

Medalla, Erlinda M.

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## Exploring priority areas for Philippine APEC 2015 hosting: Building inclusive economies, building a better world

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## Exploring Priority Areas for Philippine APEC 2015 Hosting: Building Inclusive Economies, Building a Better World

*Erlinda M. Medalla*

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For comments, suggestions or further inquiries please contact:

**The Research Information Staff**, Philippine Institute for Development Studies

18th Floor, Three Cyberpod Centris - North Tower, EDSA cor. Quezon Avenue, 1100 Quezon City, Philippines

Tel Nos: (63-2) 3721291 and 3721292; E-mail: [publications@mail.pids.gov.ph](mailto:publications@mail.pids.gov.ph)

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## **Exploring Priority Areas for Philippine APEC 2015 Hosting: 'Building Inclusive Economies, Building a Better World'<sup>1</sup>**

### **Abstract**

This paper is an integration of the studies commissioned under the DFA-PIDS MOA to explore the priority areas during the Philippines' APEC hosting in 2015 under the theme: "Building Inclusive Economies, Building a Better World". The four priority areas in the APEC 2015 agenda are: Enhancing the Regional Economic Integration, Fostering SMEs' Participation in Regional and Global Markets, Investing in Human Capital Development and Building Sustainable and Resilient Communities. Fourteen (14) studies were conducted focusing on major issues under these priority areas. The individual papers look at what are being done under APEC with respect to the priority areas, where we are, our capabilities and weaknesses especially in relation to our neighbors in the region. Equally important, the studies aim as well to contribute and advocate for good domestic reforms in the longer term within the national agenda.

Keywords: APEC, APEC 2015 Hosting, Regional Economic Integration, Inclusive Growth

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<sup>1</sup> Prepared by Erlinda M. Medalla, PIDS Senior Research Fellow

## **Exploring Priority Areas for Philippine APEC 2015 Hosting: ‘Building Inclusive Economies, Building a Better World’<sup>2</sup>**

### **1. Introduction**

APEC is a grouping of like-minded economies in the Asia-Pacific region committed to free and open trade and investment. This is encapsulated in the APEC Mission Statement:

“We are united in our drive to build a dynamic and harmonious Asia-Pacific community by championing free and open trade and investment, promoting and accelerating regional economic integration, encouraging economic and technical cooperation, enhancing human security, and facilitating a favorable and sustainable business environment. Our initiatives turn policy goals into concrete results and agreements into tangible benefits.”

The early motivation for APEC arose mainly from apprehensions at the time about the imminent formation of the European Union, and a perceived weakening of the multilateral trading system governed by then General Agreement in Tariffs and Trade (GATT). APEC was thus launched in 1989 (in Canberra), initially as an informal Ministerial-level dialogue group of 12 members composed of the Philippines, together with Australia, Brunei Darussalam, Canada, Indonesia, Japan, Korea, Malaysia, New Zealand, Singapore, Thailand and the United States. In 1993, the first APEC Leaders meeting was held in Blake Island, United States, where the APEC's vision of "stability, security and prosperity for our peoples" was formed. The practice of holding an annual APEC Leaders Meeting (ALM) was then established.

The EU did not become a ‘fortress’ as feared, and a new mandate for GATT ensued with the ratification of the World Trade Organization (WTO) treaty in 1995. Nonetheless, APEC has become entrenched as a major international cooperation body with its unique characteristic of gathering the leaders of the most dynamic region across the globe within a voluntary and cooperative framework. APEC membership has since grown to 21 member economies: joined by China, Hong Kong, China and Chinese Taipei in 1991, Mexico and Papua New Guinea in 1993, Chile in 1994, and Peru, Russia and Viet Nam in 1998. Moreover, APEC has since covered a much broader economic agenda, including focus on small and medium establishments (SMEs), structural reforms, food security, health concerns, climate change, trade security (anti-terrorism), and knowledge economy among others.

The APEC process, despite criticisms of being primarily a talk shop, has distinct advantages over other such forums as the WTO and formal regional trading agreements (RTAs). Being voluntary and non-binding in nature, with greater emphasis on cooperation, it avoids the difficult process of negotiations while promoting capability building. Capability is enhanced, if only as a result of the learning process cultivated by the various

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<sup>2</sup> Prepared by Erlinda M. Medalla, PIDS Senior Research Fellow

APEC activities, including studies and information exchanges. The APEC process is also effectively characterized by both a bottom-up and top-down approach, with a series of workshops and meetings at different levels- from working groups, senior officials and ministerial levels with important participation of the private/business sector, leading to the APEC Leaders Meeting that provides the common framework, principles and guidelines for member economies. In addition, the APEC process encourages and reinforces reforms that the domestic economy needs done on its own nonetheless. The wider regional context is especially valuable for pushing reforms that are more difficult to undertake solely within a domestic setting. In addition to exerting some peer pressure, reforms undertaken in tandem with the region would generally have higher potential for producing larger and more sustained benefits.

Each year, the host economy sets the agenda and priority areas for discussions and cooperative actions. The practice of a rotating Chair would have its own strengths and weaknesses, but on the whole, thus far this has provided a working mechanism for cooperation that deals with ever changing global environment and challenges while keeping member economies steadfast in upholding APEC principles of open regionalism and support for WTO and the multilateral framework.

