



## PECC Update APEC SOM II

Ho Chi Minh City, Vietnam

May 2006

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Since the last APEC meeting, PECC held its annual Standing Committee meeting in Hanoi last 8-9 April. We would like to acknowledge the excellent support we received from the local Vietnam PECC committee and the Ministry of Foreign Affairs. In addition to our regular discussions we also had two meetings on the sidelines: a roundtable discussion on Vietnamese economy; and a public seminar on regional institutional architecture.

The seminar on regional institutional architecture launched a two-year work program to assess the current architecture of the region. The roundtable discussion on Vietnam was an ideal opportunity for PECC members to discuss the transformation that is currently taking place in this year's APEC host economy. We were fortunate to have Vietnam's Minister of Foreign Affairs, Mr Nguyen Dy Nien as our keynote speaker.

PECC will be undertaking three signature projects over the next 18 months: on regional institutional architecture; the feasibility of an Asia Pacific wide free-trade agreement; and a report on the state of the region. In addition to these projects, PECC's member committees will be undertaking a number of other studies across the region.

### **Economic Outlook**

Although the economic outlook for the Asia Pacific is on the whole positive, there are several risks in the forecast that APEC should address. As we mentioned in our previous update we remain concerned about the lack of attention in APEC to the trans-Pacific imbalance. APEC is a natural forum to discuss this issue which cuts across both the trade and finance tracks.

One of the major risks to our outlook is a loss of confidence in the US dollar. There could yet be a disorderly decline in the value of the US currency, which could spill over into financial markets and the real economy. The current uncertainty over exchange rates is already a cause of tension between major trading partners in the region. We hope that APEC will use its considerable weight to find a solution to this problem

### **Regional Institutional Architecture**

PECC members believe that there is an urgent need for the region's leaders to take look at the emerging institutional architecture of the region and assess the comparative advantage of each organization in addressing different sets of issues.



We would like to express our thanks to APEC Secretariat Executive Director Ambassador Tran Trong Toan who updated us on the ongoing discussions within APEC on reform. Over the next few months this task force will be looking at the environment in which regional cooperation takes place has changed and will produce a set of recommendations for the region's leaders on the design of regional architecture.

We hope that APEC members will find this work useful for your own discussions on APEC reform.

### **State of the Region report**

PECC's flagship publication will be its annual State of the Region report. The report will include analysis on the current economic situation as well as look forward to issues on the further horizon.

The first issue of the report was issued in 2005, the second issue due for release in September 2006 will include a new element – a survey of opinion leaders. The survey panel will consist of opinion leaders identified by PECC member committees. We expect our member committees to be in touch with their APEC officials to participate in the survey. We hope that officials will take the time to contribute to this effort.

### **Regional Trading Arrangements**

PECC remains concerned over the proliferation of bilateral trade agreements. Since 2000 some 16 new bilateral FTAs have been concluded. Adding in the FTAs that were in place earlier and those under negotiation, the prospect is for some 35-40 PTAs in the Asia-Pacific region in the near future.

These developments have raised the concerns of business over the increased transactions costs that may result from a “spaghetti bowl” of overlapping and intersecting PTAs with inconsistent provisions. One solution to this problem – an Asia Pacific wide free trade agreement has been proposed within ABAC. Our understanding is that there is no consensus within ABAC on this issue, however, they have asked PECC to undertake an assessment of the proposal. The results of our work will be finalized in time for the ABAC meeting in August.

Thank you for your kind attention.