

PRESS RELEASE

Focus on new growth strategies for Asia-Pacific economies

30 June 2011, Singapore – Unemployment, high inflation, and income inequality continue to be key concerns for Asia-Pacific economies. Natural disasters have taken a catastrophic toll. Although the Asia-Pacific region has managed to overcome the worst from the economic crisis of 2008-2009, the recovery has been patchy and the growth trajectory is far from assured. Experts from the Pacific Economic Cooperation Council, a regional think tank met in Singapore over two days to discuss challenges and approaches for growth in the region ahead of the APEC leaders' meeting to be held in Honolulu in November.

"While growth may have returned somewhat, the issue is the quality and composition of growth – creating jobs and ensuring resilience," emphasized Dr. Charles E. Morrison, co-chair of PECC and President of East West Center. In November 2009, when Singapore hosted APEC at the height of the crisis, the Council had released a report, "Inclusive, Balanced, and Sustained Growth in the Asia-Pacific," which outlined a set of policy objectives in the form of bold structural reforms for many of the region's economies or sub-regions. Many of the report's recommendations were echoed in APEC's growth strategy.

Services liberalization one of the keys to drive growth

In addition to the green sector, the Council identified services trade as an area that could significantly contribute to rebalancing and reinvigorating growth in the region. Services account for 68% of economic output and 61% of jobs in the region.

Singapore's Minister for Trade and Industry, Mr. Lim Hng Kiang stressed in his keynote speech that "the potential of the services as a source of growth is constantly growing" and that in order to tap on such growth, it is crucial for economies to liberalize their trade in services.

Services, traditionally perceived as non-tradable across the border are increasingly becoming significant yet there is inadequate data available on the real volume of trade in services as well as the impact of restrictions on services on trade and economic growth. With trade negotiations at the WTO stalled, mostly as a result of disagreements over industrial tariffs, environmental concerns and agriculture, trade in services has also not realized its full potential.

Professor Christopher Findlay (University of Adelaide), of the leadership group for PECC signature project on services, urges, "in order for us to move ahead from the stalling Doha Round, economies can make pre-commitments by pledging to implement reforms by a certain date in the future to liberalize trade in services." They could also consider a 'services-only approach' in the WTO as proposed during the recent PECC-ADB conference that took place in Hong Kong earlier this month. The challenges are having to deal with domestic regulations and implementing policies that address market failures without restricting competition.

Managing the capital flow

A new challenge that the region is struggling with is the massive flows of hot money coming into the region as a result of the liquidity increases that came with the stimulus policies adopted by the

US and European central banks in response to the crisis. While foreign direct investment is much needed, the Council warned of the dangers of hot money flows and the policy challenges they present. Many of the Asian economies remember the dangers of possible capital inflow reversals from the 1997-1998 financial crisis experience. “The increase in capital flows that we’ve been seeing over the past 24 months comes with the risk of creating new asset bubbles. We have to think creatively about the best way to manage this situation,” said Prof. Tan Khee Giap, the Chair of Singapore National Committee for Pacific Economic Cooperation.

“Massive capital inflows can pose serious policy challenges to emerging Asia in terms of macroeconomic and financial system stability,” warned the Dean and CEO of Asian Development Bank Institute (ADB), Dr. Masahiro Kawai. The best policy mix of fully flexible exchange rate, capital account openness, and low-inflationary monetary policy is appropriate for advanced economies with deep, liquid and broad financial markets. “Emerging economies would need a combination of prudent structural, macroeconomic, and macroprudential measures such as allowing adequate exchange rate appreciation, limiting credit growth, and using capital controls,” said Dr. Kawai.

Boosting social resilience

An important part of the rebalancing and structural reform agenda is the enhancement of social resilience. PECC established a project group last year to look at three core elements of social resilience: pensions, health/ medical care, and unemployment plus the macro-economic analysis. This project comes at a critical time for the region for two main reasons: a) the economic crisis has once put the spot-light on the ability of social security to provide support for our people when jobs are scarce; and b) the demographic profile of the region is rapidly changing (e.g. aging societies) putting pressure on existing systems. “APEC is more than a trade forum; the fact that it is focusing on inclusive growth and addressing income inequality in the region is an achievement worth noting,” added Amb. Yoshiji Nogami, chair of Japan committee for PECC and president of Japan Institute of International Affairs.

The project research findings indicate that the enhancement of social safety nets can make an important contribution to rebalancing and boosting economic growth in the region. Asia-Pacific economies need to consider what infrastructure we should establish to build resilience against economic crises. “Crisis management has been effectively handled by cooperative mechanisms such as G-20 but it is now time to focus on structural reforms that can buffer the region against such volatility and changing circumstances in the future,” said Mr. Jusuf Wanandi, co-chair of PECC (Board of Trustees, Centre for Strategic and International Studies, Jakarta).

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About the Pacific Economic Cooperation Council

The Pacific Economic Cooperation Council (PECC) is a non-profit international organization committed to the promotion of cooperation and dialogue in the Asia Pacific. Founded in 1980, PECC is a tripartite network of 26 member committees comprising individuals and institutions dedicated to this shared mission. Of the 26 member committees, 23 represent the economies of Australia, Brunei Darussalam, Canada, Chile, China, Colombia, Ecuador, Hong Kong (China), Indonesia, Japan, Korea, Malaysia, Mexico, Mongolia, New Zealand, the Pacific Islands Forum, Peru, the Philippines, Singapore, Chinese Taipei, Thailand, the United States of America, and Vietnam. The PECC also has one associate member, France (Pacific Territories), and two institutional members, the Pacific Trade and Development Conference and the Pacific Basin Economic Council. As the only non-governmental official observer of APEC (Asia-Pacific Economic Cooperation), PECC provides independent business and research input for the regional policy-making process. www.pecc.org

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