

PECC Update
Concluding Senior Officials Meeting
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On behalf of the members of the Pacific Economic Cooperation Council (PECC), we would like to express our appreciation to you for this opportunity today as well as throughout the year to share our views with you. PECC and APEC share both a common vision as well as similar membership and it has been our role over the past 25 years to provide policy advice and suggestions to you from the perspectives we gather from our diverse membership.

This has been a rich and productive relationship - PECC members formed the core of the Eminent Persons Groups that provided high-level suggestions for the future direction of APEC in its formative years, our work on investment principles, competition policy, corporate governance, regional trade agreements, and public private partnerships to mention but a few have been the foundation on which the region's governments, through APEC, have been able to find common ground. Most recently, working with our partners in ABAC, we have undertaken work on services trade and the Free Trade Area of the Asia-Pacific (FTAAP) which feature high on your agenda. We look forward to continuing this relationship for many years to come.

We held our 22nd General Meeting in Beijing on 10-11 September. We thank the SOM Chair, Mr Li Baodong for taking the time out of his busy schedule to share his views with the 350 delegates from our member committees. This update is based on those discussions as well as numerous other projects we are undertaking as part of our work to promote Asia-Pacific cooperation. The summary of the meeting from the chair of our China PECC committee is attached to this update.

Promoting Innovative Development, Economic Reform and Growth

We welcome the progress made to promote innovative development, economic reform and growth. As this year's *State of the Region* report highlights, growth in the Asia-Pacific region is likely to be at around 3.8 percent a year compared to 5.5 percent before the Global Financial Crisis hit. While the APEC Growth Strategy provides a useful framework for responding to the changed environment, its successful implementation requires concrete actions by member economies. According to our latest *State of the Region* survey, the policy community remains unimpressed by the actions taken thus far. We therefore welcome the renewed emphasis on both innovative development and economic reform.

In a region as diverse as this, there is no one-size-fits-all solution. However, our analysis of the *State of the Region* survey results reveals a few key points that are worthy of noting by both emerging and advanced economies of our membership.

This year's survey results pointed to technological innovation as the most important driver of growth followed by policy reforms and exports to emerging markets. Hence this year's report focuses a little more on the innovative growth aspect and looks at areas in which further investment and policy facilitation including skills development in particular would be useful to spur overall economic growth for the region.

Advancing Regional Economic Integration

This year is not only the twenty-fifth anniversary but it also marks the twentieth year since APEC set the Bogor Goals. On this occasion, it is worth recalling the context of when and how those goals were set. The idea of setting a goal on free trade came as a result of the very first report of the APEC Eminent Persons Group (EPG) report in 1993. Many of the members of that group were members of the PECC.

We also note that the Bogor Leaders' Declaration not only set a goal of free and open trade in the Asia-Pacific but also stressed APEC's opposition to the *"the creation of an inward-looking trading bloc that would divert from the pursuit of global free trade."* In 1994, APEC leaders also asked stakeholders to *"review the interrelationships between APEC and the existing sub-regional arrangements (AFTA, ANZERTA and NAFTA) and to examine possible options to prevent obstacles to each other and to promote consistency in their relations."*

In the joint ministerial statement from the first AMM, it was mentioned that *"it was premature at this stage to decide on any particular structure either for a ministerial level forum or its necessary support mechanism, but that – while ideas were evolving – it was appropriate for further consultative meetings to take place and work to be undertaken on matters of common interest and concern."* In the next 25 years, much has been said and discussed in support of regional economic integration. In efforts to materialize REI entered the idea of an FTAAP, which remains, to this day, just that – an idea. It is now ten years since APEC leaders first discussed an FTAAP, but over this time, what exactly an FTAAP is has remained ambiguous. It is still a concept without clear form or modalities.

PECC, with our constituent member committees and partner institutions, have conducted numerous studies throughout this period to try to explore various modalities, estimate the potential benefits and sketch out possible scenarios. We are convinced that FTAAP, once realized, can bring significant benefits to all economies which participate, regardless of the depth and intensity of agreements.

As part of our contribution to the discussions you are having on the FTAAP, we organized a high-level roundtable on FTAAP on the sidelines of our General Meeting in Beijing on 8th September. We would like to share a few key points that rose from our discussions.

