



**Asia-Pacific
Economic Cooperation**

2009/MRT/005
Agenda Item: IX

Statement from PECC Co-Chair

Purpose: Information
Submitted by: PECC



**Ministers Responsible for Trade Meeting –
Plenary Session
Singapore
22 July 2009**

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APEC Ministers Responsible for Trade
Plenary Session
Agenda Item IX
Official Observers Statements**

On behalf of the Standing Committee of the Pacific Economic Cooperation Council, I thank you for this opportunity to update you on the work we are doing to promote regional cooperation in the Asia-Pacific region.

The ongoing economic crisis comes at a critical time for APEC and Asia-Pacific cooperation broadly. Not since the Great Depression has the global economy faced a slowdown of this magnitude and depth. There is therefore an urgent need for us to demonstrate our ability to respond to the crisis as a community. The economic crisis presents a unique challenge and opportunity for APEC. An action program from APEC that focuses on a sustainable recovery through building more resilient societies through its core strength of dialogue would help to ease anxiety over the institution's ability to respond to crises.

The PECC General Meeting was held in Washington DC on 12-13 May. The theme of the meeting was "*Crisis and Recovery: Regional and Global Roles for Asia-Pacific Economies.*" We believe that there is an urgent need to focus on how the region is addressing the crisis both in terms of short-term and long-term responses. We thank SOM Chair Mr Ravi Menon for updating our community on APEC's work and would like to acknowledge the participation of Indonesian Trade Minister, Dr Mari Pangestu, who took the time to share her insights on the regional and global trade agenda with us.

At this meeting we agreed to focus our work plan on the economic crisis and recovery. The following are key issues that PECC has and will continue to deliberate on and I would like to present them for your consideration. We will keep you updated on the results of our further studies.

Economic Integration

Last year PECC launched an index of economic integration in the Asia-Pacific region. This index shows that although the level of integration in the region has fluctuated since 1990, integration has been steadily rising since APEC was created. The index includes a number of variables its two main components are: (a) the extent to which economies of the region are becoming more alike, and (b) the level of intra-regional flows in variables including trade, investment and people.

We believe the index can be used to provide support for the idea that APEC has played an important role in creating an environment where economies of the region have the confidence to liberalize and integrate with the regional and global economy and provide a useful measurement as APEC considers its progress in achieving the Bogor Goals.

This level of integration affirms the belief that in this region we are indeed dependent on each other for our mutual prosperity and development. Even as some of the economies of the region begin to show signs of recovery we warn against complacency and urge APEC to continue and strengthen its work to promote regional cooperation.

Protectionism and APEC's Trade Agenda

While G20 Leaders quickly followed by APEC Leaders last year pledged to avoid protectionism, several studies have indicated that a number of G20 and APEC members have adopted a number of protectionist measures.

In a survey of over 400 regional opinion-leaders we conducted two months ago, avoiding protectionist practices was the top priority for international cooperation. The next two priorities were: (a) improved international regulations of the financial system, and (b) strengthening social safety nets.

Although domestic pressures for protectionism appear to be on the rise, we welcome the relative restraint shown by the region's governments in responding to the crisis. We owe this restraint in no small part to the understanding and confidence fostered through meetings like this.

We welcome APEC's efforts to breach the impasse at the WTO and reach a conclusion to the Doha Development Round. However, the WTO alone will not provide all of the solutions to the many trade policy issues in the region. APEC's regional economic integration agenda is a useful way to think about the multifaceted challenges businesses face in benefiting from the globalization process and creating more jobs and prosperity for the peoples of the region.

Over the next few years, PECC will be addressing a number of key trade-related threats to economic integration. From this point onward, trade policy will necessarily have to take account of the lessons from the global economic crisis as well as the changes in sources of economic growth and the adjustments to the structure of regional and global economic linkages that are likely to emerge as a result of the crisis.

