

Update from the Pacific Economic Cooperation Council
APEC SOM 2
2-3 June 2021

On behalf of the Pacific Economic Cooperation Council, we thank you for this opportunity to update you on our ongoing work. We look forward to contributing to APEC 2021 under the guiding theme of “*Join, Work, Grow. Together*”.

Earlier this year the PECC Standing Committee elected Ambassador Zhan Yongxin, chair of the China PECC committee to join Dr Richard Cantor, chair of the US PECC committee as our international co-chairs. Ambassador Zhan has a long history record of engagement in multilateral organizations and we look forward to his contributions to promoting Asia-Pacific cooperation.

Our Executive Committee met on 12 May to discuss developments in the region; our ongoing work program and upcoming General Meeting. There was an unambiguous message from our members that the economic recovery remains fragile with a number of economies in our region suffering from 2nd or 3rd waves of infections. While many lessons have been learnt over the past 12 months, the imperative is for us to cooperate on vaccinating as many people as we can as quickly as we can. This will facilitate the return to the movement of people, so important for business generally but especially the services sectors.

Role of APEC and Regional Cooperation

While it is tempting to dive into the main task of this year of the formulation of the Implementation Plan of the Putrajaya Vision and the manifold issues, work streams, and high-level goals that APEC has already set out. It is useful to reflect on APEC’s strengths and unique characteristics as an organization in that context.

In this regard we recall our own task force report that said the *‘successful fulfilment of a renewed APEC vision depends on trusted, committed and confident relationships among its member economies. This must be built on the basis of:*

- *robust dialogue*
- *broad stakeholder engagement*
- *effective cooperation.*

This unique value proposition that APEC brings was also highlighted by the APEC Vision Group, who said that: *“As the challenges to pursuing growth and prosperity have grown greater and more complex, the need for APEC’s commitment to constructive engagement and practical problem solving continues to hold value within the region and globally”.*

When APEC leaders first met in Blake Island they said that *‘we are committed to deepening our spirit of community based on our shared vision of achieving stability, security and prosperity for our peoples’*. That spirit will be essential to overcoming the current crisis and fulfilling the Putrajaya Vision.

APEC’s Contribution to Addressing the Covid-19 Pandemic

APEC’s non-binding, problem solving approach based on dialogue and stakeholder engagement seems fit for purpose for helping the region to build on its contributions from last year to addressing the Covid-19 pandemic.

Cooperation and Coordination on Vaccines

In August last year a survey by the Coalition for Epidemic Preparedness Innovations (CEPI) estimated that global manufacturing capacity of Covid-19 vaccines was between 2-4 billion doses.¹ More recent estimates place global capacity at above 10 billion doses.² This more than doubling of global manufacturing capacity is a testament to the ability of global supply chains to respond to a need, partnerships and investments from both the public and private sectors.

However, these numbers are manufacturing capacity. As of the time of writing, a total of 1.5 billion vaccinations have been delivered into peoples' arms. Last year APEC leaders highlighted the importance of *facilitating equitable access to safe, quality, effective and affordable vaccines*. In this regard we are failing our leaders. There is nothing equitable about the current situation in our region or the world in which vaccination rates are 40 percent and others are less than 1 percent of the population.

At current vaccination rates, we are unlikely to reach the targets the medical community has set for herd immunity even in those economies that are achieving well above average vaccination rates.

This is leading to a situation in which we are seeing the emergence of new variants of the virus. This in turn, is leading to new lockdown measures in several of our economies.

Trade Challenges

The WTO estimates that a typical vaccine manufacturing plant will use 9,000 different materials sourced from some 300 suppliers across approximately 30 different economies, scaling up production has required the creation of new supply chains and efficient logistics systems.

A full understanding of the supply chains and possible at the border and behind the border impediments to their efficient functioning is needed to remove unnecessary barriers. Best practices for customs administration working hand in hand with regulatory agencies (health and others) will go a long way to helping facilitate the smooth functioning of these supply chains.

