

**Update for APEC Senior Officials
Second Senior Officials' Meeting (SOM2)
Boracay, Philippines
20-21 May 2015**

**Antonio Basilio, Chair, Philippine Committee for Pacific Economic Cooperation
On behalf of PECC Co-chairs, Jusuf Wanandi and Donald Campbell**

On behalf of the members of the Pacific Economic Cooperation Council (PECC) we thank you for this opportunity to share our views from the second track. We would like to express our appreciation to SOM Chair, Laura Del Rosario; Undersecretary of Trade and Industry Adrian Cristobal; Deputy Director General of NEDA, Emanuel Esguerra; and Treasurer of the Philippines, Roberto Tan; who all took the time to share with us their views at our Singapore Conference held last 27 February. It was a unique opportunity to exchange ideas on how to best make progress towards our shared objectives.

We would like to express our appreciation to APEC Senior Officials for your openness to our suggestions especially through our co-organizing of the Public-Private Dialogues on Services and the Symposium on the Internet Economy. We believe that these two issues are of critical importance to inclusive and sustainable economic growth which is why we have focused much of our efforts this year on these issues.

One point that ran through the numerous session of our Singapore Conference was that the issues we are confronting cut across multiple agencies domestically and working groups in APEC. This is a particular challenge we face and one that APEC seems to be addressing through ad hoc steering committees and Friends of the Chair groups.

The Broader Context

The global trading system stands at an important juncture; forecasts suggest that for the first time in many years, trade will grow only marginally faster than the broader economy. To better understand the challenges that we are facing, we commissioned a special survey of the regional policy community focused on trade policy issues. This statement is based on those findings as well as our broader work program.

The Critical Role of Services

We welcome the emphasis being placed by APEC on the role of services in the 21st century economy. Not only were services regulations ranked as the top impediment to trade in our survey but service sector reforms and liberalization were also ranked as the third most important trade issue for APEC to address.

Over the course of the past five years, we have been emphasizing the importance of making progress on the services sector. We welcomed the opportunity to co-organize along with ABAC and the Philippines as APEC Chair a Public-Private Dialogue on Services here in Boracay.

We hope that through this series of dialogues not the region will come to much better understanding of the role that services play in the economy – not only in terms of facilitating trade but also in terms of quality growth.

APEC Growth Strategy and Structural Reform Agenda

We welcome the discussions in this meeting on the future of APEC's growth strategy and the next phase of work on the structural reform agenda. However, we note that our surveys reveal that the regional policy community is either unaware of work going on in APEC on these issues or that they are unimpressed by actions taken thus far.

One point we make is to connect APEC's growth strategy to work on structural reform. Our report, *Inclusive, Balanced, and Sustainable Growth in the Asia-Pacific* highlighted the need for structural reforms that would promote new growth engines to replace the fiscal and monetary stimulus measures taken by the region's governments.

Our 2014 survey highlighted technological innovation as the most important driver of growth. We therefore welcome the focus placed year on the internet economy as part of those innovations and look forward to the work of the ad hoc steering committee. As noted during the Public-Private Dialogue on Services, the potential economic benefits of the internet economy are significant.

Towards a Free Trade Area of the Asia-Pacific (FTAAP)

While economic integration has long been one of APEC's central goals, it is not about integration for the sake of integration. A conscious decision was taken by our leaders in 1994 with the Bogor Goals that the trade liberalization was the best path for creating regional growth and prosperity. Therefore, we should also highlight the role that trade integration plays in promoting regional growth.

As we noted in our statement to APEC Ministers in Beijing, value chains have powered much of the economic integration of this region. These value chains typically cut across both the current TPP and RCEP memberships, suggesting the importance of broader liberalization or sector liberalization where possible. An initial discussion that brought together analysis of both global value chains as well as the existing trade agreements offered the following principles for furthering free trade in the Asia-Pacific:

1. Align with the Bogor Goals
2. Pursue relevant coverage
3. Link with the WTO
4. Add onto existing regional FTAs and RTAs
5. Recognize the continuing key role of APEC
6. Be transparent and commit to significant progress
7. Support development

Our survey of the regional policy community undertaken just a few weeks ago similarly highlighted the importance of work to ensure that the design of an FTAAP would take into account how global value chains operate. This perhaps reflects the problems that businesses, especially small and medium enterprises have in benefiting from the agreements due to the complexity in rules of origin.

The challenges facing SME participation in GVCs was a major talking point of our conference held in Singapore a few months ago. There is a great deal of analytical work going on in both the academic and business communities to understand this better. We hope that we will have an opportunity to share that work with you as you develop your thinking on the next steps to promote regional economic integration.

Global EPAs Research Consortium

In addition to the work we are doing to understand the policy imperatives that arise from our understanding of global value chains, we also have a project that looks at the state of bilateral and multi-regional economic partnership agreements. The research covers: China-Japan-Korea FTA negotiations, TPP, RCEP as well others. The consortium aims to contribute to improving the estimation of changes in economic welfare, production, trade, investment and job creation by looking at tariff concessions, non-tariff barriers, and ways of improving computable general equilibrium (CGE) models.

Addressing Supply Side Constraints

While supporting greater trade liberalization, our surveys also show concerns, especially in emerging economies about their ability to benefit from the economic integration process. These are the issues that economic and technical cooperation was designed to address. However, these constraints remain in place and indeed, in some places, trade policy seems to be slipping back and becoming more protectionist – in response to stakeholder concerns that they are not yet ready for integration.

With just 5 years to go till the 2020 Bogor Goal deadline, it is time to face up to reality and note that we are still far from achieving that goal. The focus on connectivity, infrastructure initiated a few years ago has the potential to address these concerns as does the work this year on inclusive growth.

Management of Ports and Vessels

Related to connectivity, we also have an ongoing project on the management of ports and vessels. Maritime trade has been consistently growing across the Pacific demanding larger and more efficient ports and larger vessels to operate. A significant part of international trade and management of cost has to do with maritime transport and infrastructure. With this in mind, our France (Pacific Territories) committee will lead the international project consisting of three seminars in various locations throughout this year and next, gathering experts from the relevant industries, policy sector, as well as researchers. Technological and policy innovations from different economies will be brought into the discussions.

Social Resilience

This is an ongoing project led by our Japanese member committee since 2009. Having covered Chile, Mongolia, Myanmar, Cambodia, and China, during its next phase, the project will expand its geographic scope by taking case studies from the Philippines, Thailand, Malaysia, Mexico, Korea, and Chinese Taipei. The project takes closer look at pension, healthcare, elderly care, and other labor/ employment related areas in both formal and informal sectors.

PECC General Meeting 2015

Our next Standing Committee meeting and General Meeting will be held in the Philippines in September hosted by our Philippines committee. It will be held back-to-back with your SOM3 in Cebu. Held two month ahead of the APEC Leaders' Week, PECC looks forward to addressing some of the issues that we deem important for our ministers and leaders' consideration and evaluation.