

**PECC Statement**  
**An Agenda for Inclusive, Balanced and Sustained Growth**  
**Dr Charles E. Morrison and Mr Jusuf Wanandi**  
**Co-Chairs of the Pacific Economic Cooperation Council**

We thank APEC Ministers for this opportunity to update you on the views from our community on Asia-Pacific cooperation. The theme that APEC has selected this year of “Sustaining Growth, Connecting the Region” provides an excellent framework through which the many challenges facing the region can be met.

Since the last APEC Ministerial Meeting in Peru, the PECC community has held two major meetings: our General Meeting held in Washington DC last May and a major conference in Singapore specifically to address some of the urgent issues the region is confronting. We would like to express our appreciation to the hosts of those meetings and the many APEC officials and Ministers who took the time to share their views with us.

We have also shifted to a new model of governance with a co-chair system. We believe this will enable us to have more continuity and provide a greater sense of trans-Pacific cooperation to our work.

This Ministerial Meeting and the APEC Leaders’ Meeting come at a critical juncture for the global economy. While economic growth is recovering, there remains a risk that the recovery could stall and perhaps most critically it needs to be shaped to provide the jobs and confidence people need. This update is based on the work of our task forces as well as the discussions we had in our meetings in Washington and Singapore.

**An Agenda for Growth**

The theme of this statement is derived from the work of a task force we established in March this year to address the global economic crisis. The report of the task force has been circulated to APEC Senior Officials, however, in this statement we wish to highlight salient points for Ministers’ consideration. We also call attention to the just completed PECC survey, a part of PECC’s annual State of the Region Report.

When APEC Ministers last met in 2008 in Lima the prognosis for the global economy was worsening, today optimism is rising throughout the region. In October last year only 2% of our 2008 survey respondents expected stronger growth for the next year, last month this had risen to 67% expecting stronger growth.

However, recovery in itself presents new, difficult choices. The challenge is not just when and how to exit interventions adopted in the crisis—which dominates the policy debate—but to replace these with structural policies that promote growth through the recovery and beyond. Proper structural policies will allow an earlier and smoother exit from the temporary measures of the past year while sustaining a continuous and sustainable recovery over the longer term.

The economies of the Asia-Pacific accounted for about 84% of the global discretionary stimulus measures taken in response to the crisis. While much of the intellectual debate has focused on when to exit from the stimulus situation, more attention needs to be paid to the policies that will replace the emergency measures.

In a survey of regional opinion-leaders undertaken by PECC last month, we asked if it is time for the three largest economies of the region: the United States; China; and Japan to exit from the monetary and fiscal stimulus measures. The response was a resounding ‘no’. Around 50% of respondents disagreed with the statement that “It’s time to exit from expansionary fiscal and monetary policies” for these economies, and less than 30 percent agreed with the statement.

The timing however is critical. Analysis of previous economic crises undertaken by the PECC task force shows that the longer extraordinary measures are in place, the lower the trajectory of growth coming out of the crisis.

### ***Shaping a Sustained Recovery***

The task force contends that a sustained recovery will require tackling different problems, including international imbalances between the United States, China, and other economies. U.S. consumers are not likely to drive world demand in the medium term, and the slack needs to be taken up in part by Asian consumption and investment. The early responses to the crisis were not designed to address these issues, and some are even counterproductive to longer-term growth.

The best outcomes—inclusive, balanced, sustained growth—will require structural reforms that change economic relationships within economies and among them. The policies required to achieve such a path are complicated and varied, addressing household and government finances, investment incentives, risk management, infrastructure, productivity, social and environmental priorities, and other fundamental aspects of growth. Sustained growth will also require changes in supply—resource flows to tradable goods industries in the United States and to non-tradable sectors, especially services, in Asia.

### ***What will drive growth over the next 5 years***

These demand and supply shifts could be accelerated with high profile Asia-Pacific initiatives. Selected “growth engines” could address important trends—population aging and other social and environmental priorities—and use government expenditures and other incentives to stimulate investment. They could be backed by catalytic commitments from the Asian Development Bank and other international investors. Joint initiatives could emphasize projects in four areas:

- Economic integration: new types of trade that build on Asia’s dynamic markets, new global and regional trade agreements, and strategic investments in connectivity.
- Green economy: investments in energy conservation, clean energy research and development, and energy efficient vehicles and transport systems.
- Investments in people: programs in education, health care, and social safety nets.
- Knowledge and productivity: investments in technology and reforms to drive gains in productivity.