APEC thus remains relevant and the Philippines as host economy is presented with unique opportunities to shape its agenda that would advance both national and regional interests. To support this endeavor, numerous meetings, workshops and studies have been undertaken by various agencies and institutions. In particular, the Department of Foreign Affairs (DFA) and the Philippine Institute for Development Studies (PIDS) formed a Memorandum of Agreement (MOA) to undertake the needed research support under the APEC 2015 Research Project. The general objective is to explore the possible priority areas for the Philippine APEC 2015 hosting.

The immediate objective of the Research Project APEC 2015 is to provide inputs to form part of the basis for substantive priorities that the Philippines will push as APEC Host Economy for 2015. Policy papers for selected priority areas in the project will discuss relevant issues and specific initiatives that can be pursued within the APEC system leading up to the Philippines' hosting in 2015. The papers however are intended to take a longer-term view to include policy recommendations and strategies that can serve not only APEC 2015 purposes, but essentially the Philippine national perspective as well in its development planning, strategizing, and visioning post-2015.

This paper provides an overview and integration of the major findings of the different components of the Research Project. The paper first looks briefly at the place of regional economic integration and inclusive growth in the agenda in the next section before proceeding with the discussion of the main findings of the individual studies as related to the Philippine APEC 2015 priorities.

## 2. Regional Economic Integration and Inclusive Growth

APEC started with the Bogor goals of free and open trade and investment at its core. With technological advances and growing importance of global production networks and global value chains, economies across the globe have become more intricately interrelated. In particular, the role of regional cooperation and integration has become even more crucial for the economic growth. Indeed, it has become key to sustainable growth in the new millennium. However, especially with the changing global environment, so much more needs to be done. While gains from open trade remains fundamental, how benefits are distributed, and how different economies and various economic agents are able to participate, have become an increasing concern. And in the end, distribution matters as much, whether as a social or economic objective-- across economies, across incomes, between households and firms, and across firms. Accordingly, the APEC agenda and tasks have evolved. Achieving the APEC vision of “stability, security and prosperity for all” would require broader and deeper cooperation and course of action.

A prerequisite for substantive cooperation and increased regional integration is still a firm commitment to openness among parties. Hence, the Bogor goals of free and open trade and investment remain central to APEC. However, openness and increased economic integration would tend to favor those with skills, access to education, finance, and innovation. Considering the differences within and among member economies, the Bogor goals must thus be supported by measures for capacity building and economic and technical cooperation. The key challenge for APEC is how to make growth and regional economic integration as inclusive as possible.

There has been a long, on-going debate about growth and equity: for example, about either possible trade-offs or complementarity between them. Empirical evidence has not been clear that growth would (or would not) spillover to equity. Nonetheless, studies have also shown that growth and equity need not be mutually exclusive.<sup>3</sup> Equipping the poor, especially by improving their education, health, and nutrition, would lead to higher growth. Indeed, long-term growth could not be sustained without inclusivity. There should be conscious effort on the part of governments to implement measures that would reinforce the synergy between growth and equity. Accordingly, inclusive growth has always been an implicit underlying goal for all APEC economies, and policies to promote inclusion and equity (e. g. on human capital, SMEs) have been consistently in the APEC agenda. Over the years, the adopted themes by host countries have been varying forms around this overarching goal. (See Table 1.)

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<sup>3</sup> See for example, the World Bank study by Ravallion, Martin et al (1999) and ILO Studies on Growth with Equity (2011).

Table 1. APEC Theme and Agenda Highlights

Year	Host	Theme	Agenda Highlights
1993	United States	APEC's vision of "stability, security and prosperity for our peoples."	
1994	Indonesia	Bogor Goals of "free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies."	
1995	Japan	Osaka Action Agenda	Framework for meeting the Bogor Goals
1996	Philippines	Manila Action Plan	Outline the trade and investment liberalization and facilitation measures to reach the Bogor Goals; the first Collective and Individual Action Plans are compiled
1997	Canada	Connecting the APEC Community	Early Voluntary Sectoral Liberalization (EVSL) proposal in 15 sectors
1998	Malaysia	Strengthening the Foundations for Growth	Agreement on nine sectors for EVSL; seeks an EVSL agreement with non-APEC members at the World Trade Organization.
1999	New Zealand	The Auckland Challenge	Paperless trading, APEC Business Travel Card scheme, Mutual Recognition Arrangement on Electrical Equipment and a Framework for the Integration of Women in APEC
2000	Brunei Darussalam	Delivering to the Community	Electronic Individual Action Plan (e-IAP) system; Action Plan for the New Economy
2001	China	Meeting New Challenges in the New Century	Shanghai Accord: Broadening the APEC Vision, Clarifying the Roadmap to Bogor and Strengthening the Implementation Mechanism. APEC's first Counter-Terrorism Statement
2002	Mexico	Expanding the Benefits of Cooperation for Economic Growth and Development - Implementing the Vision	Trade Facilitation Action Plan, Policies on Trade and the Digital Economy and Transparency Standards, Second Counter-Terrorism Statement is delivered, along with the adoption of the Secure Trade in the APEC Region (STAR) Initiative.
2003	Thailand	A World of Differences: Partnership for the Future	Re-energize the WTO Doha Development Agenda negotiations and stresses the complementary aims of bilateral and regional trade agreements, the Bogor Goals and the multilateral trading system under the WTO; security issues and actions to dismantle terrorist groups; APEC Action Plan on SARS and the Health Security Initiative; strengthen efforts to build knowledge-based economies, promote sound and efficient financial systems and accelerate regional structural reform.
2004	Chile	One Community, Our Future	Support for progress in the WTO Doha Development Agenda; Best Practices for RTAs and FTAs, Santiago Initiative for Expanded Trade and a Data Privacy Framework; Course of Action to fight corruption and ensure transparency