Adjustments following from demographic changes and from policy responses to climate change will add to the challenges for trade policy. Furthermore, it is now clearly recognised that trade policy agendas for the region cannot be viewed in isolation but rather must be considered as part of the broader economic integration agendas that are being pursued at various levels across the region and within its constituent sub-regions. The purpose of our work is to contribute to the development of a trade agenda for the region that will address these new realities.

Sustainable Recovery

At the recent PECC General Meeting in Washington DC we established a task force on "Shaping a Sustained Recovery" to evaluate the progress of the region in fighting recession, rebalancing economic growth, and managing sustained recoveries.

The initial findings of the work are that economies of the region have been among the most active in the world in fighting the crisis. China, the United States and Japan account for much of the global discretionary stimulus. Due to favorable fundamentals and rapid policy responses, the region also appear to be leading the global recovery and will thus provide support for economic activity in the area and beyond.

The PECC task force will use a scenario approach to examine major risks. One such risk is the failure of expansionary policies and a prolonged recession. Another is the reemergence of large payments imbalances, due to continuing government deficits in the United States and weak demand in Asia. Either would bring continued hardship throughout the region area and even risk another "hard landing." In turn, these alternatives can also help to identify the policy mix that is best positioned to support a sustained recovery.

A sustained recovery requires careful navigation and considerable cooperation in fiscal and monetary policies. The task force will attempt to identify the parameters of this strategy and the policy mixes required to achieve it in major economies and groups of economies.

Cooperation will be valuable in several areas. New engines of growth—ranging from region-wide consumption to investments in energy, the environment and social safety nets—will have to replace the US consumer. As that gets underway, the US budget deficit will have to diminish rapidly. Exchange rate flexibility will be required to facilitate expenditure-switching. Regional and international institutions, including the multilateralized Chiang Mai Initiative and bilateral arrangements between major economies of the region and the US Federal Reserve, will need to provide insurance so that economies do not have to accumulate excessive dollar reserves. Stronger financial regulatory frameworks will need to emerge. These initiatives will depend on close monitoring and collegial policy dialogue. APEC is well-suited to implementing aspects of this agenda because of its non-binding nature, and the closer integration of the Finance Ministers process this year provides a unique opportunity to facilitate this work.

Creating More Resilient Societies

The era of globalization is characterized by an increased frequency of surging and then retreating economic activity. As a region there is much we can do to strengthen the resiliency of our economies, and ensure that the socio-economic impacts of these shocks are minimized. While there are short-

term measures being adopted to prevent a breakdown of our economies such as the fiscal stimulus packages, we believe there is a need to look at the longer-term response of the region.

A PECC study group 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. Economies of the region have adopted a variety of social safety nets to protect the more vulnerable elements of society. These include healthcare, and unemployment insurance amongst others.

This work will help us to consider the types of policies needed to rebalance growth in the region and make our economies also more flexible to better able to respond to the changing environment. Critical in this is our education systems. In response to the crisis, a number of economies have offered retraining schemes to allow our people to adapt to fast-changing technological changes. Indeed, there is much we learn from each other, not least in terms of the burden sharing between the public and private sectors in paying for these schemes.

The Future Role of the Region

Our survey in May revealed that there is a great degree of dissatisfaction amongst key stakeholders in the response of regional cooperation processes to the crisis. Respondents were positive only about the G20 group's response. This is natural as the G20 has clearly taken the lead amongst global and regional institutions in responding to the crisis.

However, as the Asia Pacific region is fast becoming the core area of the international system, it must take a lead in shaping global issues. APEC members account for half of the G20 membership. We should use this opportunity to push ahead to forge a trans-Pacific vision for the future. Just as trans-Atlantic agreement forged the institutions after the Great Depression and Second World War, a trans-Pacific agreement can help to shape the institutions of the future.

It would only be fitting as APEC celebrates its twentieth anniversary that when APEC Leaders gather here in November the region will send a strong message through its G20 members that we, as an Asia-Pacific community are ready to take on our responsibility to the global order that it has long benefited from.