Such regional initiatives could stimulate Asian demand, create markets for Asia’s manufactures, engage American resources and technology, and put Asia’s savings to productive use. These priorities are widely shared among opinion-leaders in the Asia-Pacific. In our annual survey, we asked respondents what they thought the most important engines of growth would be for the next 5 years, they were: expenditures on social priorities; the liberalization and development of the services sector in Asia; and measures to promote a green economy.

### **Social Priorities**

While globalization and integration have been enormously beneficial in the fight against poverty and have created immense wealth, they also contribute to uncertainty and insecurity. The economic crisis has also accelerated structural changes in many of the region’s economies that had been postponed during the boom years preceding the crisis.

This process leaves many behind and unable to adjust to the new realities of the global economy. A set of policies geared towards building more resilient societies will help the region continue on its path of liberalization and strengthen the constituency for the integration process.

A PECC study group led by our Japan Committee will look at various elements of creating more resilient societies in the region, the topics it will cover includes the types of social safety nets available in the region, education systems, and importantly, the fiscal implications of these strategies. We look forward to sharing the results of this research with you.

### **Services and Labor Mobility Key for Business**

We note that business respondents to our survey actually placed the liberalization of the service sector as the most important driver of growth over the next five years. More broadly speaking, last year PECC, in cooperation with ABAC studied the issue of international labor mobility.

We reiterate our call for APEC to develop a broader agenda for labor mobility and services. We note that ABAC has continued to work on this issue and hope that APEC will recognize the growing importance of the movement of people as an area for regional cooperation by adopting this issue as part of its agenda for regional economic integration.

### **An Asia-Pacific Climate Change Agenda**

In a month's time the world is expected to find a successor to the Kyoto Protocol at the Copenhagen Conference. The APEC Summit is the last opportunity for global leaders to break the apparent negotiating deadlock.

Climate change is one issue where waiting for a global deal will not suffice. There is much that individual economies can do and are doing to reduce carbon emissions, but these are not well-known. The good news is that many APEC economies have recognized this and are adopting 'green growth' strategies domestically, the bad news is that not enough is being done to coordinate efforts internationally.

APEC provides a venue where economies can put what they are doing on the table without prejudicing their negotiating positions. The global issue is one of confidence and trust. APEC members should consider encouraging and monitoring domestic action by formulating Individual Action Plans for combating climate change, similar to those for trade. APEC action would send a clear message to the world that the Asia-Pacific is ready to take leadership on this issue.

### **Regional Economic Integration**

APEC celebrates its 20th anniversary this year at a time of great stress and change in the world economy. There will be special attention to economic integration issues in 2010 when APEC reaches the first of its Bogor targets for free and open trade in the developed member economies. As a contribution to these discussions, PECC has created a new measure of economic integration across 17 APEC economies.

This index tracks both the extent to which the economies are becoming more alike in their economic characteristics (i.e. "convergence" measures) and the relative importance of regional trade, investment and human flows compared to economic relations with the rest of the world. We believe the index is an indicator of APEC's success in promoting regional economic integration and that it can be used a measure of collective progress towards the Bogor Goals.

## **Changing Global and Regional Environment**

The global economic crisis has accelerated dramatic reforms in international architecture. The designation of the G-20 process as the premier forum for international economic cooperation represents a step towards developing a key framework to deal with global issues.

As the G-20 process begins to deal with global issues, the G-20 will need to be more consultative and transparent in their deliberations as all countries, big and small, will be impacted. By developing legitimate and effective mechanisms to engage and consult a wider range of economies, this would facilitate the G-20 outcomes to be translated into effective actions on a global scale. In this regard, the involvement of systemically significant regional organizations such as APEC, whose membership includes almost half of the G20 members, in the G-20 will ensure that all economies in the region are engaged in the issues being dealt with by the G20.

As APEC celebrates its twentieth anniversary this year it is an appropriate time to consider its many achievements and reflect on its future role in community building, both regionally and globally.

In our annual survey opinion-leaders ranked the following issues as the five most important for APEC leaders to discuss:

- Continued action on the economic crisis
- Regulation of the financial sector
- Restarting the Doha process
- Climate change and the Copenhagen Deal
- Reducing the cost of doing business

We note that these issues are on the APEC agenda this year and that the outcomes of the Summit should have a lot of resonance within the PECC community.