

**CHAIRMAN'S REPORT TO SOM ON THE
APEC ECONOMIC COMMITTEE MEETING
DAVAO, PHILIPPINES, 19-20 AUGUST 1996**

The APEC Economic Committee (EC) held its second plenary meeting of the 1996 cycle from 19-20 August 1996 in Davao, Republic of the Philippines. The meeting was chaired by Canada and attended by Australia, Brunei Darussalam, Canada, Chile, the People's Republic of China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, the Republic of the Philippines, Singapore, Chinese Taipei, Thailand and the United States of America. The APEC Secretariat also attended.

1. Adoption of Agenda

The Committee adopted without amendment the agenda proposed by the Chair.

2. Business Arrangements

The Chair informed the Committee of the business arrangements for the meeting.

3. Review and Discussion of Highlights of EC-related Cebu Meetings

The Committee briefly reviewed the outcomes of the informal Economic Committee meeting held in Cebu, Philippines on 24 May 1996, and the two Task Force Meetings held on the margins of SOM II. The main item of business at the informal meeting had been to initiate action on the mandate to the Economic Committee from the SOM to undertake the follow-up work on the Leaders' Initiative on the Impact of Expanding Population and Economic Growth on Food, Energy and the Environment (FEEEP).

Japan had undertaken to prepare an issues paper on FEEEP; in addition, the Task Force on Food (TFF), to be co-chaired by Australia and Japan, was launched. The work of the TFF would contribute to the EC's response to these interlinked issues as would output from other APEC fora.

4. Economic and Technical Cooperation Projects

4.1 Economic Outlook

The United States, as Chair of the 1996 Economic Outlook Task Force, informed the Committee of the progress made at the meeting of this Task Force on 16 August (see Annex 1).

The first part of the Outlook reviewed the recent and expected economic performance of the 18 APEC economies, and clearly demonstrated the dynamism of the APEC region and its rapid economic growth, which was expected to increase from 4.5% in 1995 to 4.8% in 1996. This part of the Outlook was well-advanced. Member economies were requested to provide

updated statistics to ensure that the report was as up-to-date as possible. The second part of the Outlook broke new ground by seeking to examine the process of economic growth, how it can be sustained, and what were the impediments to growth. This part of the Outlook was designed to complement the Economic Committee's Report on the State of Economic and Technical Cooperation in APEC (Ecotech Report) by providing the theoretical and historical background to the discussion in the Ecotech Report of issues facing the region and of APEC activities relevant to them. This section of the Outlook was also well-advanced. The Task Force hoped to give approval to the final version of the Outlook by the end of September and submit it to the EC for formal approval at its meeting in October, immediately prior to SOM IV.

4.2 Impact of Economic and Population Growth on Food, Energy and Environment (FEE)

a. Situation Report

The Committee noted the importance of these interlinked issues for APEC economies and the high priority accorded to them by Leaders at Osaka. The Committee reviewed the mandate given to it by the SOM, in particular the requirement to report in October to SOM IV as part of the preparations for the 1996 Ministerial and Leaders' Meetings, and to the final SOM in 1997 in preparation for the Vancouver Meetings.

b. Food: Report by Food Task Force Co-Chairs

The EC took note of an oral report by the Australian and Japanese Co-chairs of the Economic Committee Task Force on Food (TFF). The Co-chairs informed the EC of the progress made at the first meeting of the TFF on 18 August. The Co-chairs noted that the TFF had agreed on the structure of its work plan and that timely completion of work was stressed. The Co-chairs further noted that, at its next meeting in October 1996, the TFF would finalize its initial report to the EC covering the food elements of the Leaders' Initiative. The report of the TFF to the EC, which was not available at the conclusion of the EC meeting, is attached as Annex 2.

c. Energy

The Committee received a report from Australia on behalf of the Energy Working Group outlining the work being undertaken in this Group which is of particular relevance to the interlinkages study. The Working Group offered to assist the EC in the preparations of its report to the SOM, although requesting that the EC provide specific guidance as to its requirements.

