

**Update from the Pacific Economic Cooperation Council**  
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**on behalf of the PECC co-chairs Donald Campbell and Su Ge**  
**APEC SOM 1, Putrajaya**  
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On behalf of the Pacific Economic Cooperation Council, we would like to express our appreciation for this opportunity to update you on our ongoing work. We welcome the efforts taken by APEC to include the views of PECC and other stakeholders in your work this year.

We believe that the theme identified by APEC of ‘*Optimizing Human Potential towards a Future of Shared Prosperity*’ with the sub-themes of ‘*Improve the Narrative of Trade & Investment*’; ‘*Inclusive Economic Participation through Digital Economy and Technology*’; and ‘*Driving Innovative Sustainability*’ strongly reflect the concerns expressed by the regional policy community in our annual survey on the state of the region.

**APEC Beyond 2020**

We thank Senior Officials for the opportunity to contribute to the formulation of the post-2020 vision for APEC. We have worked hand-in-hand with APEC since its very formation, advocating for its establishment in the 1980s and toiling with generations of working groups and Senior Officials to build regional consensus on often difficult issues.

When this process began, we were asked by the then SOM Chair to help organize the very first Dialogue on APEC Toward 2020 and Beyond back in August 2016 under the leadership of Peru. We have then worked with successive hosts to try to bring a range of stakeholder views on a post-2020 vision for APEC.

In parallel, we established a task force led by our Malaysia and New Zealand committees to develop recommendation on a post-2020 vision for APEC. We presented that task force’s recommendations to the APEC Vision Group at their final meeting last year. At the urging of members of that group, and conscious that it was the outcome of the deliberations of a small group of experts we then sought the views of the broader Asia-Pacific policy community on their recommendations through our annual survey on the State of the Region.

The first point I would highlight to you is the overall vision statement:

*“An Asia-Pacific community of open interconnected, and innovative economies cooperating to deliver opportunity, prosperity and a sustainable future to all their peoples.”*

This will be achieved by:

- *Robust dialogue, stakeholder engagement, and effective cooperation that build trust and committed, confident relationships among member economies;*
- *Strategies and initiatives to remove barriers to full economic participation by all segments of society, including women, and people living in poverty, MSMEs, and remote and rural and indigenous communities;*
- *Committed long term policy initiatives that promote sustainability;*
- *Policies to harness the positive potential and address the disruptive impact of the digital economy and other innovative technologies;*
- *Structural reforms that drive growth by increasing productivity and incomes through open, well-functioning, transparent and competitive markets;*
- *Deeper and broader connectivity across borders, facilitated by high-quality, reliable, resilient, sustainable and broadly beneficial infrastructure and well-designed and coherent*

*regulatory approaches, and including also a strong emphasis on supply chain and people-to-people connectivity;*

- *Intensified efforts to fully achieve the Bogor Goals of free and open trade and investment, with particular emphasis on components of the agenda where progress has been lagging;*
- *Strong APEC support for the multilateral trading system based on agreed values and norms reflected in updated multilateral rules, and including more effective settlement of disputes;*
- *High-quality trade, investment and economic partnerships among members, consistent with the values and norms of the multilateral trading system, and supporting dynamic responses to rapidly changing drivers of growth; and*
- *Concerted efforts in support of the eventual realization of a high-quality and comprehensive FTAAP to further advance regional economic integration.*

This idea of community is not new. It has been part of the APEC lexicon since its very foundation. For those who have been around long enough the world elicit great debate, some wondered whether it meant APEC would move towards a European type supra-national institution.

*“...what we must build is a Pacific community that is robust and that will endure, not a temporary Pacific association of convenience, or a Pacific construct erected over a transient enthusiasm -- or a Pacific club or organisation with a single purpose or interest, an appendage to someone, something that is here today and gone tomorrow....I believe that what we must build is a Pacific ‘Gemeinschaft’, a Pacific village or family or group of friends, not an artificial, Cartesian construct -- over-legalistic, over-structured and over-institutionalised.”*

These are the words of then and once again Prime Minister Mahathir Bin Mohamad spoken at the opening of the PECC General Meeting in 1994. We can be emboldened that the leader entrusted with the task of persuading others regional leaders of the post-2020 vision has a long-term view of what this region ought to be.

