

**Update for APEC Senior Officials  
Second Senior Officials Meeting (SOM2)  
Qingdao, China  
Tang Guoqiang, Chair, CNCPEC  
On behalf of PECC Co-chairs, Jusuf Wanandi and Donald Campbell**

On behalf of the members of the Pacific Economic Cooperation Council we thank you for this opportunity to update you on our work and share with you perspectives that arise from our discussions at the second track.

We welcomed the progress made on the priorities set out by this year's chair at SOM 1. We believe that advances on these issues will contribute to the broader vision that APEC has had since its foundation 25 years ago. This update will focus on two of the key issues you are addressing here: regional economic integration and connectivity.

**Strategic Assessment and Outlook of Asia-Pacific Economy**

The global economy is steadily recovering from the global financial crisis. However, the uneven pace of the recovery and each individual economy's policy response to it pose potential risks to others as well as the global economy as a whole.

Moreover, beyond the immediate turbulence evident in financial markets, the world economy is entering into a 'new normal' in which the characteristics of growth in the major economies of the region are changing. Another point that was highlighted during our discussions is that there are signs that many economies are currently growing at or near potential growth.

For these reasons, we urge APEC to play its role in the sharing of information and policy coordination as the recovery gains momentum. APEC should put even greater focus on its work on the growth strategy especially the structural reform agenda. The policy imperatives that arise from this turbulence and future uncertainties is that our economies must be more flexible and able to respond to shifts in the pattern of aggregate demand in the world – in short, policies should promote resilience.

**Regional Economic Integration and Multilateral Trading System**

While the economic outlook is improving, the outlook for trade growth remains muted. At the level of trade governance, the breakthrough in Bali at the WTO is a positive signal and that momentum must be carried forward. APEC which played such a critical role in the conclusion to the Uruguay Round should continue to support the WTO as the key global trade institution.

While asserting the continued primacy of the multilateral trading system much more progress is being made in regional trade agreements including – the ASEAN Economic Community, the Regional Comprehensive Economic Partnership, the Trans-Pacific Partnership, and the Pacific Alliance. We welcome the more proactive use of the APEC process to ensure that they ultimately lead to a Free Trade Area of the Asia-Pacific (FTAAP) such as through APEC Dialogue on Information Sharing on RTAs/FTAs in the Asia-Pacific Region held during this series of meetings.

At the same time, we hope that APEC will continue in its spirit of open regionalism to consider developments in other regions as well as globally to see what could be learnt from the rules and disciplines that are being developed in those processes such as the TTIP and TiSA.

We believe that there is much that the second track can contribute to your efforts on this issue. PECC has conducted a number of studies on the FTAAP including: an assessment of the FTAAP proposal (2004); and a study of the political economy of the FTAAP (2007). We have also helped to create a Global Consortium on Economic Partnership Agreements that seeks to improve the way in which we measure the potential changes to our economies as a result of these agreements. Additionally, our member committees have organized

numerous workshops and conferences on regional economic integration that shed further light on the issues you are likely to encounter in your discussions.<sup>1</sup>

Since those major studies we undertook almost a decade ago much has changed in both the regional trade architecture as well as our understanding of how trade takes place. Following our conference in February and prompted by Singapore's Minister of Trade, Mr Lim Hng Kiang, we decided that we should form an expert group to think through the issues involved in achieving an FTAAP.

### **Global Value Chains and Trade Policy**

One point that has come through our initial discussions on how to contribute the achievement of an FTAAP is that the production of goods and services is now largely done through global value chains. The shape and length of the value chain is determined by a number of factors, these include comparative advantage, trade policy and proximity to market. To 'capture' tasks or move up the value chain policy reforms are essential. Some of these reforms are best undertaken unilaterally, others in coordination. The biggest benefits in coordinated outcomes are arrived at when RTAs and the eventual market the goods and services are sold in are aligned.

We hope that through this framework that we are developing will provide a strong intellectual and practical foundation on which to build further progress towards an FTAAP. Moreover, they will help to guide the principles on which an FTAAP could be built.

There are many suggestions on what those principles should be, such as:

- Complete coverage
- Incorporating issues from the most contemporary agreements
- Bring to FTAAP the 'over ambitious and beneficial portions' of individual agreements
- Cumulative rules of origin
- Minimise non tariff barriers
- Adopt transparency and trade facilitation principles
- No backtracking
- A single undertaking
- Inclusivity
- Retain the end goal of global trade liberalisation

In our 2007 work on an FTAAP with ABAC, the following ideas were suggested:

- A unity of vision is necessary among the major economies
- The time frame of the process must not be too long
- An achievable outcome must be targeted
- There should be minimal interference from other RTA negotiations
- Chairmanship of the process should not be given to any of the major players
- Prior understanding on how to treat labor and the environment is necessary
- There must be willingness and an identified capacity to finance and support the negotiating process

Some of the recommendations on FTAAP PECC's *State of the Region Report 2012* were:

- The negotiations will have to 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.
- Another goal should be to include innovative provisions for cooperation to help reduce development gaps. Key areas for cooperation include improvement of economic institutions, upgrading of human resource quality, and the promotion of technology transfer.

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<sup>1</sup> <http://www.pecc.org/research/ftaap>

- Trans-Pacific and Asian tracks of negotiations should be connected by a new, high-level dialogue. Such a dialogue could encourage substantive overlap between the tracks, ensure their compatibility with the end goal of region-wide free trade, and reduce political frictions.