d. Sustainable Development:

- *Report on July 1996 Sustainable Development Ministerial*

The Philippines informed the Committee that the Ministerial Meeting had focused on the themes of Sustainable Cities / Urban Management, Clean Technology / Cleaner Production and Sustainability of Marine Resources. The Ministerial Declaration and Action Program resulting from the Ministerial Meeting would be directly relevant to the interlinkages study. Canada advised that there would be a planning meeting for Senior Officials on 27-29 October for the Ministerial Meeting on Sustainable Development to be held in late April 1997 in Canada. Canada identified the theme of sustainable cities for its Ministerial Meeting in 1997. EC representatives were encouraged to seek the input of their economies to contribute to Canada's planning for this planned event.

- *Discussion of Status of Survey of Economic Instruments for Environmental Protection*

The Committee noted that the purpose of the survey, distributed to all EC contacts at the end of July, was to assist economies to identify appropriate economic instruments for environmental protection. The survey would build on the large volume of existing work by the Asian Development Bank and the OECD, and on the work being done by relevant APEC fora. Canada requested that economies respond to Survey by 18 October.

e. Population

Canada, on behalf of the Lead Shepherd of the HRD Working Group, informed the Committee about relevant work being undertaken in that Working Group, including in the areas of poverty alleviation, gender equity and the labour market. The HRD Working Group would cooperate with the EC on the interlinkages study and would share information on population issues.

f. Next Steps

Japan outlined to the Committee a proposed approach to advancing the work on Food, Energy, Environment, Economic Growth and Population (FEEEP) that it had prepared in collaboration with the EC Chair. Three main tasks were identified for the Economic Committee : collection of information and analysis of this information; integration of the FEEEP issues and analysis of their inter-relationship; and preparation of reports and presentation to SOM of possible policy options.

The Committee agreed that in view of the immediacy of the task of preparing a substantive report to SOM IV on FEEEP, the Chair would prepare an initial draft of a brief thematic report and circulate it as soon as possible. The Committee discussed the need for an analytical framework in which to consider the inter-linked issues and provided suggestions to the Chair on elements which should be included in the report and how these elements might be addressed.

The Committee reaffirmed that, as instructed by the SOM, the report should draw as much as possible on the existing work of APEC fora and agreed that the Chair should approach the Lead Shepherd or Chairs of relevant APEC bodies and request their assistance in providing inputs to the EC for its report to the SOM.

4.3 Infrastructure

- Indonesia informed the Committee of the progress which had been made at the Infrastructure Workshop in Seattle in July (see Annex 3a). The Workshop had finalized the Action Program for Economic Infrastructure. Subject to the Economic Committee's formal approval, it was proposed to submit the Action Program to SOM, with the request that it be added as an Annex to the Osaka Action Agenda. The Committee agreed to this proposal, and approved the Action Program for submission to the SOM.

The Committee also reviewed the Progress Report on Joint Activities in Infrastructure, which had been requested by the SOM Chair, and the Proposed Work Program of Joint Activities on Economic Infrastructure under the auspices of the Economic Committee. Both documents are appended, the Work Program in slightly amended form following discussion in plenary and further consultation. The Committee noted that the Work Program would be further elaborated at an Infrastructure Workshop to be held on the margins of SOM IV in Manila on the basis of issues papers on each activity that would provide detailed specifications of the work to be undertaken in each case which would then be discussed for final approval at a planned EC meeting in October. The Committee noted that some economies had already indicated their preparedness to lead the work on specific issues and confirmation by the remaining proposed lead and sponsoring economies would be provided at the Manila meeting.

The Committee welcomed the offer by Japan to coordinate a small group to undertake work on its proposal to develop an APEC network of export credit agencies to facilitate co-insurance to support private projects in infrastructure and other important areas.

