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PECC Update

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**First Senior Officials' Meeting
Ningbo, China
27-28 February 2014**

**Update for APEC Senior Officials
First Senior Officials Meeting (SOM1)
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**Tang Guoqiang, Chair, China National Committee for Pacific Economic Cooperation
On behalf of PECC Co-chairs, Jusuf Wanandi and Donald Campbell**

On behalf of the members of the Pacific Economic Cooperation Council (PECC) we thank you for this opportunity to share our views from the second track. We welcome the overall theme for this year's work "Shaping the Future through Asia-Pacific Partnership" as well as the sub-themes: Advancing Regional Economic Integration; Promoting Innovative Development, Economic Reform and Growth; and Strengthening Comprehensive Connectivity and Infrastructure Development.

We thank APEC officials for the opportunity we had during ISOM to contribute significantly to the planning for this year. Since then, we held a conference in Singapore to further debate and discuss our recommendations to you. This update is based on those discussions as well as our ongoing work.

Shaping the Future through Asia-Pacific Partnership

The recovery from the global economic crisis is expected to continue this year with some important developments. Emerging economies in Asia are forecast to continue to grow strongly albeit at a moderated pace while growth in advanced economies is expected to accelerate. Demand from advanced economies is critical to supporting further growth in emerging markets especially as the tapering of quantitative easing reduces capital inflows.

Beyond the immediate turbulence in financial markets caused by policy shifts, the world economy is 'normalizing' but this is a 'new normal'. This new normal will be very different from the pre-Global Financial Crisis economy. The characteristics of growth in the major economies of the region are changing: imbalances are shrinking indicative of major structural shifts and not just business cycles. Critically, many emerging markets are now growing at or near their potential level of growth. The region as a whole needs to understand these changes and respond to them.

Our discussions drew attention to concerns about the ability of the region's markets to recycle savings in an efficient manner. The lack of depth and development of regional financial markets leaves the financial sector exposed to the double mismatch in currencies and maturity and impairs the ability to make investments in productive activities especially infrastructure. There is a need therefore for this region to take up financial policy coordination and cooperation in a much more serious manner. While APEC has led the way on trade policy we have not done so on finance.

We hope that this year, and in successive APEC years much more will be done to think through the types of initiatives that can be done to make financial policy issues more central to APEC's work.

Advancing Regional Economic Integration;

As we celebrate 25 years of APEC, we recall that regional economic integration has been the core of APEC's work. While the FTAAP is an idea that has gained increasingly wide acceptance it remains an idea without any concrete substance. The TPP and RCEP are held up as possible pathways to an FTAAP but the question is 'how'?

Much progress has been made in the various pathways; the suggestion is that their best, most forward-looking aspects be the foundations of the FTAAP. In order to understand what these are and ultimately the mechanics of bringing all regional economies into the same trading system, there is much work that needs to be done. PECC will be establishing an expert group to look into these issues and consider the principles which would form the foundation of the FTAAP.

We hope that you will be open to our suggestions and incorporate them into your own thinking as APEC has done with the Non-Binding Investment Principles, Competition Principles and RTAs/FTAs to cite just a few.

Promoting Innovative Development, Economic Reform and Growth

We welcome APEC focus on innovative development, economic reform and growth. As mentioned earlier many emerging economies in the region are growing at or near to their potential. There is

therefore an urgent need to look at ways to increase growth potential – many of which are issues that APEC looks at through the structural reform agenda.

APEC has a headstart looking at these issues, particularly the excellent work done by the PSU on the benefits of structural reform that was presented at the SOM-ABAC-PECC dialogue on services. Indeed, to promote innovative development, economic reform and growth, we believe that service sector reform is a pre-requisite. While services were not formally on the agenda for our recent conference, their critical role as a driver of comparative advantage permeated all of our discussions.

Strengthening Comprehensive Connectivity and Infrastructure Development

We would like to emphasize the importance of connectivity to APEC's goals of promoting inclusive growth as well as its importance in addressing market failures. While regional economic integration has the potential to promote accelerated growth, this potential can only be realized if the infrastructure – both soft and hard is there to facilitate broader participation in the economy.

We discussed in Singapore the proposal to establish an Asian Infrastructure Investment Bank (AIIB). Such a bank could help ensure the successful implementation of APEC's Connectivity Framework. Our discussions indicate both a need for such an institution as well as some operating principles for its effective use.

