

PECC Update
Third Senior Officials Meeting
23 August 2008

We thank Senior Officials and our hosts Peru for this opportunity to update you on our work to promote Asia Pacific cooperation from the second track. Since the last Senior Officials meeting, PECC's Standing Committee was held in Bangkok, Thailand. During its meeting we held a special session on the role that regional cooperation can play in finding solutions to the food crisis. Some of the key highlights of that discussion are below. We thank our hosts the Thai PECC committee and the Ministry Of Foreign Affairs for their support.

The State of the Region

PECC's signature continuing activity, begun 3 years ago, is an annual "State of the Region" report, consisting of a macro-economic forecast, a survey of opinion on regional issues, and an analysis of major challenges. We thank Senior Officials for sharing with us their views on the issues that might be addressed in this year's survey. We hope you will find the findings of the survey useful, especially as we develop the data needed to provide you with insights on how perceptions on key issues in the region evolve over time.

For example, over just two years of surveying we have seen a disturbing increase in the perception that protectionism is a major risk to economic growth in the region which went from being the 6th highest risk to growth to the 4th highest risk over just one year. The collapse of the Doha Round was 9th highest risk in 2006 and 5th highest in 2007.

The Collapse of the Doha Round Negotiations

The Asia-Pacific region has been a major beneficiary of the open-trade system first engendered by the GATT and subsequently the WTO. We hope that APEC Senior Officials will take time during their meetings to consider some of the key stumbling blocks that eventually resulted in the round's collapse and consider what greater coherence between the members of this region might have meant.

While the political situation in the region and around the world make it unlikely that discussions on the global talks will be opened in earnest until the middle of next year, this provides the region and the world to reflect on what can be done to bring the economies of the region and the world closer on trade issues. In this regard, we believe that the work being done under the banner of the regional economic integration agenda and on convergence and divergence in FTAs and RTAs can be instructive for those working out positions and offers in Geneva.

Indeed, the underlying principles of APEC including non-discrimination and comprehensiveness should give reassurance to members that the concessions being to preferential partners in bilateral and regional agreements might also be extended to others on a MFN basis.

However, we urge APEC place its priority on global efforts but are complementary to regional endeavors. As a regional community the Asia-Pacific must do more to reinforce and indeed lead in restoring confidence in the global system. The time is ripe for confidence building based on solid analytical work on what international trade and deeper integration means for our respective communities.

Regional Economic Integration

We therefore welcome progress being made this year by APEC on the regional economic integration agenda. As we mentioned in our statement to APEC Trade Ministers, we believe that the freer movements of the factors of production around the region have been the driving force for

economic growth in the region. We especially welcome APEC's progress defining concrete work programs in the structural reform agenda which should help members to develop more resilient and flexible economies that can better withstand the inevitable global shocks to growth.

Demographic Change and Labor Mobility

One aspect of regional economic integration where substantial progress is yet to be made is labor mobility. PECC has been working with ABAC on this issue. This work has been led by the Korean PECC committee (KOPEC). In order to assess the current state of play of labor mobility in the region, a substantial conference was held in Korea last March where case studies from almost 20 economies as well as specific business sectors were presented and discussed. A task force of five experts was established to synthesize the key findings of the case studies. One of the contributing authors to the study from PECC, Dr Sherry Stephenson is attending SOM on behalf of the PECC-ABAC joint task force group who can provide you with more details about the project.

A short summary of the task force's findings as well as a more detailed report that brings together the key findings based on the case studies have been submitted to SOM by ABAC. In summary, the task force found that demographic transformations, widening differences in levels of economic and educational development, and continued regionalization and globalization of industry, all suggest that Asia-Pacific economies will almost certainly require even greater international movements of labor in the future. However, in a time of both increased security concerns and economic insecurities, there is a tendency to politicize and restrict border flows, causing tensions and policy incoherence in the region. This will not only be harmful to economies, but also increase surreptitious and exploitative illegal labor flows.

