

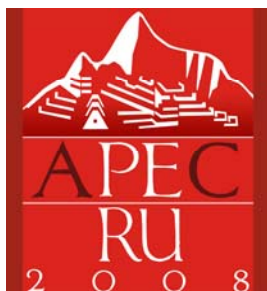


**Asia-Pacific
Economic Cooperation**

2008/AMM/014
Agenda Item: X

PECC Statement to APEC Ministers

Purpose: Information
Submitted by: PECC Secretariat



20th APEC Ministerial Meeting
Lima, Peru
19-20 November 2008

**PECC Statement
APEC Ministers Meeting
November 2008**

We thank Ministers and our hosts Peru for this opportunity to update APEC Ministers on our work. We come together at a time of unprecedented uncertainty in the global economy. The risks facing our region and the world are higher than at any time since the Asian Financial Crisis.

Our work looks at the longer term issues that the region will confront. To this end PECC establishes task forces to address particular issues we think require input from a track 2 perspective.

Historic Opportunity for APEC

Just a few days before this meeting, world leaders gathered to discuss the ongoing crisis and a re-shaping of the global financial architecture. In addition to ensuring that the resources and mandates of international financial institutions remain appropriate we believe it is critical to focus energy and leadership in the WTO.

While the existing architecture has been the outcome of a transatlantic vision of the world, the new architecture should reflect the new reality that the center of gravity of the global economy has shifted to the Asia-Pacific. APEC is in a unique position to lay the groundwork for articulating a transpacific position on the global system.

The State of the Region

We thank APEC Senior Officials and Ministers for their input on this year's State of the Region Survey. This year's survey showed a turn around from general optimism about the regional economy to total pessimism with 85 percent of respondents thinking that economic growth for the Asia-Pacific would be weaker to much weaker next year. Of little consolation is that the regional opinion-leaders are even more pessimistic about the global economy with 93 percent of respondents thinking the outlook for the world would be weaker to much weaker.

The survey results gave mixed messages for regional cooperation. The issue that respondents thought was most important was the harmonization of rules of origin in the bilateral and regional trade agreements in the region. This is one area where APEC has shown tremendous leadership. On the other hand of concern to us is that only 42 percent of respondents agreed with the statement that APEC is as important as it was when it was founded. As the APEC reform process continues to be implemented we hope that we will be able to report back to you with a more optimistic assessment in the coming years.

The Doha Development Round

However, we view with dismay the inability to make progress in the WTO Doha Development Round which clearly is part of the problem facing APEC. That there remain fundamental disagreements between APEC members over negotiating positions in the WTO shows the need for major work within the region to build a consensus view on key issues.

Beyond the immediate risks facing the global economy including the health of the US economy and global financial and asset markets, the next highest risk to growth cited was protectionism with 42 percent of respondents citing it as a high to very high risk to growth. This ranked protectionism as a higher risk to growth than the inflationary issues such as food and energy prices that had been so prevalent in the early part of this year.

APEC members need to give assurance to the region that the expected slowdown in growth will not become a pretext for raising trade barriers. The WTO binding system gives some assurance but the continued high differentials between bound and applied tariff rates leaves room for doubt. This is but one and not even the main policy instrument of choice, APEC members need to guard against sending negative signals to their partners and would do much to restore confidence in the system by sending out positive signals.

The WTO DDA negotiations were only the third highest priority for APEC Leaders to discuss. For the first time in the three years we have been undertaking the survey, respondents placed a Free Trade

Area of the Asia-Pacific as a higher priority for APEC leaders to discuss. While the ultimate goal of the FTAAP remains an important guide to APEC's efforts to manage and facilitate the economic integration of the region it is not and should be viewed as an alternative to the global multilateral system.

Asia-Pacific Financial Center Competition

The ongoing financial crisis shows that there is an urgent need to review the regulation of the financial system. This review cannot take place without regional and international coordination. In recent years competition between Asia-Pacific economies to develop the national financial centers has been increasing. A task force led by our Korean committee has concluded that while international financial center (IFC) competition can lead to greater efficiency and a better pricing of risks to do so, these competitive efforts have to be complemented with two other lines of efforts in order to realize the intended benefits.

First, the level of integration among the financial and capital markets is currently very low and calls for cooperation among the regional governments to facilitate financial integration in Asia Pacific. The cooperation should aim to create a seamless, unified business area for finance in the region in four key areas, i.e., the payments system, capital markets, free trade in financial services, and the arbitration procedures, toward the ultimate goal of creating an integrated Asia-Pacific IFC network.

Second, the financial competition and integration consequent upon those national and international efforts, while tending to reduce volatility by developing the market and its diversity and liquidity, may also lead to increased volatility because of possible regulatory laxity which the competition may entail, and through the consequent greater transmission of risks – a point that the current global financial crisis illustrates. To minimize these risks cooperation across constituencies to exchange best practice and jointly address common problems at the level of the Asia-Pacific region, and as part of the international effort to reform and strengthen the global financial architecture is required.

In the wake of the Asian financial crisis, the East Asian economies launched a range of financial and monetary cooperation efforts. The regional governments should further enhance and accelerate these efforts, raising their level of ambition as well as enlarging their scope, toward creating an Asia-Pacific IFC network as well as an effective and efficient regulatory infrastructure to support this network. APEC should encourage and support those regional efforts.