Principles for Free Trade in the Asia-Pacific

The seminar was able to identify some principles which participants thought would be important for success in the development of free trade and investment in the region while bearing in mind: the importance of optimizing operation of value chains, the development and equitable growth aspects of economic cooperation, keeping it inclusive and open to all APEC members, ensuring transparent negotiation process, and that the negotiation areas be multidimensional and adequately address – complex as they may be - behind the border issues. There is considerable value in further work on their refinement and extension.

For this purpose, a couple of 'baseline' studies would be useful.

Baseline work

Some baseline activities that would be useful as a prelude to conducting a full-fledged study into what an optimal FTAAP should look like and bring, would consist of the following.

- a) Tell the value chain story by:

- continuing to clarify the nature and extent of value chains, how they work, including the role and choices of the firms who are the chain managers, the drivers of the development of the chains, and the interaction within them of goods and services production activities;
 - using a variety of methodologies including case studies of both goods and services value chains
- b) Discuss how to participate and benefit including:
- the drivers of participation in value chains;
 - the determinants of the distribution of the benefits created by those chains;
 - the options for national strategy in relation to value chains; and
 - cooperation for capacity building for domestic policy reform.

Building on these baseline activities would be a broader set of projects related to packaging, specific issues, impact studies, and pathways.

Further studies

a) Packaging

The value of taking a sectoral approach to the consideration of a package of policy measures relevant to supply chain operations and also how to make that work, especially in the context of WTO principles and the normal structure of free trade agreements.

b) Specific issues

How international commitments and complementary actions could support reform with respect to specific policy issues – services reform would have to be included in this topic, along with investment, IP, trade facilitation and competition policy. A theme of these projects would be the reform of behind the border regulation and the options for the development of trust among participating regulatory agencies to avoid their activities becoming impediments to value chain development.

c) Impacts

With the information developed from the first two projects, then it would be useful to revisit the modelling work on the benefits of various arrangements in the region and that work may be complemented by new firm level studies.

d) Pathways

Then with the information gained from the abovementioned projects, it would be valuable to reconsider all the options for the pathways to free trade and investment in the region, including consolidation of other arrangements (bottom up), a new formal agreement (top down) or forms of multilateralization of what have already been adopted. Arrangements for potential accession of new members should also be considered in these various models.

Principles and Processes

1. Align with the Bogor Goals

The purpose of the arrangement and the vision of what is to be achieved must be clear. The Bogor goals for all APEC economies to achieve free and open trade and investment are an important reference point, but the Leaders Statement of 1994 also says their goal was to ‘enhance the prospects of an accelerated, balanced and equitable economic growth not only in the Asia-Pacific region, but throughout the world as well’. This remains the ultimate goal.

2. Pursue relevant coverage

A value chain view of international business helps identify items which are important to cover in any approach to free trade in the region. These include the value of: taking a packaged approach to include all dimensions of business models now in operation as well as the relevant policy measures affecting them; taking care to ensure coverage of services, investment, trade facilitation, intellectual property, and competition policy and working on regulatory coherence; of achieving predictability; adopting a common set of commitments; using a rule of open accession; and adopting a simple and liberal rule of origin. According to the modelling results, coverage should extend to NTMs and trade facilitation measures, going beyond the familiar other border barriers. In a world of value chains, simplifying border procedures such as customs have a more powerful effect than reducing tariffs. This perspective has the potential to be more inclusive than the traditional sector-based approach to liberalization. It will also encourage business participation.

3. Link with the WTO

There must be an understanding of how together these approaches lead to free trade in the region and how they can be taken into and connected with higher level structures and agreements, the WTO in particular. Application of these principles may lead to consideration of sectoral approaches to the design of commitments and policy reform or work by like-minded groups on specific issues. The translation of results to the WTO setting helps to ameliorate the risks associated with the discriminatory effects of large-member preferential agreements. It also offers the best regime for the construction of efficient value chains.