Indeed, as described and by complete coincidence this is the very strength of APEC that the PECC task force singled out in its report. There is insufficient time to go into the details of all of the report’s recommendations, but the first was that to achieve the vision required:

- *Robust dialogue, stakeholder engagement, and effective cooperation that build trust and committed, confident relationships among member economies;*

When we asked our survey respondents to rank the areas in terms of importance, it was idea of robust dialogue that came top. This is perhaps why even though only 26 percent of those we surveyed thought that both APEC developing and industrialized economies had achieved the Bogor Goals, 68 percent of them agreed that APEC is as important or more important today compared to 1989 when it was created.

During these difficult times, APEC as a dialogue mechanism that brings together economies in a spirit of community has a special role to play. APEC’s remit is now clearly broader than when the Vision was first conceived. Within the trade and investment agenda, investment and services liberalization and e-commerce and digital trade harmonization are now central areas of work. Issues of inclusiveness and sustainability have moved from being ancillary to become important joint goals to be achieved.

APEC’s primary strategic value lies in its being an overarching platform for discussion and cooperation rather than negotiating. If there is one key to PECC’s Vision for APEC lies in the term ‘robust dialogue’. APEC needs frank, realistic and rational discussions to inject fresh political commitment into what will become its core agenda.

## **Risk to Growth**

At this time several economies are combatting the human and economic impact of the Covid-19 coronavirus. We express our solidarity with those families directly suffering from the illness, as we seek to build a regional community it is critical that we work together and understand that while this virus might have originated in one particular city, we are all equally vulnerable as human beings. In considering potential regional responses in the aftermath, we believe our annual survey results may be somewhat instructive. Only 4 percent of respondents selected a health pandemic as a top 5 risk to their economies, making it the least frequently selected risk amongst a list of 23, and perhaps importantly, while 9 percent of government respondents selected it as a risk, only 5 percent of businesses and 2 percent of non-government respondents. It would be useful to hold a multistakeholder dialogue on the broader issues involved including the frequency of pandemics and the likely economic consequences, so that appropriate measures are taken to prepare for them.

At the time we undertook our survey last August, the top risk to growth in our annual survey was once again “*increased protectionism and trade wars.*” Expectations for the global economy had turned distinctly negative with 68 percent of respondents expecting slower growth. As we discuss in our report, at that time economies were already beginning to implement stimulus measures to forestall slower growth and as foreshadowed, agreement has now been reached between the US and China on a trade deal.

However, there are two sets of actions that could help to further bolster growth over the medium term, especially private sector investment.

## **The Rules-Based Trading System**

The impact that the erosion of the multilateral rules-based trading system and rising protectionism has on business confidence is almost impossible to measure. That it has an impact is undoubted. While 64 percent of business respondents had rising protectionism as a risk to growth for their economies, 55 percent of government respondents did so. We urge further public-private dialogue to better understand the impact that rising protectionism is having on regional businesses.

APEC can play a critical role in building understanding among key players on critical issues such as the WTO Moratorium on Customs Duties on Electronic Transmissions, the Joint Statement Initiative on Ecommerce and so on. APEC played this role in the past with respect to the Information Technology Agreement, it can once again play this role.

Progress on these issues is critical to APEC’s themes this year. As we have discussed the Internet and Digital Economy, it has become clear that these technologies have the potential to empower those who have hitherto been excluded from trade and international markets. A rules-based, predictable, level playing field will make it easier for micro and small and medium enterprises to benefit from international trade.

The APEC Meeting of Ministers Responsible for Trade will take place at a critical time in the lead up to the 12<sup>th</sup> WTO. It will be an ideal opportunity for APEC to show its worth.

## **Structural Reforms**

The second area of actions where APEC actions can bolster over the medium term is under the structural reform agenda. The Structural Reform Ministers Meeting due to take place later this year and the work leading up to are an ideal opportunity to place these reforms within the broader context of the post-2020 vision for the region. Indeed, structural reforms were a recurring theme that interwove all our recommendations on the post-2020 vision.

From a macroeconomic perspective, while our economies have continued to grow through the post-Global Financial Crisis period, whether it has been more balanced, inclusive, sustainable, innovative and secure is questionable. The next phase of action plans on structural reforms needs to consider how

to achieve these dimensions of growth both individually as well as collectively. This involves key groups such as the Economic Committee, Finance Ministers Process and others working together.

### **Benefits of Trade**

In connection with the sub-theme *Improve the Narrative of Trade & Investment*, we would like to draw your attention to the work we undertook with ABAC on the Benefits of Trade. The project team took an innovative approach to its research using the latest analytical tools available to understand how and why businesses trade. Some key findings are that four firm-level capability factors inform decisions about participating in international trade: information, finance, technology and people. Two core external factors also drive success in international trade: compliance requirements and market forces. We believe that this kind of work is critical to understanding how and why some businesses can participate in international trade. We will continue this work throughout this year.