2005	Korea	Towards One Community: Meet the Challenge, Make the Change	Busan Roadmap: completes the Mid-Term Stocktake; the APEC Privacy Framework; support for a successful conclusion to the WTO's 6th Ministerial Meeting in Hong Kong, China and agree to confront pandemic health threats and continue to fight against terrorism
2006	Vietnam	Towards a Dynamic Community for Sustainable Development and Prosperity	Ha Noi Action Plan which identifies specific actions and milestones to implement the Bogor Goals and support capacity-building measures to help APEC economies; Statement on the WTO Doha Development Agenda calling for ambitious and balanced outcomes.
2007	Australia	Strengthening Our Community, Building a Sustainable Future	Declaration on Climate Change, Energy Security and Clean Development: new international climate change arrangement and a forward program of practical, cooperative actions and initiatives; Major report on closer Regional Economic Integration, including structural reform initiatives; New APEC Trade Facilitation Action Plan which will reduce trade transaction costs by a further five per cent by 2010.
2008	Peru	A New Commitment to Asia-Pacific Development	Social dimensions of trade: reduce the gap between developing and developed members; address the global financial crisis; commitment to reject protectionism and to intensify efforts to advance WTO Doha Development Agenda negotiations.
2009	Singapore	Sustaining Growth, Connecting the Region	Supply-Chain Connectivity Framework and the Ease of Doing Business Action Plan to make doing business in the region 25 percent cheaper, faster and easier by 2015; commence work on an APEC Services Action Plan and an Environmental Goods and Services Work Program; first joint meetings of APEC senior trade and finance officials held to address the economic crisis.
2010	Japan	Change and Action	Yokohama Vision to provide a roadmap for members to realize an economically-integrated, robust and secure APEC community; APEC Strategy for Investment; APEC New Strategy for Structural Reform. First APEC Ministerial Meeting on Food Security. Innovation and growth
2011	United States	Seamless Regional Economy	Honolulu Declaration to take concrete steps toward a seamless regional economy; address shared green growth objectives; advance regulatory cooperation and convergence; reduce, by the end 2015, applied tariff rates of environmental goods to 5% or less
2012	Russia	Integrate to Grow; Innovate to Prosper	APEC List of Environmental Goods; address transparency as a new next generation trade and investment issue, and APEC Model Chapter on Transparency for RTAs/FTAs to be used as a guide by APEC economies.



2013	Indonesia	Resilient Asia Pacific, Engine of Global Growth	Provide the push needed to conclude the "Bali Package" at the 9th World Trade Organization Ministerial Conference; enhance regional connectivity including an APEC Multi-Year Plan on Infrastructure Development and Investment prioritizing public-private partnership projects; a target of one million intra-APEC university students per year by 2020.
2014	China	Shaping the Future through Asia-Pacific Partnership	Adopt roadmap for FTAAP; implement tariff reduction for 54 environmental goods to 5% or less, and commit to double the share of renewable energy in the region by 2030; support WTO-TFA implementation; WTO-ITA; 1st APEC Blueprint on Connectivity; New set of health management responses

Source: <http://www.apec.org/About-Us/About-APEC/History.aspx>  
APEC Leaders' Declaration

The Bogor goals remain at the core, but invariably, the priority areas have been related to a running theme of “Balanced, Inclusive, Sustainable, Innovative and Secure Growth” albeit with different emphasis as highlighted by the host. APEC is thus essentially based on advancing regional economic integration with inclusive growth.

The Philippines is chair APEC for the second time. As host of APEC in 2015, the Philippines sets the theme for all APEC and APEC-related meetings to be held during the year. The host is also expected to set the substantive agenda for all APEC meetings during the hosting year.

### 3. APEC 2015 Theme and Priorities

To start with, the APEC 2015 priority areas should be based on APEC’s pillars of trade and investment liberalization, facilitation, and economic and technical cooperation. Equally important, these should take consideration of greater flexibility to tackle issues of importance to developing economies. While the Philippine substantive agenda for APEC 2015 should be driven by its basic development goals provided for in the Philippine Development Plan 2011-2016, it should also take on a regional perspective and a leadership role in advancing APEC objectives. As host, it should seek to provide a conducive environment for cooperation that would yield optimum benefits for all members amid diverse interests, and a changing global economic climate that presents both new challenges and new opportunities.