4. Add on to existing regional FTAs and RTAs

Any commitments or policy reforms made in this process should add to what has already been committed to in existing agreements, either bilateral or multi-member agreements. The manner in which RCEP and TPP contribute to the goal separately or jointly should also be examined: the question arises of whether whatever they achieve there will be 'unfinished business' for reaching regional free trade and if so how that should be managed.

5. Support development

By whatever pathway, successful implementation will benefit from efforts to support the active participation of all members, in the processes of reaching agreement on how to proceed, in managing any formal negotiations that follow, in implementing commitments and in adjusting to their consequences. Capacity building programs in all these areas are valuable.

6. Recognise the continuing key role of APEC

There are various pathways to free trade and investment in the region which can be envisaged, some working from existing agreements and others involving new agreements. There is also scope to conceive and develop new forms of partnership. Whatever the formal pathways, they lie 'outside' APEC. There is no expectation that APEC would be involved in processes leading to binding agreements. But APEC retains a critical role, which includes refining and sharing a common vision, discussing principles for achieving that vision and taking actions including capacity building to build the confidence among members to reach that outcome. As Leaders said in 2010, 'APEC will make an important and meaningful contribution as an incubator of an FTAAP by providing leadership and intellectual input into the process of its development, and by playing a critical role in defining, shaping, and addressing the "next generation" trade and investment issuesAPEC should contribute to the pursuit of an FTAAP by continuing and further developing its work on sectoral initiatives'.

7. Be transparent and commit to significant progress

Transparency on the reporting of commitments and the progress delivered in each member economy will be useful to identify opportunities for participation in regional and world markets. It will also build confidence about the capacity to manage change and provide a response to the domestic resistance to change in each economy. All participants would also be expected to liberalise progressively and to achieve significant results. It will then be valuable to share experience of the consequences of reform and of the application of domestic measures to support the goals of balanced and equitable growth.

Timelines

Our plan is to run the project till the middle of 2016. The baseline work would continue throughout while further study projects would take place in the sequence outlined above. Along the way, we intend to keep you informed of its progress and findings for your reference while looking forward to receiving your feedback. We also believe that APEC should go on to play a leading role in promoting FTAAP in its true sense rather than being a “cheerleader.”

Strengthening Comprehensive Connectivity and Infrastructure Development

We welcome the progress you have made this year on strengthening connectivity and infrastructure development in the region. As we stated last year we continue to be concerned over the infrastructure deficit in the emerging economies of the Asia-Pacific. There are bottlenecks that need to be urgently addressed and investment in infrastructure need to be boosted to help increase the much needed aggregate demand in the region.

In last year’s *State of the Region* survey, opinion leaders have expressed that the benefits of the economic integration process have been perceived as limited in their economies due to supply side constraints. Improvements in comprehensive connectivity are closely tied to all aspects of APEC Growth Strategy that encourages balanced, inclusive, sustainable, innovative and secure growth. In this light, we are pleased to see that the APEC Blueprint on Connectivity is now being endorsed in Beijing.

At our General Meeting, we have stressed that more investment in infrastructure is necessary to build production network and to drive down costs of production. In addition to physical, institutional, and people-to-people dimensions of connectivity, digital connectivity was also highlighted as a driver of economic growth as well as an important means of enhancing all other areas of connectivity.

Financial Cooperation

Much in connection with various aspects of connectivity, efforts to improve financial cooperation including liberalization in financial services and capital accounts, capital market development, and establishment of integrated, secure, and efficient systems of payment and settlement must continue. Having seen different parts of the world negatively impacted by recent financial crises, we must prepare for the next by strengthening our institutions, and put in place better mechanisms to mitigate such shocks which may be much bigger in magnitude in the future. Our recommendations emanating from the recent GM in Beijing include:

- Enhancing policy dialogue to contribute to the global rule-making and standard-setting;
- Taking a holistic approach to the real economy and the financial system;
- Boosting regional cooperation to intensify supervision of financial institutions and ensuring high standard of governance;
- Promoting financial interconnectedness with the aim of making financial services better serve the needs of businesses and the real economy;

- Ensuring inclusive access to financial services and products; and
- Facilitating deeper private-public sector partnership to promote financial market integration.