The COVAX Manufacturing Task Force to tackle vaccine supply challenges emphasises facilitating the establishment of global trade processes for free movement of single-use and raw materials, vaccine components, assay reagents, and skilled workforce required for vaccine manufacture by resolving the impact of import-export authorisations or bans and other cross-border trade-restrictions as one of its short-term objectives.

Such trade policy initiatives were high on the list of actions for APEC to take in our survey on the Covid-19 crisis, in which 85 percent of respondents rated the removal of export restrictions on essential products as important or very important issue for APEC to work on.

Transparency

Last year we suggested that APEC members hold a Public- Private Dialogue to explore the creation of a Medical Equipment Market Information System using the G20 Agricultural Market Information System (AMIS) as a model. Given the focus this year on vaccines, it would be more useful to have such a dialogue on vaccines.

Part of the success story has been the ability of vaccine manufacturers to identify partners across the world with excess capacity and work in partnership with them. However, information available to

¹ https://cepi.net/news_cepi/cepi-survey-assesses-potential-covid-19-vaccine-manufacturing-capacity/

² https://cepi.net/news_cepi/covax-manufacturing-task-force/ and <https://launchandscalefaster.org/sites/default/files/documents/Speedometer%20Issue%20Brief-COVID%20Manufacturing%20Landscape%2019%20March%2021.pdf>

facilitate matches between vaccine developers and manufacturers does not appear to be readily available. As a paper by the World Bank points out “*there appears to be no established mechanism that tracks entry and exit from vaccine production, at the firm level or the plant level.*”³ While such partnerships do exist and information is available about them it is somewhat scattered.⁴ This has led many including CEPI to call for improved visibility of the supply of manufacturing inputs.

APEC’s strong tradition of business engagement and emphasis on cooperation on dialogue places it in a strong position to begin the gather a range of views on technically difficult issues from a range of stakeholders.

The TRIPS IP Waiver

Currently members of the WTO are debating a waiver of certain provisions of the TRIPS Agreement in relation to the prevention, containment or treatment of COVID-19. Discussion of the proposal has received the support of several APEC members. While it is not in APEC’s interest to duplicate ongoing discussions at the WTO, APEC’s non-binding character and strong engagement with stakeholders gives its discussions a different dynamic. It would be useful for APEC to, at the very least, discuss the implications of the waiver for production of vaccines with a view to promoting a better understanding the issues involved, if not attempt to come up with a common position.

Regulatory Issues

While manufacturing capacity has dramatically increased, a potential delay in the delivery of vaccines to people is the regulatory approval process. APEC economies have separately granted full or limited regulatory approval for the use of 13 different vaccines within the region, 1 vaccine has been granted limited regulatory approval for use by 13 APEC members. Regulators for vaccines will proceed according to their own standards to ensure the safety of their citizens but cooperation and dialogue at this time of emergency in order to establish the equivalence of regimes can help to fulfil the mandate from APEC Leaders last year.

Logistics and Delivery

Dialogues on how economies are rolling out their vaccination programs can be particularly useful at this time. For example, earlier this year members of the Health Working Group engaged in a useful discussion on Covid-19 Vaccination rollout with a particular focus on vaccine confidence, given APEC’s focus on the digital economy, the use of the digital tools in the process might be a particularly useful angle to pursue.

Essential Services

While building on last year’s work, a further element is to move beyond goods and consider the critical role that services play not only in the facilitation of movement of goods but to the recovery of our economies.

We hope that APEC members will follow up on last year’s Declaration on Facilitating the Movement of Essential Goods with similar declaration on the role of services. As we saw earlier this year with the blockage of the Suez Canal, world trade is vulnerable to disruptions. Estimates suggest that 80-90 percent of global merchandise trade is carried by sea. Prices for containers have already quadrupled over the past year skyrocketed, from \$1,486 per 40-foot container in May 2020 to \$5,472 by May 2021. At the same time the price of a kilogram of air cargo has also increased from about \$4 to as high as \$14 or \$18.