For APEC 2015, the Philippines, has aptly chosen the theme: “Building Inclusive Economies, Building a Better World,” putting the overarching goal of inclusive growth in center stage. In support of this theme, the Philippines has chosen four major priority areas for the APEC 2015 agenda:

- Enhancing Regional Economic Integration

- Fostering SMEs' Participation in the Regional and Global Economy
- Investing in Human Capital Development
- Building Sustainable and Resilient Communities

### **3.1 Enhancing Regional Economic Integration**

Enhancing regional economic integration is an integral part of the APEC agenda. From the Bogor goals of free and open trade and investment covering mainly trade and investment liberalization, Regional Economic Integration (REI) as a core priority area serves to cover more comprehensively the major factors that affect the flow of goods and services and factors of production. For example, FTA proliferation, the rise of global production networks, global value and supply chains, technological change and innovation, and attendant emerging issues would have profound impact on the nature, quality and depth of economic integration and have thus become priority areas of concern for APEC.

#### **3.1.1 Supporting WTO and Pathways to the Free Trade Area of Asia Pacific (FTAAP)<sup>4</sup>**

APEC has maintained its support for the WTO and kept multilateralism as a basic principle. However, its guiding principle of ‘open regionalism,’ with member economies in concert opening up without excluding the rest of the world, has been threatened with the proliferation of FTAs. Much of the discussion in the past decade has thus dealt with the attendant issues—primarily how to keep FTA proliferation manageable within the WTO framework, become building blocks rather than stumbling blocks, and eventually lead to convergence and regional economic integration.

In 2007, APEC announced that it will examine a long-term prospect for a Free Trade Area of Asia Pacific (FTAAP) and discuss its full range of issues as a support for the regional economic integration agenda. Discussions on FTAAP progressed in the succeeding years. There were analytical works done such as the multi-year study on convergences and divergences in APEC FTAs and the study on the likely impact of FTAAP. In 2010, APEC decided to come up with more concrete ways to possible pathways to FTAAP. By that time, FTAAP has been regarded as a major instrument of the REI which is the traditional APEC priority initiative.

In support of APEC thrust of ensuring transparency, information sharing, cooperation and capacity-building activities, relevant committees and working groups in APEC undertook studies on best practices of APEC RTAs/FTAs, and came up with an APEC Model Chapter in 2012. In particular, an important objective is to enhance communication among the RTAs/FTAs. An APEC Committee on Trade and Investment Friends of the Chair (CTI FoTC) group was thus established. It was formed to strengthen communication and interaction between various regional architectures and to provide a transparency

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<sup>4</sup> This section is drawn from Erlinda Medalla and Angelica Maddawin on “*Supporting WTO and Pathways to the Free Trade Area of the Asia Pacific (FTAAP)*” of the Research Project APEC 2015.

mechanism for RTAs. These efforts aim to help the APEC economies arrive at a consensus of diverse interests. It would serve to facilitate needed institutional arrangement among the vast number of APEC economies.

What more can APEC do to enable the convergence of these mega blocs while bolstering its support for WTO?

For 2015, the Philippine hosting maintains support for WTO and realizing a Free Trade Area of Asia Pacific (FTAAP). These continue to be in the APEC priorities considering the developments in WTO Doha Development Round (DDA) that remain inadequate, and the continuing trend in preferential Free Trade Agreements, especially the formation of mega blocs in APEC- the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP).

Ensuring that these mega blocs lead to the formation of FTAAP would best serve both APEC's goal of FTAAP and support for the WTO. That countries could form smaller alliances, and then consolidate and adopt an 'open accession' principle for other economies to join, attest to the viability of regionalism to become a stepping stone to multilateralism. This is thus the task of APEC. It should make sure that the formation of these mega blocs will eventually converge. It should find ways such that these developing mega blocs would be made complementary. FTAs become exponentially more difficult to forge with more countries involved. Perhaps, encouraging the formation of these mega blocs, with some oversight from the APEC process is the most feasible pathway to FTAAP.

With China firming up its support for FTAAP during its APEC hosting in 2014, the feasibility of moving FTAAP forward, possibly opening the door to the negotiation process, is enhanced. The question is if it would be able to get the United States on board. Without it, chances for a FTAAP remain low. However, if FTAAP happens, it would be beneficial to the Philippines as this would provide the country a chance for partnership with TPP countries even without joining TPP.

An important task for APEC is enhancing ECOTECH and capability building efforts to better equip less developed countries to later engage in FTAAP which would include deeper and wider areas of liberalization and cooperation.

If indeed, RCEP and TPP are realized, inter-bloc engagement, similar to what is happening with ASEAN and its dialogue partners, could become feasible, eventually paving the way for the FTAAP. In the meantime, as negotiations proceed for these mega blocs, the provisions proposed or eventually included should be made transparent and consistent with APEC goals and WTO guidelines. In addition, there should be a venue for discussions within APEC about the implications of these provisions on the different member countries.