The United States presented a report on the Public-Business/Private Sector Roundtable on Infrastructure which had also taken place in July in Seattle in conjunction with the Infrastructure Workshop (see Annex 3b). The Roundtable

had focused on four topics : (i) Mitigation of Infrastructure Risk; (ii) Creation of a Supportive Policy Environment for Infrastructure Development; (iii) Elements of Beneficial Institutional Structures and Regulatory Regimes; and (iv) The Importance of Effective Communications between Public and Private Sectors.

There had been good support for the Roundtable from the private sector from across the APEC region, and their feedback had been very positive. The findings of the Roundtable, together with the case studies which had been presented in Seattle, will be published under the auspices of the Economic Committee in time for the 1996 Ministerial and Economic Leaders' Meetings.

The EC welcomed the report on the Roundtable and noted that economies should provide editorial comments by 6 September 1996 to assist the United States in preparing the report for publication.

Mexico's offer to host the next Public-Business/Private Sector Dialogue in 1997 was welcomed by the Committee.

4.4 Development Cooperation Framework

The Committee considered an issues paper "Strengthening Economic Cooperation and Development in APEC". The paper's objective was to develop a framework to strengthen APEC's work on Part 2 of the Osaka Action Agenda by making it more outcomes-based and thereby more effective in achieving the objectives set out in the Osaka Action Agenda of sustainable growth and equitable development in the Asia-Pacific region.

The Committee discussed both the overall approach of the paper and specific points of detail, noting that the paper was closely related to the Ecotech Report and the 1996 Economic Outlook. General support was given to the objectives of the paper and to the goals and principles identified in it. Members made a number of suggestions to improve the paper. The Chair informed the Committee that the suggestions and comments would be taken into account in further refining the document which would be presented to SOM III.

The Philippines advised that, if agreed by Ministers, the Guiding Principles identified in the paper would be incorporated into the introduction of Part 2 of the Osaka Action Agenda. It would also be proposed that these Principles form part of the Subic Leaders' Declaration.

4.5 Ecotech Report

The Chair informed the Committee of the work in the Ecotech Task Force Meeting on 17 August (see Annex 4). The Task Force discussion of the revised draft of the Ecotech Report had focused mainly on Chapters 2 and 3, which had been developed following the Cebu Meeting and based on the first round of consultation with APEC Working Group Lead Shepherds. The Task

Force agreed that this document, with minor changes, would be sent immediately to Working Group Lead Shepherds for further comment, including confirmation that the Annexes were up-to-date and accurate. The Chair advised the Committee that a new draft incorporating the suggestions made by the Task Force and Working Group Lead Shepherds would be circulated in mid-September for a final round of comment. The Committee agreed that it would aim to give its in-principle agreement to the Report by early October, with formal agreement taking place at the EC meeting on the margins of SOM IV.

4.6 Intra-Regional Migration

Hong Kong informed the Committee of progress on the research study on "Intra-Regional Migration in APEC". The study was still in the preparatory stages. A questionnaire had been circulated, and some helpful responses had been received. However, data was still scanty. EC members were requested to respond to the questionnaire within the next month or so if they had not already done so. This would assist the commencement of substantive work. The Committee requested Hong Kong to make direct contact with other APEC fora which may be able to assist, particularly the HRD Working Group, and also to draw on the studies of other international organizations, such as the OECD. Hong Kong advised that a situation report covering data availability and members' feedback on participation would be provided to the EC at its first meeting in 1997 for guidance on how to proceed.

4.7 Information Society

Canada and Korea updated the Committee on progress on the report on the information society. Industry Canada had undertaken some preliminary work and several early findings had emerged. The main conclusions so far were that : (i) the initial starting points and strategies for the different economies varied considerably, (ii) the United States and Japan have evolved into major producers of new information, whereas other APEC economies have relied more heavily on accessing information produced elsewhere; and (iii) high rates of investment and a well-educated labour force assist the diffusion of information flows. Korea informed the Committee that it would provide a report on the work being undertaken at the next EC meeting.