One particular issue that needs to be addressed is safe crew changes. Both the IMO and ICAO have worked to develop concepts to try to stop the spread of the virus and keep trade moving. APEC can

³ The Covid-19 Vaccine Production Club Will Value Chains Temper Nationalism?, Simon J. Evenett, Bernard Hoekman et al

⁴ <https://www.fiercepharma.com/special-reports/vaccine-supply-chains-holding-line-against-covid-19?>

add its substantial voice and know-how by socializing and discussing these concepts and ensuring the effective implementation of measures that keep people safe while keeping goods and services flowing. The International Maritime Organization has called on its members for seafarers to be designated as 'key workers'.

A further services issues that has been raised is the movement of the skilled workforce required for vaccine manufacture. In ensuring that the necessary inputs flow unencumbered to scale up production of Covid-19 vaccines, similarly, those with the requisite skills and knowledge of good manufacturing processes need to be able to ensure that the various manufacturing plants around the world are conforming with the standards. This applies perhaps not just at the manufacturing stage but also in the at least initially in the handling of vaccines until knowledge is transferred.

APEC Services Roadmap

While most job losses have been in the lower skilled services sectors, much of the job creation has also been in the higher skilled services sector creating a divergence that will increase income inequality within economies. Therefore, the mid-term review of the implementation of the APEC Services Competitiveness Roadmap comes at a timely moment.

Many PECC members participated in the GOS Trade Policy Dialogue: The Covid-19 Effect. It was a useful opportunity to discuss the mid-term review of the ASCR given the disproportionate impact that the pandemic is having on the services sector. The services sector by far employs the most people in the APEC region ranging from 35 to 88 percent of the labor force. It is also the services sector that has been the hardest hit by the Covid-19 crisis.

While merchandise trade fell by 5.3 percent last year, trade in commercial services fell by 20 percent. Some sectors have suffered considerably more, travel services fell by 63 percent.

It is a testament to the importance given to this issue that two former Ministers of Trade were at the meeting as well as numerous representatives of the business community. We commend to you the very useful work done by our colleagues at ABAC assessing progress on the ASCR. This included drawing attention to the extent of regulatory heterogeneity among APEC members, and its implications, especially for digital trade.

There are many useful recommendations in the report, however we draw your attention to the recommendation for more collaboration between the Economic Committee and the Committee on Trade and Investment.

This strongly echoes our own recommendation on the post-2020 vision for APEC. We call on APEC Senior Officials, as part of the work on the implementation plan for the Putrajaya Vision to actively include work on developing a closer working relationship between the Committee on Trade and Investment (CTI) and the Economic Committee (EC), the two principal APEC committees, to ensure that cross cutting issues associated with the complex dimensions of the digital economy and technological developments, and the interdependence between trade reform and structural reform, are addressed in a coordinated fashion.

While some commentary focussed on opportunities, and the impediments to success, in new forms of services trade, others from the PECC network stressed the issues continuing to confront the mode 1 delivery of services. There were calls for a coordinated approach to the management of the movement of people. The resumption of travel in the APEC region is critical to growth. There are proposals for the extension to the operations of the APEC Business Travel Card, these are welcome, but a wider set of cooperation project is required to deal with the health issues. The necessary protocols are supported by the application of digital technology but attention to recognition of health treatments and vaccination will be critical.

Building Foundations for the Future through Integration and Cooperation

As much as attention must be focused on cooperation and coordination on the pandemic, there is a need to keep an eye firmly focused on the future. For example, in the post Global Financial Crisis world productivity remained largely stagnant and growth was exclusive even though headline growth remained positive.

Climate Change and Cooperation

At our General Meeting we discussed how the region can move towards a low-carbon economy. While noting the momentum from the actions from businesses, ambitions from governments and pressures from consumers there remain enormous challenges in meeting the goals we have set. We will continue to explore these issues in this year's State of the Region report. We note that the one key characteristic that APEC brings to bear on this issue is its diverse membership of both developed and emerging economies working together towards a common goal.