### 3.1.2 Focusing on the role of services<sup>5</sup>

Across the globe, and especially within APEC, there has been substantial progress in the facilitation of trade in goods. Meanwhile, the character of global trade has changed, with trade in services gaining prominence. The role of the services sectors in the growth and evolution of APEC economies is increasing, including the Philippines where the share of the services sector in GDP continues to grow, from an average of 49.2 percent in the 1980s, 52.4 percent in the 1990s and to 65.7 percent in 2012. When the contribution of services embodied in goods and services is explicitly recognized, its share in total exports significantly increases compared to the traditional measure of trade that records gross flows of goods and services. For the APEC region, the share of services in total exports is 20.27 percent in gross terms but on a value added basis, the share of services almost doubles at 39.08 percent.

World trade is increasingly dominated by global value chains (GVCs). A value chain is the full range of activities that firms and workers perform to bring a product from its conception to end use and beyond. The activities that comprise a value chain can be contained within a single firm or distributed among different firms. Global value chains (GVCs) reflect the fact that activities that constitute a value chain have generally been carried out in inter-firm networks on a global scale. GVCs are now believed to account for more than 50 percent of global trade. This has contributed greatly to the increasing importance of services.

Numerous services are involved in the production and sale of products, whether the final product is a good or a service. Services that complement production span a wide spectrum: most prominent are transport and warehousing, but banking and insurance, business services, professional services, and communication services are supplied at every stage of production. Services involved at both ends of the value chain include R&D and design in the conception stage, distribution networks, advertising and marketing services, or repair and maintenance facilities at the end of the chain.

Services are integral in GVCs. Services facilitate ‘trade in tasks’ by providing the ‘glue’ at each point. In addition, GVCs exist not only in the goods sectors but also in the services sector itself. In new business models, services firms, like goods firms, are seeking to go up the value chain and to outsource non-core services functions. Drake-Brockman and Stephenson (2012) highlight some key implications for development policy in this regard. First, the value chain story is not only about large global enterprises and increasingly it is SMEs in the services sector which are most engaged in global value chains. They note that services activities are usually less capital intensive than manufacturing ones and require less physical infrastructure, an advantage for countries with limited physical and financial capital. However, there is still very limited literature to help understand the workings of supply chains in services and how SMEs can best access them. Second, the division of

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<sup>5</sup> This section lifts from Ramonette Serafica, “*APEC 2015: Global Value Chains and Services*” of the Research Project APEC 2015.

world trade into components or “tasks” offers developing countries new opportunities to integrate into world markets. It is not necessary to try to compete along the entire line of services activities along a value chain but instead it may be easier and less costly to capture one or more of the “tasks”. In the case of offshoring services in particular, developing countries with a strong educational infrastructure have a competitive advantage compared with the developed countries as they can offer advantages in terms of low cost and an educated labor force.

Nonetheless, although GVCs can make a contribution to development through direct GDP and employment gains and by providing opportunities for technology dissemination, skill building and industrial upgrading, these benefits are not automatic. It is important to know what determines the position and participation of economies in services GVCs and the kinds of policies that have an impact on the gains from GVCs. There is a need for more analytical work on services GVCs in APEC. Thus, Serafica recommends a focus on services GVCs in the APEC 2015 agenda. Advancing regional understanding and cooperation in services GVCs will help the Philippines maximize GVC participation especially in services where it has comparative advantage.

Services are more complex than goods and would cut across many and diverse issues. Serafica proposes an APEC initiative for a Services Cooperation Framework to have a more coherent approach that would serve the region. The framework would aim to formulate effective approaches to address critical issues and come up with practical strategies, for example in capacity building, regulatory cooperation, engaging external organizations, among others.

The content, coverage and focus would be developed as discussion and working groups progress. Looking more closely at selected services sectors would provide insights and suggestions toward this end. For this purpose, Research Project 2015 includes policy studies on Information Technology- Business Process Outsourcing (IT-BPO), tourism, and professional services mobility.

*The BPO challenge: Leveraging capabilities, creating opportunities*<sup>6</sup>

Del Prado notes that Philippine experience has shown that IT-BPO services is one area of trade in services where developing countries can take a shot at sustainable development, without relying so much on traditional primary industries and natural resource.

While indeed the presence of an educated workforce and good telecommunication infrastructure do not always guarantee success in this area, the investments in human capital and critical telecoms infrastructure—considered by many as a backbone for other important industries—are more than enough reward for the decision or attempt to pursue and board the IT-BPO bandwagon. But the trend is still in its infancy. There is still enough space and opportunity for other developing countries to “build appropriate domestic

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<sup>6</sup> This section is lifted from Fatima del Prado, “*The BPO challenge: Leveraging capabilities, creating opportunities*” of the Research Project.”

capacity” to effectively participate in this sector (Suri 2005). They should be mindful however, of the protectionist waves coming from developed countries and treat them as real and present dangers that must not be dismissed and underestimated. A sincere and constructive campaign highlighting the “win-win” elements of offshoring, as suggested by some (Suri 2005, Rajan and Srivastava 2005), can be taken up and performed most appropriately under the auspices of entities like the UN and the APEC.

