asked to evaluate the RCEP and 16 percent for the CEPEA proposal. The lack of knowledge about RCEP is closer to a third in Oceania and Pacific South America. This highlights the need for a high level policy dialogue.

PECC’s Ongoing Work Program

In addition to the State of the Region report we have a number of ongoing and recently completed task forces and projects of relevance to your work.

Regional Cooperation in Education

We welcome Russia’s emphasis this year on the role of education in innovation. In 2007, PECC, along with the Association of Pacific Rim Universities, undertook a research project on the policy changes presented by the changes taking place in the education sector. As APEC strives to implement its regional economic integration agenda, regional cooperation in the management and provision of education will be critical to ensuring that the people of our region are sufficiently well equipped to compete in today’s fast changing global economy.

We draw your attention to two specific aspects of the work: the implications for quality assurance and the future of accreditation; and international student movements and the effects of barriers to trade. On these aspects of the work APEC and especially the Committee on Trade and Investment and its Group on Services in cooperation with education ministries can play a vital role in establishing the regulatory environment to enhance the capacity of the region’s education system to spur development and reduce inequalities both within and between our economies.

We thank Russia for the invitations to PECC to participate in the discussions at the conference on “Shaping Education in the APEC Region” held here in Vladivostok last July.

Need to Continue Work on Social Resilience

As the region continues to face large downside risks as well as the possibility of another round of stimulus in the face of falling external demand, there is a need to focus and accelerate work on social resilience as part of APEC's growth agenda. Stimulus measures may well be needed but they are not sustainable and therefore structures and policies need to be in place that strengthen our economies abilities to withstand exogenous shocks.

Our work in this area focuses on social safety nets in Asia-Pacific. Our work in the area will:

- offer knowledge in forms that facilitate APEC discussions on inclusive growth
- provide support to the Human Resource Development Working Group (HRDWG), which examines social policy issues in APEC
- consider policy approaches that would make socioeconomic infrastructure more resilient against risk and stressing their importance to the Asia-Pacific region

Food Security and Policy Responses

We welcome the holding of the second APEC Ministerial Meeting on food security held in Kazan earlier this year. Food security is an issue that PECC has been working on since 1994. At that time we emphasized the need for a more comprehensive approach that included consumption patterns; prices; marketing and infrastructure; trade and investment, policy framework and regulatory standards.

The current spike in some key food prices throws into sharp relief the policies economies are likely to adopt in response. The network of food policy experts we established almost 20 years ago continues to meet and is currently assessing the current situation in terms of data and to better understand what different economies around the region mean by food security. One dimension of their work is to undertake a stocktake of the policy measures they now have in place and come up with a menu of best practice policy given their goals. This menu or framework provides a way of reviewing current policy. The project has a capacity building component since participants are deepening their skills in the compilation and analysis of data for policy analysis. We welcome your suggestions on how we might contribute to your own discussions on food security.

Incomes in the Region Diverging

In addition to our annual survey, our State of the Region report includes an index of regional economic integration. The index finds that income inequality between regional economies has been increasing over the past 20 years. Education is a part of the solution to this, but so too are structures within our economies and global rules that inhibit the participation of sectors of our societies in the global economy. APEC has its pillar of economic and technical cooperation, new trade agreements also emphasize cooperation. Given that these inequalities between as well as within our economies persist, it is time for APEC to take another look at its work in this area and consider how to make this part of the regional economic integration agenda.

Monetary Regimes in the Asia-Pacific

Our Pacific Economic Outlook Structure group continues its work looking at some of the deeper trends in the Asia-Pacific economy, this year our work in this area looks at the macroeconomic policy trilemma among the three policy goals: exchange rate stability, free capital mobility and monetary autonomy.

This area of work includes a review of recent policy experience and evaluates how domestic financial systems are dealing with the current crisis.

APEC and the Blue Economy

We note APEC's work on the 'blue economy' and Indonesia's interest in this issue for 2013. Since 2010, PECC has had a project on the Sustainable Management of Marine Resources. This work is led by our French Pacific Territories Committee. This work has three dimensions: protecting the oceans and sharing marine resources; oceans as a source of renewable energy; and the management of oceans' natural resources/oceans as a means of communications. The third dimension will be covered in the concluding

seminar which will be co-organized with the New Zealand PECC Committee on 4-5 December 2012. Resources on this issue are available on our website: <http://www.pecc.org/research/marine-resources>

Competition and Cooperation in the Extractive Industries

One result of our work last year on transpacific energy trade is new work PECC is currently undertaking on competition and cooperation in the extractive industries. Our project looks at issues related to recent policy developments in the extractive industries. We hope to communicate with relevant APEC groups on the findings of our work and future directions in the near future.

Review of PECC's Mission and Purposes

As we informed you at SOM 2, the PECC Standing Committee has established a review committee to consider the changes that have taken place in the region over the past few years and the implications these have for our organization. The review is currently being finalized, if you should have any additional feedback for us, please do contact your respective PECC committees.

Thank you for your kind attention.