

**PECC Statement
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On behalf of my co-chair, Mr Jusuf Wanandi and all PECC members, I thank you for this opportunity to update you on the views from the second track community on Asia-Pacific cooperation. Our work program addresses a wide range of subjects; I will focus my remarks today on those issues of relevance to your discussions today.

The Global Context for Regional Cooperation

The global economy is expected to slow moderately this year with a slight increase in 2013 before returning to trend growth in 2014. Although aggregate growth in the Asia-Pacific region is expected to be slightly higher this year than 2011, growth in most regional economies is slowing. In short we can expect modest growth for this year and the next and hope that the recovery will come in 2014. However, as indicated in our annual survey, pessimism is in abundance in the region. This is partially because many had expected the recovery to come this year but is also due to the uncertainty over the short to medium-term outlook. There are three factors that weigh heavily on the short-term forecast:

- The impact of the recession in the Eurozone
- The sustainability of the recovery in the United States (along with the need for a third round of quantitative easing as well as the outcome of US fiscal discussion)
- Slower growth in key emerging markets

Overall, the risks facing the region continue to be high and forecasts contingent on a set of variables that are constantly changing. The worsening scenario is something opinion-leaders have high on their minds with views on the outlook for major emerging markets turning negative. One saving grace is that expectations for growth in the United States, are, on balance, for growth to remain stable.

While growth is clearly the major concern for regional discussions it would be remiss not to include some discussion of prices. While headline inflation numbers remain relatively benign some key staple crops are now at record highs. Regional work on food security is timely but needs to show concrete results.

The high level of macroeconomic volatility is compounded by uncertainty over the likely policy responses, both for the short-term and longer term outlook.

Priority Issues for APEC

This background provides the context for our discussions today. The world will be watching how this region, the centre of the global economy, responds. Two months ago, we conducted our annual survey of opinion-leaders; one question was on what the priorities for APEC leaders should be. The top five issues 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
- Regional cooperation to foster innovative growth

All of these issues are related to how the region can maintain a sustainable growth trajectory in the face of uncertainties both within and without the Asia-Pacific.

The second priority identified by opinion-leaders potentially includes a very broad agenda including financial issues. Recognizing the crucial importance of financial stability to the livelihood of people at large in the Asia-Pacific as well as to an inclusive and sustaining growth, the APEC agenda needs to address financial policy issues that are of import to global economic development, complementing the work done in the G20, the Chiang Mai Initiative Multilateralization (CMIM), and those of the International Financial Institutions (IFIs).

Structural Reforms and Growth Strategy

The slowdown in the Eurozone puts more urgency on the need for the region to implement the APEC growth strategy. While we continue to face a crisis situation where further stimulus measures may be required, these are not sustainable. Structural reforms will allow an earlier and smoother exit from the temporary measures while sustaining a continuous and sustainable recovery over the longer term. Some of the growth engines identified during the formulation of the growth strategy include: deeper regional economic integration; investment in green technology; investment in social priorities (including education and social safety nets); investment in research and technology to drive productivity growth.

Concrete Steps to Stem Protectionist Measures

No amount of reforms will help our region if the international trading system breaks down. Since the crisis broke, both APEC and G20 leaders have explicitly rejected all forms of protectionism and committed to standstills on the implementation of any such measures to ensure that we avoided a return to 1930s beggar-thy-neighbour policies. Analysis of the information available from the Global Trade Alert database shows that APEC members account for approximately 30 percent of all discriminatory measures adopted since the crisis, while G20 account for about 60 percent .

This situation is untenable. In PECC's annual survey of opinion-leaders, rising protectionism was cited as the 5th highest risk to growth for the region's economies, with 27 percent of respondents selecting it as a top 5 risk. As the WTO Director General said in Kazan, the additional concern is that there has been no rolling back of measures adopted since the crisis.

Forecasts for both export and import growth over the next 5 years are for a similar pattern to the 1990s at close to 6.9 percent, a rise in protectionism would throw these forecasts into doubt and reduce global growth potential. Moreover, the 1990s were characterized by significant amounts of trade liberalization, both through unilateral liberalization and through the implementation of Uruguay Round commitments.

One thing that differentiates APEC from other regional groupings is that it is underpinned by a goal of free and open trade and investment in the region. As useful as the rhetoric of avoiding protectionism is, APEC must go beyond the usual statements and take concrete steps to stem protectionist policies. This is not just to show that APEC is a credible organization, but because the avoidance of protectionism and indeed, greater liberalization and integration, are critical parts of the growth agenda.