Hence, in line with the Philippines’ interests and consistent with the call for an overarching services’ initiative, the study recommends the following for consideration in the APEC 2015 agenda:

- an emphasis on offshore services/ IT-BPO as part of trade in services be made;
- capability-building activities especially relating to measurement be undertaken;
- cooperation for collection of better services trade data and official statistics on offshore services/IT-BPO to mitigate false perception arising from offshoring;
- cooperation for increasing awareness and better understanding of offshoring services to allay anxieties and fears that “services outsourcing may lead to massive job losses on a net basis in the industrial countries” and
- deepen commitment for extensive and faster services trade liberalization.

Nothing can connect economies more significantly than their peoples. In this regard, there are two major aspects involving movement of people that Research Project 2015 looked at more closely as possible work agenda for APEC. These are (1) tourism and people-to-people connectivity, and (2) mobility of service professionals. The major thrust of the recommendations center around cooperation for easing, streamlining visa requirements. Suggestions include extending the APEC Business Travel Card, e.g. coverage to researchers and students, exploring mechanisms/models used in other regional agreements, and exchange of information.

#### *People-to-people (PTP) tourism in APEC<sup>7</sup>*

Based on the UNWTO 2013 Report, APEC is expected to gain 38 to 57 million additional tourists by 2016. The additional international tourism receipts generated by these additional arrivals could reach between US\$ 62 and US\$ 89 billion (UNWTO, 2013). Moreover, the total number of jobs created as a consequence of this increase is estimated to range from 1.8 to 2.6 million (UNWTO and WTTC, 2013). Hence, it is in the best interest of APEC member economies to optimize visa facilitation for maximum travel mobility.

Tourism in APEC has been growing rapidly. This trend is likely to continue, especially with travel easing and visa facilitation being implemented and growth prospects in the region. A prime example in visa facilitation is the APEC Business Travel Card (ABTC), which was established in 1997 as an initiative of the APEC Mobility Group.

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<sup>7</sup> This section lifts from the policy paper of the same title by Oscar F. Picazo, Soraya Utalalum, and Nina Ashley de la Cruz of the Research Project APEC 2015.

In particular, PTP tourists are expected to grow especially because of greater economic integration of member economies. PTP tourism can be defined as the cross-border movement of people from one country to another on a repeated basis for purposes including (a) educational, training, or related capacity building; (b) R&D cooperation; (c) police, constabulary, military, security, or anti-crime assignments; (d) responding to health epidemic outbreaks; (e) medical tourism; (f) responding to disaster or calamity; (g) management of environmental parks and natural resource assets; (h) local border traffic; and (i) other travel purposes that APEC economies will deem important. In addition, frequency of travel is a hallmark of PTP tourism. PTP tourism thus merits a special attention in advancing connectivity and regional economic integration.

In the immediate and short term, Picazo et al suggest that APEC should continue to improve overall visa processing and facilitation. There is already productive collaboration among APEC economies. The APEC Tourism Working Group (APEC TWG) is committed to improve visa facilitation challenges by networking among different governmental branches within each country and across the APEC region to facilitate visas. It also is working towards 1) developing a comprehensive study on the 21-member economies' visa issues so that an aligned set of visa policies and regulations can be enforced and 2) fast tracking the development of new visa technologies (e.g., eVisa Program and Smartgate) (Salter, 2012). The APEC visa facilitation study already highlighted a few important areas of opportunity including (a) improvement in the delivery of travel and visa information; (b) facilitation of current processes, especially those still operating under a "paper system" and face-to-face personal interviews. Key areas where improvement is needed are: more extensive use of information technology (official website, e-mail, social media), interconnectivity of entry and exit points, and consideration of visas on arrival; and (c) implementation of e-visa programs.

Picazo et al recommend that in the medium term, APEC should work towards greater coherence of visa requirements and regulation in the region. Towards this end, they suggest that countries could (a) work towards a common list of countries that members-countries can give the privilege of granting a regional travel visa; (b) work towards standardized visa validity and extension for this regional travel visa; and (c) learn from good practices from around the world, and to consider adopting those that are relevant to the region and feasible. The reforms and on-going initiatives in ASEAN and recent EU visa reforms are particularly useful in this regard.

The discussion on visa and travel reforms in APEC could also focus more selectively on the different purposes and areas for PTP tourism. For example, those related to (1) educational, training, or related capacity building; (2) R&D cooperation; (3) responding to disaster or calamity; and (4) management of environmental parks and natural resource assets are of particular interest that would serve the Philippine APEC priorities.

### *Professional Services Mobility*<sup>8</sup>

Labor mobility has been a sensitive issue in APEC. The discussion has been minimal and was mostly focused on the enhancement of employment (labor), rather than facilitation of labor. Major projects established include the APEC Business Travel Card (1996) and bilateral Mutual Recognition Agreements for professionals (1997). Human capacity building and promotion of education through university networks were also some projects adhering directly to concerns with human capital, and only indirectly to the labor mobility concern. Results of consultations, in gist, prioritized the business, academe and professional community, while disregarding concern for lower-skilled workers. Only in 2009, when a magnification on the value of trade in services urged leaders for discourse, labor mobility was given a piece of the limelight. Actions made comprise the comparability and benchmarking of competencies and Qualifications Referencing Framework for Construction and Welding. Amidst the benefits and the practices of the other regional trading blocs presented above, APEC's stance on labor mobility is roughly restrictive and double standard, in favor of professionals while discriminating lower-skilled workers.