Apart from our signature projects for next year – studies on FTAAP mentioned above and the *State of the Region* report – we are continuing our research in other areas such as services; social resilience, global EPAs impact measurement, GVCs, energy transition and new economic models for urban centers, fisheries trade facilitation and sustainable development, competition and cooperation in the extractive industry to name just a few.

We look forward to working closely with APEC throughout next year we welcome your suggestions on how we could make further contributions to your ongoing efforts towards regional economic integration and mutually beneficial economic growth of the Asia-Pacific region. Thank you for your attention.

Executive Summary of the Pacific Economic Cooperation Council 22nd General Meeting

By Amb. Tang Guoqiang,
Chair, China National Committee for Pacific Economic Cooperation
Beijing, China, 10-11 September 2014

Pacific Economic Cooperation Council (PECC) held its 22nd General Meeting (PECC GM) in Beijing 11-11 2014 under the theme of “Economic Cooperation in Asia Pacific: 2014 and Beyond”. The PECC GM occurred at a time when China hosts the APEC 2014 meetings. This coincidence reflects PECC's commitment to regional economic cooperation as a think-tank and one of the three observers to APEC.

Over 350 participants discussed a wide range of issues in relation to the economic cooperation in the Asia Pacific region with a view to making an objective assessment of the current situation, exploring solutions to difficult issues, and identifying partnership to shape the future of the Asia Pacific region.

We have recognized that the Asia Pacific region is entering into a New Normal characterized by moderate economic growth, in-depth economic restructuring, digital-tech revolution, parallel rise of economic integration and fragmentation, and to a great extent, China's positive externalities of its reform and development to the region and the world.

It is generally advised that efforts to find new growth drivers and structural policy initiatives should be orchestrated in the Asia Pacific region to arrest and reverse the trend of falling growth and avoid the middle income trap; that regional economic integration should be further promoted to enhance liberalization, facilitation and capacity building in a balanced manner; that connectivity should be further promoted with special attention to be paid to measures to overcome the bottlenecks of infrastructure; and that financial cooperation should be sped up to match the economic cooperation in other areas.

In relation to the APEC process, the following recommendations are highlighted:

On New Drivers and New Ways for Economic Growth

The participants are generally confident and optimistic about the economic prospects of the region. Although risks and uncertainties still exist and the post-GFC recovery is weak, the Asia Pacific region has ample sources for economic growth and leads the world economy as the locomotive.

1. Regional economic cooperation agenda should go beyond market access and tariff reduction and tap the great potential of services and connectivity as drivers.
2. More coordination is needed to optimize macroeconomic policies.
3. Better ways and means are needed to channel savings to right places with long term considerations.
4. Reform is needed to address the stock problem.
5. Technical innovation is needed to improve productivity and reduce negative externalities.
6. Less resources should be used while cutting labor input.
7. The relationship between the government and the market should be further defined to liberalize the service sector to give more impetus to growth.
8. Special attention should be paid to inclusive support to reduce inequality. Input in human capital is considered to be a top priority.

On Urbanization

Urbanization is both a natural result and a key driver of economic growth. The challenge for urbanization in the Asia Pacific region is to make the cities sustainable, livable, and human-oriented.

1. Urbanization should be addressed in a coordinated and holistic way and promoted together with endeavors in fields of finance, energy efficiency, and climate change;
2. The inequality problem be rightly tackled through integration of rural and urban areas, developed and underdeveloped regions, isolated and well-connected economies;
3. Good and innovative institutions are needed for urbanization; and
4. Regional connectivity should be promoted through urbanization.

On Energy

Supply and demand of energy is undergoing a tectonic shift in the Asia-Pacific, with the demand of emerging economies ever increasing with their continued growth, and the supply of energy is yet to be secured. Given complementary energy structure, the Asia Pacific has great potential to tap in energy cooperation.

1. The cooperative programs of various regional institutions should be combined for regional solutions;
2. Energy transition and decarbonization becomes an imperative, given the limited resource, the environmental pressure, and global warming. Technological and institutional innovation should be promoted for clean and sufficient use of energy;
3. Equal and sustainable access to energy should be promoted and energy poverty should be eliminated;
4. More investment through new cooperative modes should be channeled to energy infrastructure and energy connectivity.