4.8 Cost and Productivity Trends and Patterns of Specialization in APEC

Hong Kong and Chile advised the Committee that this project was still at a very early stage. Nevertheless, it was anticipated that the original timeframe would be met and that Hong Kong and Chile would present a progress report at the first EC meeting in 1997. At that time, they would seek the guidance of the Committee on further work. The results of the study should be available by August 1997.

5. Trade and Investment Liberalization Projects

5.1 Impact of Trade Liberalization

The Co-chairs of the Task Force on Trade Liberalization, Japan and Singapore, reported that the Task Force had met on 18 August and had had a good discussion on the use of the Global Trade Analysis Project (GTAP) model as well as of one of the existing Computable General Equilibrium (CGE) models in analyzing the economic impact of trade liberalization in APEC (see Annex 5). The strengths and weaknesses of the model were identified; it was agreed that some improvement to the existing model was required within time and data constraints and technical possibilities. The Co-chairs also reported that member economies were requested to submit estimates of the various elasticities for their particular economy utilized in the model as well as Input-Output data, tariff and NTM information and related comments, preferably by mid-September 1996. The Co-chairs advised the Committee that the Task Force was willing to make the model as transparent as possible and to make it available to institutions within the APEC region and more broadly for other studies. The Committee noted that the Task Force would meet again either on the margins of SOM IV or at another time as necessary to ensure prompt and effective progress with respect to this important project.

5.2 Impact of Investment Rule-making and Liberalization

Chinese Taipei reported that six economies - Australia, Canada, Indonesia, Korea, Philippines and the United States - had expressed their interest in providing case studies for the project. Chinese Taipei presented a preliminary report on its own case study which was based on experience following the liberalization of its investment policies. Three sectors had been reviewed so far (the semiconductor industry, retailing industry and the financial services industry); it was proposed to examine three other sectors in the course of the study. The Committee noted that a Small Group meeting of interested economies would be convened by Chinese Taipei on the margins of the EC meeting in October, the results of which would be reported to the EC of its next plenary meeting.

5.3 Sub-Regionalism's Significance and Impact on APEC

Chinese Taipei outlined the content and structure of the project, which examines subregional groups, including NAFTA, AFTA, CER, SIJORI, (the Growth Triangle of Singapore-Johore-Riau), and CHT (Southern China, Hong Kong and Chinese Taipei). Some preliminary findings have been made. Further work will take into account relevant studies of PECC and the Economic Committee's Task Force on Impact of Trade Liberalization.

Member economies stressed the importance of this study for APEC. In particular, they emphasized that analysis of trade creation versus trade diversion should be comprehensive and include the various "growth triangles" and other informal market-driven subregional groups, many of which had only recently emerged, as well as inter-industry arrangements where possible. It was noted that trade diversion which was mainly market driven, as in the case of the informal subregional groups, should be distinguished from trade diversion arising from the potentially distortionary effects of varying rules of origin and other features of the formal subregional trading arrangements. It was further suggested that dynamic aspects - such as price effects, innovation and economies of scale - should be taken into consideration along with impacts on individual members' political, economic and social environments. It was suggested by the Committee that some consideration could be given to issues of WTO-consistency, domestic impacts, and implications from regional integration. The Committee thanked Chinese Taipei for agreeing to accelerate the work on this important project in order to make the preliminary report available for the CTI trade policy dialogue in Davao.

5.4 Foreign Direct Investment and Market Framework Studies

The Committee discussed the study, "FDI and Market Framework Policies : Reducing Frictions in APEC Policies on Competition and Intellectual Property". Canada advised the Committee that the paper was being finalized and would be circulated to EC members shortly. The Committee agreed that following the final review by member economies, the study would be published under the auspices of the EC, although it would be noted in the introduction that the document did not necessarily reflect the views of every APEC member economy.

6. Other Activities/Projects

6.1 Update on FDI Database

The Chair informed the Committee that Canada was continuing to maintain its database on FDI until the TID Working Group had its own database up and running. In the meantime, the work was progressing well and there would be a further update in 5 months' time.