APEC could seek to do the following:

- Enhance reporting and transparency of trade measures: APEC members should commit to notification at the WTO of any potentially discriminating measures
- Undertake an independent evaluation of the measures being adopted, perhaps by the Policy Support Unit
- Engage in a SOM-level dialogue on the evaluation at the next Senior Officials Meeting

Accelerate Growth through Deeper Integration

If the medium term forecasts for economic and trade growth to be met, technological developments and business innovation need to be supported by trade reform, just as they were in the 1990s. With discussions on the Doha Round at an impasse, the region has resorted to the increased use of preferential trade deals. The income gains associated with full, region-wide liberalization are estimated at \$1.9 trillion, or nearly 2 percent of world GDP in 2025.

This year's State of the Region report includes a special thematic chapter on this issue looking at different pathways to the achievement of an FTAAP. The report notes that the different templates reflect the contrasting sectoral advantages of emerging and developed economies. The Asian track is focused on reducing impediments to goods trade, mainly in manufacturing industries, while the TPP track is focused on rules for service trade, investment and intellectual property rights. This view is supported by analysis of the templates and also by this year's survey findings.

For pragmatic reasons, the various regional integration processes should continue to co-evolve, expecting that in the process the various tracks would mutually enrich each other.

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.
- 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.

The WTO Doha Development Round

Each year we ask opinion-leaders to select the top 5 priorities for APEC leaders' discuss at their annual meeting. Since we began the survey, the WTO Doha Round had been one of the priorities - until this year. The disappointment and frustration over the lack of progress is most keenly felt by the business community who ranked the DDA as 21 out of 27 possible issues. This is not to say that the DDA should not be discussed, but requires a re-think. At the height of the crisis respondents to our survey thought that a conclusion to the DDA would provide a boost to the global economy, modelling exercises suggest that this is true. APEC economies are in a position to take a lead in finding a way around the impasse in Geneva.

As regional economies develop new thinking about the role of trade in their economies through the regional economic integration processes, we hope that this experimentation will eventually lead to new initiatives at the global level. One area where we believe there is potential for innovation is trade in services. During SOM 2, PECC organized a dialogue with the Group on Services to provide an update on services policy. APEC is making efforts to build confidence to reform in this sector, especially through better statistical data. We hope this will lead to a major services initiative in the region in the near future. Services, especially transport and logistics, are critical to APEC goals in food security and regional supply chains.

Education a Key to Meeting Future Challenges

APEC leaders have emphasized the need to foster greater inclusiveness in the region's economies and to raise growth potential through innovation and a knowledge-based economy. Education is central to the achievement of this goal. 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, 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 would draw Ministers' 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 the Human Resource Development Working Group and the Economic Committee 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.

Income Inequality and Regional Economic Integration

APEC leaders' have emphasized the need for economic growth to be inclusive. Our index of economic integration finds that income inequality between regional economies has been increasing over the past 20 years. If the vision of a truly integrated region is to be achieved then time and resources must be devoted to this disturbing aspect of the regional economy. Education is a part of 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.

Social policies were identified as an engine for growth in the post-crisis period. We continue to work in this area, providing a platform for experts to share their knowledge and experiences in this area.

PECC Work Program

In addition to the issues I have highlighted here, our program of activities includes work on: services trade; the extractive industries; food security; social resilience; marine resources; monetary regimes and our annual report on the State of the Region. In all of these activities we bring together experts from the research community, government and business to consider what regional cooperation can do each area to promote greater economic stability and prosperity. Our next General Meeting will be held in Vancouver next year, we welcome your views on the issues you think that the second track should be addressing to aid in your own policy deliberations.

The Asia-Pacific and the International System

I would conclude with an observation on the role of the region in the international system. Throughout recent discussions in PECC, we have dedicated a substantial amount of time to talking about the role of various forums in dealing with the numerous issues that face the region – including APEC, ASEAN Plus 3, the East Asia Summit and the G20. In addition to achieving each organization's stated goals, all of these groupings must act as stewards for the international system. This system is changing. More economies in the world are part of the global system and want to have a say in its future direction. APEC needs to adjust to this reality and find ways to channel its energy and direction into the global international system. The issues we are addressing are complex; they are often at the heart of domestic policy debates which have international ramifications.

The critical importance of the Asia-Pacific in the future of the global economy places a high responsibility on APEC to take actions to promote growth and stability regionally as well as globally.