Regional cooperation can and should play a significant role in supplementing global initiatives in this area addressing two dimensions of the issue: (1) policies to promote greater efficiency in the deployment of talent across the region and (2) policies to better protect migrant workers. APEC is in an excellent position to develop an action-oriented set of activities that will significantly enhance the benefits to the region's economies, ease adjustment problems associated with migration, strengthen the transfer of human skills through migration, overcome increasing demographic and labor imbalances, and provide protection and enhanced well-being for those who migrate.

Education

Another issue PECC has been working on is the internationalization of education services in the region. Similar to the labor mobility project we have undertaken this project with a key stakeholder in this issue – the Association of Pacific Rim Universities (APRU). Along with APRU we established a task force of experts in the field to look at some of the factors at work in this issue. The task force has found that there is an urgent need for regional cooperation and dialogue to help foster the development of an education capable of delivering a workforce equipped with the skills to fully engage and benefit from rapidly changing global economy.

We are all familiar with the movement of students overseas to gain access to world-class education, many of these students end up either temporarily or permanently staying in the economy where they study. However, we are now witnessing a new wave of educational institutions moving overseas to provide services beyond their home base, as well as a general increase in the private provision of education. This poses policy challenges to those charged with the regulation of education.

The Asia-Pacific region is one region where we expect to see a large increase in these changes, regional cooperation at both the policy-maker level and between educational providers could help to improve the state of education in our region. Two specific aspects of the work could be taken up by APEC which also relate to the challenges businesses are facing in the region: the implications for quality assurance and the future of accreditation; and international student movements and the

effects of barriers to trade. On these aspects of the work APEC and especially the Committee on Trade and Investment and its Group on Services in cooperation with education ministries can play a vital role in establishing the regulatory environment to enhance the capacity of the region's education system to spur development and reduce inequalities both within and between our economies.

Regional Cooperation and the Food Crisis

Another aspect of the regional cooperation agenda that came out of our work on education was the benefits of research cooperation. Similarly, in resolving some of the structural problems associated with food supply in region, we found that there was a need to significantly bolster agricultural research. Analysis shows that productivity in the food sector has stalled in recent years and without action, will not keep up with growing demand.

The risks that the lack or the perceived lack of supply have for the political and social stability of the region are too grave to ignore. Even though prices may continue to fall, we expect demand for food increases in both absolute quantities and changes in demand composition to take place in the coming years. Food security should be seen as both a regional and a global public good. Regional cooperation can play a vital role in both supporting global initiatives as well building the confidence that decision-makers need in each other to ensure that international trade is correctly seen as a political good - a provider of food supply rather than as a cause of insecurity.

We commend the work of our Pacific Food System Outlook group to you which has produced a thematic outlook on food over the past 8 years. As SOM considers the role of the APEC Food System in future work we hope you will find this work a useful reference point.

Regional Institutional Architecture

As you know, PECC has established to look at the state of play in regional institutional architecture. We are consulting with our membership on the final draft of the report and will be issuing our findings this November.

New Member of PECC

During our Standing Committee meeting in Bangkok we also welcomed Mongolia as a new member. Mongolia had been an associate member since 2001 and over this time has been building a strong domestic committee oriented towards Asia-Pacific cooperation issues. While PECC's membership broadly tallies with APEC, we now have 3 members who are not APEC members. Russia, an APEC economy, is not currently represented in PECC, but we hope for Russia's re-engagement at some point in the future.

PECC's member committees not only form the basis for our intellectual and research work but also act as constituencies for Asia-Pacific cooperation. We hope that in addition to our direct relationship with APEC that our committees are also engaged with APEC processes at the domestic level, providing you with a sounding board for ideas and as well as information about the many interactions there are between the academic, business and other civil society organizations in our region. We also seek to support broader public and political understanding of the value of regional cooperation, most prominently, APEC.

Thank you for the continued opportunity to keep APEC updated on our work and we look forward to receiving your comment and views on how the second-track can better support your efforts.