The literature on the links between labor mobility and human development, labor mobility and inclusive growth and labor mobility and trade all have shown that liberalization of professional workers has a positive impact and is a necessary condition to economic growth and development. Whatever is the political stance in this issue, the subject of labor mobility is at the heart of comprehensive regional economic integration and is worth looking at more closely.

Orbeta et al highlight the main points from a focused group discussion (FGD) conducted for the study: (1) Professional service mobility is not synonymous to migration given its impermanence and that the relationship is between a foreign employer and an intermediary; (2) Skilled workers pertain to those bearing professional licenses while unskilled (lower skilled) workers pertain to blue collared workers, but such distinction must be scrapped; and (3) Education/training is deemed as very important by all sectors of society as indicated by the preference for professional workers over lower skilled workers.

As such they recommend that a comprehensive discussion related to professional service mobility be one of the priorities in the APEC 2015 summit, in particular covering topics such as the APEC-wide Qualifications Referencing Framework; guiding principles in country-to-country labor policies; Human Capital Management; and the systematic collection of good labor statistics.

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<sup>8</sup> This section lifts from Stephanie Rose E. Flores, Kathrina G. Gonzales, and Aniceto C. Orbeta Jr. on *"Towards and Beyond Asia-Pacific Economic Cooperation Summit 2015: Key Issues and Challenges of Professional Service Mobility"* of Research Project APEC 2015.



### 3.1.3 Expanding APEC-wide Connectivity through Infrastructure Development<sup>9</sup>

Trade and investment liberalization and facilitation would need to be supported by adequate infrastructure to advance regional economic integration. How much gains as well as the reach of these gains could be derived from integration would depend to a large extent on the quality of infrastructure and connectivity in the region. The problems both within and across economies in infrastructure are well known, and an APEC focus on this is crucial. Infrastructure development is one major area that clearly addresses both growth and inclusion.

Well-developed infrastructure systems and services are vital means of enhancing the connectivity of APEC member economies. In essence, efforts by APEC to enhance connectivity through infrastructure should be considered regional public goods since these create positive spill-over effects for each member of the region, or net benefits for a member which are greater than what it could achieve if it were to produce the by-products of regional cooperation on its own. To contribute to APEC efforts and at the same time help meet the infrastructure development needs of the Philippines, Navarro recommends that the Philippine government elevate cross-cutting topics and sector-specific concerns as priorities for discussion during its hosting of APEC 2015. These could include, in particular, the following.

Building disaster-resilient infrastructure. The devastation wrought by Typhoon Haiyan in 2013 put to greater light the socio-economic benefits of having disaster-resilient infrastructure. The Philippines can recommend regional cooperation on investing and building disaster-resilient infrastructure, as well as sharing of best practices on the effective use of infrastructure during calamities. Particularly in the areas of transportation, telecommunications and information, the Philippines can push for technical assistance from developed member economies to disaster-prone member economies. From its experiences in dealing with strong typhoons, earthquakes and other calamities, the Philippines can share the lessons learned in terms of resilience requirements of infrastructure (e.g., plans, technologies, and logistics for humanitarian activities). It can also advocate for the adoption of best practices, such as the best use of modern telecommunications and information infrastructure, in responding to disasters more efficiently and effectively. In the energy sector, regional cooperation can be sought for both physical infrastructure and energy supply. The APEC Energy Security Initiative can be a platform for the Philippines to lead the discussion on energy concerns. In addition, the Philippines can push for more knowledge building on how regional energy market integration can be an instrument for dealing with emergency situations in the Asia-Pacific region.

Financing infrastructure development through traditional public investment models and PPPs. Infrastructure development in the Philippine Public Investment Program 2011-2016 will mostly be financed by the national government. To ensure sustainability of

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<sup>9</sup> This section is drawn from Navarro on “*Expanding APEC-wide Connectivity through Infrastructure Development*” of Research Project APEC 2015.

infrastructure investments going forward, other sources of funding, such as regional sources and private sector funds, should also be considered. It is therefore recommended that the Philippines include in its priorities the need to augment local resources for infrastructure development with regional sources such as official development assistance (ODA) and regional equity funds. Moreover, it is recommended that information sharing on best practices on the use of such sources be pursued. The APEC discussions on financing can also become a venue to request China to provide more information on its planned Asian Infrastructure Investment Bank (AIIB). Despite the more than one year of news circulation about the AIIB, important details have not yet surfaced, such as currency risk bearing by borrower countries and improvements in Chinese models on governance standards and environmental assessments.

Navarro also recommends that the Philippines prioritize PPP-related topics in APEC discussions. The Philippines can ask for regional cooperation on sustained, dynamic and productive capacity building assistance on PPPs to less advanced APEC members so that these members can generate a pipeline of bankable infrastructure PPPs. The Philippines can drive the PPP-related discussions by expressing the need for more sharing of knowledge and best practices on viability studies, risk sharing, and contracting (from design to management and monitoring)— which are crucial factors in ensuring that PPP projects are bankable.