On Connectivity

Connectivity cooperation is highly regarded as both a driver of economic growth and a tool to promote economic integration in the Asia Pacific region.

1. More investment in infrastructure is necessary to build production network and drive down cost of production;
2. Private sector should be mobilized in a big way to invest in infrastructure and the APEC PPP center program should be promoted with greater efforts;
3. Financial innovations like the Asia Infrastructure Bank are in urgent need to overcome the infrastructure bottlenecks;
4. Digital connectivity should be given due attention both as a driver of economic growth and as a dimension of connectivity.

On Financial Cooperation

Financial cooperation is an integral part of future regional economic integration. The areas for financial cooperation include financial services liberalization, capital account liberalization, capital market development, and establishment of integrated, safe, and efficient system of payment and settlement system.

1. Financial cooperation in Asia Pacific should be given due consideration in shaping the partnership for the region's future, especially for preparing for the next global financial crisis which would be much bigger in magnitude;
2. The region should yet enhance policy dialogue to contribute to the global rule making and standard setting;
3. APEC is recommended to take a holistic approach to the real economy and the financial system;
4. Regional cooperation is needed in such aspects as intensive supervision of financial institutions, rigorous disclosure and governance; liquidity buffers, strengthened micro supervision,

leveraging standards, and internationalization of the RMB;

5. The regional financial cooperation should promote financial interconnectedness between economies, and concrete measures should be taken to make finance serve better the real economy;

6. Regional cooperation should encourage better and inclusive access to financial services and products;

7. Public and private sectors are yet to engage each other in deeper cooperation to promote financial market integration.

On Regional Economic Integration

Regional economic integration remains top priority in the 20th anniversary of Bogor Goals. The participants have reiterated the benefits of regional economic integration across the Pacific region and commend highly APEC's vision of and commitment to regional wide economic integration agenda.

1. The regional economies should take a "both-and" attitude instead of "either-or" attitude towards the various regional trade arrangements (RTAs), in that the RTAs are mutually complementary and reinforcing;

2. An Free Trade Area in Asia Pacific (FTAAP) should follow the following principles:

- It should give sufficient consideration to the development aspect of economic cooperation.
- It should be comprehensive in scope, including liberalization of trade in services and liberalization of investment.
- It should be multi-dimensional and go beyond border barriers to include finance, infrastructure, connectivity and structural reform.
- It should be sustainable, paying attention to environmental protection.
- It should simplify Rules of Origin
- The negotiation process should be transparent.
- It should be inclusive and open to all APEC members.
- It should help to underpin secure and reliable markets for energy, resource and food.

3. APEC should play a leading role in promoting FTAAP in true sense after 8 years of preparation, rather than only play as "cheerleader".

4. It is appropriate for APEC to launch a feasibility or analytical study on an FTAAP;

5. A goal is necessary for APEC in leading the pursuit for an FTAAP, a timeline would be helpful and an interim timeline is necessary.

6. The region should think of a Plan B in case that neither Trans-Pacific Partnership (TPP) nor the Regional Comprehensive Economic Partnership (RCEP) will lead us to an FTAAP;

7. No pan-Pacific initiative should exclude either China or the United States. An ambitious Pacific Economic Partnership (PEP or PEPI) which include the two countries and cover a wide range of issues could be an option.

8. Experience-sharing should be encouraged to garner more political support domestically for regional economic integration.

9. The impact of GVCs should be factored and operationalized in trade negotiations, and a set of issues such as rules of origin, tariff reduction, and trade facilitation should be re-framed accordingly. FTA negotiations should be pursued or re-examined through the lens of GVCs;

10. As the significance of GVCs is yet to be realized by policy makers, academia and entrepreneurs, capacity building is highly needed for various communities to realize the potential benefits.

The PECC GM also has in-depth discussion on China's reform and its implications for regional economic cooperation. The participants generally welcome the difficult but steady reform steps that China has thus far taken, support China's aspiration for future development, and look forward to deeper engagement with China's development.

In conclusion, the participants at the PECC GM have widely expressed aspiration of trust and solidarity in the Asia Pacific region; the commitment to common development through further economic integration, and concern of inclusive growth.