A variety of more specific strategies have also been proposed in more recent debate: scheduling and step membership, RCEP first then TPP; identification of gaps and dialogue to close them, eg agreements on model chapters; complementary actions in other negotiations such as TiSA; multilateralisation

We hope that through our work we will be able to provide you with a clear and coherent set of recommendations underpinned by rigorous objective research that will lead to the best possible outcomes for the region.

### **Improving Connectivity in the Asia-Pacific**

We welcome the progress being made on the Blueprint for Connectivity. We have stated on previous occasions that we are deeply concerned about rising levels of inequality both among and within our economies. Our survey findings show that many opinion-leaders while remaining committed to free and open trade in the region also believe that the benefits for their economies have been limited due to supply side constraints. Therefore, we emphasize the importance of APEC making real and tangible progress on the connectivity agenda especially as APEC moves forward to deepen integration in the pursuit of the FTAAP.

The point that we make is that the connectivity work should be placed within the context of achieving APEC's goals including regional economic integration as well as inclusive growth. For example, the literature on the economic benefits of integration reveals that some members gain more than others. This unevenness provides a case for further narrowing development gaps by providing financial and technical support for low-income economies, particularly with respect to trade-related infrastructure, customs modernization, enhancing SME development, and capacity building.<sup>2</sup>

### ***The Infrastructure Deficit***

The infrastructure deficit in the region is well known. The proposed Asian Infrastructure Investment Bank could play a critical role in the implementation of APEC's Connectivity Framework. Such a fund would not replace or compete with existing multilateral banks such as the World Bank or ADB, but complement them. There remain many critical areas where funding is badly needed; these include project preparation where capacity in the region is lacking as well as inadequate regulatory support and legal systems.

We hope that the blueprint will also include work on promoting energy trade in the region. As we noted in our 2011 *State of the Region* report, even though oil and gas are the most traded products in the Asia-Pacific region, there is virtually no energy trade across the Pacific. North American gas and oil can and should be an important factor in Asia's continued economic growth. However, there are significant physical connectivity challenges as well as political and regulatory issues to be overcome.

### ***People-to-People Connectivity***

On people-to-people connectivity, we have likewise undertaken a great deal of work that we hope can inform your discussions. We welcome the progress being made under the travel facilitation initiative as well as work to promote cross-border education. These are both issues we have worked on in the past. In 2003, an expert group formulated recommendations on air transport, and these addressed how changes in regulations had large benefits for improving both the security as well as the cost of travel.<sup>3</sup> Furthermore, it made the point that travel facilitation should include the whole 'supply chain' including airports to address the gaps that exist in the provision of efficient and secure travel.

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<sup>2</sup> "Asian FTAs: Trends, Prospects and Challenges," by Masahiro Kawai, Asian Development Bank Institute and Ganeshan Wignaraja, Asian Development Bank.(30 June, 2010). Presented at 'PECC-ADBI Conference on Post-2010 Trade Agenda.'

<sup>3</sup> <http://www.pecc.org/resources/infrastructure-1/846-policy-priorities-in-air-transport-markets-in-the-apec-region>

Another subset of issues where we have done some work is on labor mobility. The key conclusions of that joint PECC-ABAC<sup>4</sup> task force were that the ongoing demographic transitions in the region; widening differences in economic and educational development, and regionalization and globalization of industry would drive the pressure for increased movements of labor.

This work was undertaken some six years ago; since then, the findings of our annual *State of the Region* survey indicate that these pressures are indeed increasing. In our 2013 survey, the shortage of available talent/skills was the ninth highest risk to economic growth. However, amongst business respondents, the shortage of available talent/skills ranked the third highest risk to growth, while for government respondents it was only the eleventh highest, indicating a need for much greater dialogue between stakeholders and the government on this issue.

Our study included a series of specific recommendations on this issue. Some of the key points were: that data on flows is limited and uneven; institutional structures that manage the flows of labor need to be improved; and engage in an exchange of practices for the implementation and management of bilateral temporary labor mobility programs.

### **The Role of Services in the Modern Economy**

We continue to place a high priority on services. We were pleased to support the APEC Public-Private Dialogue on Building Asia Pacific Partnership through Global Value Chains Collaboration held here in Qingdao. We are in the process of further developing our own work program on services which will include a strong emphasis on improving the understanding of the role that services play in global value chains, how flows of services are governed in regional and multilateral agreements; and how to aid in the efforts to address the difficult political economy issues of service sector reform highlighted during the SOM-ABAC-PECC dialogue last year.

### **Future Work**

We have a number of other past and ongoing work programs of potential interest to APEC. This includes work on sustainable cities, infrastructure and public-private partnerships, education and energy. As part of the general reforms to PECC we adopted last year, we are exploring ways to more effectively work with you. One channel is through our respective secretariat in Singapore but we also look to our member committees to work closely with their respective APEC officials.

Finally, our next General Meeting will be held in Beijing in early September. We look forward to welcoming many of you there. It will be an excellent opportunity for officials to engage more directly with the stakeholder and thought-leader community that shapes public opinion on the issues that you address here in APEC.

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<sup>4</sup> <http://www.pecc.org/resources/labor/1950-demographic-change-a-international-labor-mobility-in-the-asia-pacific-region-synthesis-report>