As you work through the Blueprint on APEC Connectivity we urge you to take advantage of your broad footprint to review efforts at the bilateral and sub-regional level to promote connectivity and infrastructure. For example, efforts in the Mekong or South American such as the *Corporation Andina de Formento* could provide important learning experiences. Similarly, APEC's membership is involved in a multiplicity of processes and institutions a pan-regional forum on infrastructure could help to coordinate and integrate existing bilateral, sub-regional and initiatives as well as the expertise from the ADB, IADB, World Bank, ASEAN, UNESCAP, and so on.

We will submit these ideas in detail as we finalize our own work.

PECC's Work Program

Our work is conducted at a number of levels, you will be most familiar with the outputs of the international task forces that we establish to address concerns we believe that a track 2 perspective could help resolve. Our committees also collaborate on a variety of interests to build greater understanding around a particular issue such as social resilience, our member committees are also very active undertaking activities targeted at domestic audiences.

As part of the reforms to PECC we agreed on last year, we will be re-engaging the tripartite networks of experts we have established over the past 30 years to further strengthen our ability to support regional cooperation on a range of issues.

Services as a Driver of Comparative Advantage

We welcomed the opportunity to engage in a dialogue with ABAC and Senior Officials on services last year and look forward to co-organizing the dialogue again this year. We are in the process of finalizing our work program on services, some of the key issues we have discussed is: progress on reforms to the governance of services trade (through TISA, TPP, and RCEP); the role of services in global value chains; and the domestic political economy of service sector reform and stakeholder engagement.

Our understanding of the role that services play as a driver of competitiveness and comparative advantage remains limited. There is much more work that needs to be done, in terms of their impact on competitiveness in manufacturing and supply chains and agriculture. We draw your attention to the case study by NZPECC on global value chains in the dairy industry as an example of the new literature on this topic. This paper is found on PECC website.

We welcome your views and inputs on what kind of work you would find of most value. We hope that through the SOM dialogue progress can be made on defining the key elements of an APEC-wide services initiative.

State of the Region

We hope that you are all familiar with our annual *State of the Region* report. An innovative part of this report is our annual survey of regional opinion-leaders. Our objective with the survey is to provide a baseline of views and feedback on the work done to promote Asia-Pacific economic cooperation. We welcome your views and inputs on topics we should address.

Competition and Cooperation in the Extractive Industries

At our Singapore Conference, one key risk for the global economy was the impact of a prolonged period of low-energy prices as a result of the new supply of shale gas to the global market especially for commodity dependent economies. We have been looking at this issue from a number of perspectives, firstly on the potential for transpacific energy trade but also the wider developments in the extractive industries from both the demand and supply side.

There is a wide range of new issues that need to be addressed to minimize systemic risks to the global economy resulting from developments in this critical sector.

Energy Transition

Another project we have under way is a study on the ways in which Asia-Pacific economies could transition from being carbon-high producers and consumers to becoming economically sensible and environmentally friendly energy producers and consumers facilitated by sound policy measures.

Global EPAs Research Consortium

A new international project was approved at our last Standing Committee Meeting to look at the state of bilateral and multi-regional economic partnership agreements. The research will cover: China-Japan-Korea FTA negotiations, TPP, RCEP as well others. The proposed Consortium aims to contribute to improving the estimation of changes in economic welfare, production, trade, investment and job creation by looking at tariff concessions, non-tariff barriers, and ways of improving computable general equilibrium (CGE) models.

Future Meetings of PECC

Our next Standing Committee meeting and General Meeting will be held in Beijing in September hosted by our China member committee, CNCPEC. Held two month ahead of the APEC Leaders' Week, PECC looks forward to addressing some of the issues that we deem important for our ministers and leaders to consider at their upcoming meeting. We will be able to include a summary of the discussions and recommendations from this meeting in our PECC Update to the CSOM and in our PECC Statement to the Ministers. We welcome your advice and input as we work to develop the agenda for this year's PECC General Meeting.

As an endnote, we would like to congratulate APEC for its 25th anniversary. In a quarter of a century, the region has gone through a whirlwind of changes and APEC has achieved many milestones in efforts to improve the quality of life for the Asia-Pacific community in both quantifiable and unquantifiable terms. We would like to reiterate our commitment to continue our work in parallel to the numerous ongoing APEC work programs while proactively identifying areas of importance for the region.