Education key to Future Competitiveness

Another task force that has completed its work is on the globalization of education. Jointly formed with the Association of Pacific Rim Universities (APRU) this task force looked the trends in tertiary education and the impact they have on development in the region. The movement of students across borders has become a common phenomenon however in recent years both institutions and programs have also become increasingly mobile.

While these changes present enormous opportunities for the economies of the region to increase participation in tertiary education and their human capital endowment, managing the process requires both regional and international cooperation. There are regulatory challenges for higher education authorities who have increasingly dual roles – often conflicting - of being both providers and regulators.

The regulatory structures governing education have profound effects on the international movement of students, the task force found that student-sending economies would send 60 per cent fewer students on average if the barriers to foreign campus establishment were liberalized completely. If an economy with average barriers to inward student movements were liberalized totally, it would attract more than twice as many students.

However, the ability of the multilateral GATS framework to deal with these issues is limited, as its approach is mode by mode whereas most education providers work with packages of modes. A sector-wide convention or model is valuable and could be designed at a regional level.

International Labor Mobility

One of the most remarkable aspects of Asia-Pacific integration in the past half century has been the growing and massive international movement of workers on a temporary and permanent basis.

Together with ABAC PECC established a task force to look at whether a regional work program on this development would be useful. The task force found that international labor mobility is likely to continue to increase under the forces of the developmental and demographic differentials which will persist in the region, and that it would be desirable for APEC to launch studies on a number of issues which the increasing labor mobility will present the regional governments with.

One key area is where APEC can make progress and demonstrate its ability to take a global lead in this area is in data consistency and comparability. Creating good policies requires good data, while the OECD has started work to standardize and improve statistical analysis within OECD members, APEC can build on this work and extend it into the non-OECD APEC region. In addition, a number of FTAs in the region include significant labor chapters whose provisions include the improvement of bilateral data collection, implementing these provisions should be priority and the consistency between members systems should be ensured by the sharing of practices from the outset.

Some APEC members have begun to address the need for the orderly movement of both skilled and lower skilled workers by including chapters in their bilateral FTAs which cover the movement of business persons and bilateral memorandum of understanding for lower skilled workers. A regional initiative on labor mobility could focus on the policy instruments for managing labor flows especially because of the relationship these have to APEC's ongoing work on regional economic integration.

While recognizing government prerogatives and the political and social sensitivities to migration issues for both sending and receiving economies, the task force concludes that the time is ripe for a fuller discourse on labor mobility in our region.

Ensuring Food Security

While global attention has move from inflationary pressures to our slowing economies, the food price crisis that struck the world in the first quarter of the year reflected continuing structural problems in global markets.

One fundamental problem that must be addressed is the distortions to the international food market caused by the lack of progress in the WTO trade negotiations. At a special session organized alongside our annual Standing Committee meeting we discussed the issue of the food price crisis. Several points continue to salient: (1) demographic changes ensure that world demand for food will continue to grow; (2) demand for crops for use as bio-fuels will continue (3) productivity growth has slowed in recent years (4) exogenous shocks to production in any of the major exporters will have a disproportionate impact on international prices due to the thin international trading volumes in major crops; and (5) climate change will profoundly change the distribution of food supply in the world.

The impact of climate change on the food system is the subject of our annual report on the Pacific Food System. Of great concern highlighting the importance of regional and international cooperation is that the forecasted impact of climate change on agricultural productivity are projected to be most severe in South America, Southeast Asia, and Australia – some of the world's biggest agricultural produce exports.

We commend this report to you and hope that APEC ministers will instruct officials to look once again at what this region can to overcome the obstacles to enhancing food security.

Regional Institutional Architecture

As many of you will be aware PECC established a task force to look at regional institutional architecture in the Asia-Pacific over two years ago. We wish to share with you some of the basic thinking that has guided the work. Firstly, institutional architecture whether global or regional has generally been formed during moments of crisis. When we established this task force we were still far from a crisis or even reaching an 'architectural moment'. Today, we are much closer to that point.

Secondly, that the form of regional architecture should follow the functions they need to play. There are many functions that must be performed at the broad Asia-Pacific level and there are others better suited to smaller groupings that may be geographically contiguous or more closely integrated economically.

Thirdly, at the moment there are many institutions vying for the limited financial and human resources of the region's governments and publics.

In conclusion, the task force believes there is no single architecture that can fulfill all of the roles that this large and diverse region needs to play, much depends on the issues to be addressed, stakeholders involved, and prevailing circumstances.

There are a number of options the region can pursue, one – the most politically viable option is to do nothing and allow the various forms and institutions to compete with each with some eventually falling to the wayside. Another is take advantage of this current situation and define more clearly the functions that the region wishes its institutions to perform and establish coordination mechanisms between them.

Future Role of APEC

Our survey showed strong support for strengthening existing regional institutions, with around 60 percent of respondents saying that expanding their scope and providing them with additional staff resources were important to very important measures for enhancing regional cooperation. The creation of new institutions compared less favorably with only 25 percent of respondents agreeing with this was a measure for enhanced regional cooperation.

This meeting takes place at a time of great uncertainty in the international system. APEC is a unique and important institution not only and perhaps least because of the role it has played in ensuring a stable regional economy over the past twenty years but because of its future importance.

What is needed in the future is for members to give real commitments to the principles and goals that APEC has set itself. Over 75 percent of respondent to our survey cited a lack of commitment from key member economies as an important to very important challenge to APEC. It is not competition from other institutions, the number of meetings or the limited finances – these are all consequential – what is needed is a renewed commitment to the transpacific vision that APEC embodies.