### **Digital Economy**

We welcome the establishment of the Digital Economy Steering Group. As discussed above, the digital economy has the ability to promote a more inclusive model of growth. At the same we recognize the complexities of the issues involved. At a symposium we organized in Vancouver last year on Asia-Pacific Strategies for the Global Trading System a key theme was “Digital Trade and Artificial Intelligence”. While we noted that artificial intelligence can bring unprecedented economic and social benefits and that AI is revolutionizing the ways we live and work, it is also fuelling anxieties and ethical concerns.

Similarly, experts noted the different models to data regulation being practiced around the world. It was recognized that international cooperation in such areas goes beyond trade policy and includes collaboration on regulatory issues, as well as finance. Much more work needs to be done to ensure, at the minimum, interoperability between systems to avoid the fragmentation of the global economy. We will be looking at ways to continue those discussions at a forthcoming symposium in Auckland on 6-8 April. The topic of cyber security and ethics was once again a topic of discussion for our community at the PECC-CSIS Global Dialogue last September.

As we said in our update to you in SOM 2 last year, there has been an almost complete absence of policy discussion around Artificial Intelligence in APEC sub-fora at a time when other regional groupings are developing regulatory regimes with global trade implications. APEC cannot stand still on these issues when technology is clearly moving at such a rapid pace.

### **Connectivity**

Our task force on connectivity has completed its work to construct an index to measure connectivity in the region. The objective of the index was to provide policy-makers a sense of priority on the many issues that fall under this broad umbrella. One clear finding from the work is that the three pillars of connectivity are self-reinforcing and inter-related. The second is that no one size fits all – no matter how one looks at the data – economies in the region, are, for a variety of reasons, pursuing, different models and approaches.

Within each pillar the following were the areas that required the most work collectively:

#### Physical

- Transport
- Infrastructure

#### Institutional

- Trade Facilitation
- Intellectual Property Receipts

#### People to People

- Educational Mobility

- Labor Exchange

These do not, of necessity apply to all economies, these are simply the overall findings. Each economy can simply look at whether these apply in its own specific circumstances, but the underlying point is that while each economy is moving towards greater levels of connectivity, APEC can provide a useful platform for collective action.

A last comment relates to the construction of the index itself. Considerable thought and discussion amongst a group of experts went into the selection of indicators and identification of the sub-indices under each pillar.

Reflecting on the importance of the digital economy, it may well be worthwhile updating the index to have a separate measure of digital connectivity. Were we right to have ICT as a sub-index under the physical pillar? Should each of its component indicators have had equal weight given the trends we see towards the importance of broadband access? Should the indicator on the mobility of digital transactions that was included under the institutional pillar have been included under a renamed ‘digital sub-index’? What else might have been included? What might be appropriate proxies for data flows?

### **Future Meetings**

It is fitting that in the year that APEC will be deciding on its post-2020 vision for APEC, we will be having our General Meeting in Malaysia just as we did in 1994. Our intention is to focus on the same themes as APEC to provide a platform for a diverse range of experts, thinkers and practitioners from academia, government and businesses from the region and beyond, to examine current issues related to trade, investments and sustainability. The dates for the meeting are in mid-August.

We will continue our series of seminars on Asia-Pacific Strategies for the Global Trading System that began in Vancouver last October with a meeting due to take place in Auckland on 6-8 April.

We will also once again be working with our Indonesian committee to hold the annual CSIS Global Dialogue. The proposed theme for this year’s event is “Crafting an Asia Pacific Response to Climate Change: Now is the Time”. This will provide us with an opportunity to discuss in depth an issue that was clearly identified as a high priority for the region to address as part of its post-2020 work in our State of the Region survey. Indeed, “Long term policy initiatives that promote environmental sustainability” were the 2<sup>nd</sup> highest ranked area of focus by respondents to our survey.

These are critical questions that need to be addressed by APEC – as highlighted in our report, this is less a question of whether APEC members should address climate change issues but rather how. There is also a risk that APEC duplicate work that is already being done by other organizations better suited and equipped to address them. However, having said that, APEC for its part has contributed usefully within its areas of competence; for example, in reaching agreement on environmental goods. Such efforts are critical to reduce the cost of more environmentally efficient products. It also has an ongoing Environmental Services Action Plan. These complement rather than duplicate efforts ongoing elsewhere and indeed demonstrate global leadership on these issues. However, our survey results demonstrate a strong desire among stakeholders for APEC to do more on these issues and we will be working to develop a deeper understanding of them.