As regards the TID Working Group's proposal, Australia, on behalf of the TID Working Group Lead Shepherd, said that there was a problem with insufficient data. EC members therefore were urged to encourage the development of data in their economies. The Committee was informed that the TID Working Group Lead Shepherd had offered to make a presentation on the database to the next meeting of the EC.

6.2 Information Gathering and Analysis

The EC Chair reported on the meeting of the Small Group on Information Gathering and Analysis, held on 17 August, which he had chaired and which

the CTI Chair had also attended (see Annex 6). The Committee reviewed the list of activities by the Small Group and proposed a number of amendments which will be reflected in a revised document. The CTI's comments would also be incorporated. The Chair informed the Committee that he would be writing to Working Group Lead Shepherds inviting them to identify information gathering and analysis activities that could be added to the list, if they wished to do so. The document would be the subject of ongoing updates as work progresses.

6.3 Secretariat Report on Matters Affecting the Committee

The APEC Secretariat informed the Committee that the Budget and Administrative Committee (BAC) had approved a request by the EC for US\$72,000 to publish EC reports in 1997. This amount would permit the publication of the 1997 Economic Outlook, a second Ecotech Report if one were to be prepared, four structural issues studies and the report of the 1997 Public-Business/Private Sector Dialogue on Infrastructure.

The Secretariat also informed the Committee that at its last meeting the BAC had applied the guideline that no single APEC body should receive more than 15% of the available funds. The CTI had expressed concern at the effect the strict application of this guideline would have on the operations of Committees, noting the large number of active sub-groups reporting to the CTI. The EC was not immediately affected, as to this point it had sought relatively little funding through the BAC. However, the expanded work program of the EC may make this an issue of concern for the future.

The Secretariat informed the Committee after that there would be a special meeting of the BAC on 15 October on the margins of SOM IV to consider funding for projects from the TILF Special Account. The last BAC meeting had clarified some of the requirements for TILF projects. Earlier proposals could be revised accordingly and new proposals submitted. The Secretariat noted the need to receive project proposals by 10 September to be considered by BAC at the October meeting. This deadline would be strictly enforced by the BAC. EC members were invited to contact the Secretariat for further guidance on the formulation of TILF proposals.

The Committee considered a draft proposal submitted by the People's Republic of China for TILF funding to undertake work on trade liberalization, environment protection and sustainable development in APEC. The Committee agreed that it would support, in principle, a refined project proposal. Members agreed that they would study the proposal and pass their comments to China by the end of the first week in September. The contact in China is Mr. Chen Wenjing (Fax No. 8610-6505 1535); comments should also be copied to the EC Chair and to the APEC Secretariat. Members were invited to consider participating with China in pursuing this project.

6.4 Review of Committee's Mandate After Its Initial Two-year Period (APEC Secretariat)

The APEC Secretariat referred the Committee to the document, "Terms for the Establishment of an APEC Economic Committee" and drew the Committee's attention to the articles requiring it to review the scope of its activities and all aspects of its operation after 2 years. The two-year period would conclude at the end of 1996. The Committee would consider these issues at its next meeting.

6.5 Future meetings

The Committee agreed that the pressure of business required it to meet in plenary in Manila on the margins of SOM IV. The meeting would be on 16 or 17 October, depending on the arrangements to be put in place by the Philippines National Organizing Commission (NOC).

6.6 Other Business

Korea informed the Committee of its plans for preparing the 1997 Economic Outlook. The theme would involve open regionalism, commitment to the multilateral trading system and liberalization based on MFN principles. The burden of data collection for member economies would be minimal. Korea agreed that it would provide an outline paper for consideration by the EC at its October meeting.

The Chair concluded the meeting by thanking Committee members for their active participation, and, on behalf of the Committee, thanking particularly the Philippine delegation for their assistance with the arrangements for what had been a very productive and pleasant meeting.

m: ec2rpt.doc