A substantial challenge for APEC is in deciding what path and focus to take and how it can best contribute. Thus far efforts have focused on useful initiatives such as the environmental goods list, the role that environmental services can play, however the post-2020 vision for the region places a specific goal of promoting economic policies that will address all environmental challenges including climate change. Our task force on the post-2020 vision was clear in recommending that a sustainability framework is built into its programme areas and that APEC members commit to mutual review by its members of their individually determined climate change commitment, its contribution to the global outcome and the ways in which the commitment is linked to policy choices.

Economic Integration and the Digital Economy

It seems that not a week goes by without an APEC event addressing a different aspect of the digital economy. For our region to maximize the benefits and the enormous growth potential of digital trade, there are two key factors. The first is for APEC and individual member economies to address trade with an aligned or coordinated holistic regional approach—where that is feasible and beneficial. Second, member economies should not develop different *technical* systems which cannot talk to each other, or different regulatory and governance frameworks which create regulatory incompatibilities across the region and with other trading partners.

In this regard we have been working on a Primer on Economic Integration Issues Posed by the Digital Economy to understand the basic issues at the heart of the problem. However, in order for the whole to be greater than the sum of its parts, the work of the primary mechanism charged with the implementation of the APEC Internet and Digital Economy Roadmap needs a far greater sense of urgency. APEC has been a pioneer on digital issues but risks being left behind unless members can work together to implement the Roadmap.

Challenges and Opportunities for the Asia Pacific Region in Post Pandemic Era

As part of our ongoing work we have established a task force to take a deep look at the possible shape of the region in the post-pandemic era. It will address issues such as the uncertainties brought about by the uncertainties of anti-globalization, evolutions in global value chains and the impact on growth in the region as well as the progress and prospects for regional trade agreements including the CPTPP, RCEP and others.

Supporting the Global Trading System

Where strong interlinkages exist between trade initiatives at APEC level and processes in multilateral fora such as the WTO, APEC economies should work in concert to help build critical mass for multilateral outcomes. It is important that all APEC economies participate in the WTO Joint Initiatives, all of which are pertinent to the Roadmap action items. The WTO Joint Initiative on Services Domestic Regulation is deeply connected with the APEC Non-Binding Principles and warrants an APEC commitment to bring APEC weight to delivering for the 12th WTO Ministerial Council, the first and only outcome on services since the WTO was created. The OECD estimates suggest that this could

deliver an average 8% reduction in regional trade costs across all services sectors. APEC economies are called upon to participate in the WTO negotiations on E-Commerce and to work toward permanent extension of the WTO Moratorium on Customs Duties on Electronic Transactions. The regional business community reported that it is pleased to see APEC economies joining the Joint Initiative on Investment Facilitation for Development. As the work evolves, others of interest are the Joint Initiative for Structured Discussions on MSMEs and on Trade and Sustainability.

In summary, APEC economies should work together to build a critical mass for multilateral services outcomes. The WTO Joint Initiatives reinforce the Roadmaps' goals and APEC bringing its weight to bear on these initiatives could result in the first and only outcome on services since the WTO was created.

Integrated Approach to Implementing the Putrajaya Vision

We look forward to progress on the implementation plan for the Putrajaya Vision this year. We will be discussing elements of the Putrajaya Vision at our forthcoming General Meeting to be hosted by our New Zealand PECC committee later this July. As we develop the program for our meeting, we hope to address different facets of the issues confronting the regional economy. We look forward to sharing the results of our discussions with you at a later stage.

One central consideration throughout our Task Force report on the Post-2020 Vision as well as subsequent discussion has been the need for a more integrated approach to the challenges that we face. There is a need for improved oversight of the various work programs to ensure that they are coherent, effective and better integrated into the overall APEC agenda.

The complex issues we are confronting call for integrated approaches. We have focused here on the need for stronger coordination between the Economic Committee and Committee on Trade and Investment, but the same is also true for APEC's work under the SOM Committee on Ecotech and its working groups as well the Finance Ministers' Process.