#### 3.1.4 Enhancing supply chain connectivity<sup>10</sup>

Finally, it is important to continue and expand APEC achievements in facilitating the supply chain and addressing the choke points. If possible targets could be raised for remaining areas for improvement in the supply chain connectivity. In particular, Patalinghug recommends, among others the following policy direction for further enhancing APEC Supply Chain Connectivity:

- Encourage regional cooperation in establishing and nurturing the policy environment for new regional infrastructure projects
- Promote initiatives in support of APEC Principles of Trans Border Logistics Services Optimization such as the simplification and harmonization of trade and transportation procedures and practices
- ~~Build~~ Build the capacity of local logistics providers and SMEs by facilitating their access with multinational logistics corporations
- Address the impediments related to customs issues of the APEC Cross-Border Customs- Transit Arrangements such as varying customs documentation standards and inadequate IT infrastructure
- Encourage member economies to have more engagements with the relevant stakeholders to identify specific problems faced by each member

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<sup>10</sup> This part lifts from Epictetus Patalinghug on “*Supply Chain Connectivity: Enhancing Participation in the Global Supply Chain*” of Research Project APEC 2015.

- Develop policy or best practice guidelines for each chokepoint for reference by member economies

### **3.2 Focusing on SME Development: Fostering SME Participation in the Global Market<sup>11</sup>**

Small and Medium Enterprises (SMEs). account for more than two-thirds of employment in APEC economies, developed and developing alike. It is a major source of employment of poor and low-income workers, and of poorer regions within economies. In this regard, SMEs play a huge role in poverty reduction. At the same time, SMEs could be a critical driver for economic growth. It has a role in creating a stable economy arising from its flexibility and capacity to easily absorb labor (skilled and unskilled). In addition, the viability of SMEs is essential for creating competitive and efficient markets. As such, a vibrant SME sector is also a potential, dynamic source of growth and innovation.

Economies, in its pursuit of SME Development as a major domestic policy objective, could not ignore the global and regional environment. The objective is not to keep enterprises small. The ultimate objective is to provide SMEs access and the opportunities and means to grow, and to encourage those SMEs with potential to eventually become major players. As such, SME development policy should not be confined to serve the limited local environment. At the same time, regional economic integration that would promote economic growth while ensuring that all sectors benefit could not succeed without an effective strategy for SMEs. This is recognized in the APEC structure and evidenced by the amount of work done in its various committees. This is reiterated and reinforced when the Committee on APEC 2015 Host Economy Priorities (CHEP) identified SMEs as one of the major priorities in the substantive agenda during the country's APEC hosting in 2015.

Fostering SME participation in the international market has thus been a major APEC objective. Toward this end, various APEC activities on SMEs have covered a wide range of practical measures. Among them are initiatives related to start-ups: the APEC startup Accelerator Program and a Mentorship Program. Another is the APEC Framework for SME Financing (initiated by ABAC Canada) which include among others: (1) promoting and implementing reforms to ensure a clear legal infrastructure for lending, (2) supporting fully transparent credit information systems to incentivize lenders to significantly expand more affordable credit to SMEs in the region, and (3) supporting a dialogue on these standards as part of the proposed Asia-Pacific Financial Forum (APFF) to align International Financial Reporting Standards (IFRS) principles with the interests of SMEs. The use of IT has also been identified as an area for cooperation. In this regard, ABAC China is sharing its best practice in using e-commerce as a catalyst for growth with its "All-in-One e-Commerce Platform – the new eco-System for SMEs in China."

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<sup>11</sup> This section draws heavily from Melalyn Mantaring and Erlinda Medalla on "*Mainstreaming SMEs: Promoting Inclusive Growth in APEC*" of Research Project APEC 2015.

Enterprises, regardless of size, face constraints they need to overcome. However, there are constraints inherent to SMEs, both internal and external. These constraints are well known and have been what the various APEC activities on SMEs are trying to address. Internal factors include lack of access to technology, skills and finance. At the same time a host of external factors such as poor physical infrastructure and a complex legal and regulatory framework limit the ability of SMEs to thrive. In particular, these barriers limit the capability of SMEs to participate more actively and effectively in the international market.

In sum, the APEC priorities to address these SME barriers and constraints have been grouped into: (1) Building Management Capacity, (2) Entrepreneurship and Innovation, (3) Finance, (4) Business Environment, Market Access and Internationalization. The SMEWG Strategic Plan for 2013-2016 was endorsed to provide a roadmap to address critical issues and concerns pertaining to the growth of SMEs and micro enterprises (MEs) in the APEC region along these priority areas.

The SME Working Group agreed to work together and provide four key indicators for the SME Monitoring Index to assess outcomes of the 2013-2016 Strategic Plan. These four indicators include: (i) SMEs share of GDP; (ii) SMEs share of total business population; (iii) SMEs contribution to employment; (iv) SMEs contribution to exports.

The APEC work on SMEs should be sustained, and possibly enhanced. New initiatives should continue to be developed. Possible areas for cooperation could focus further on the business environment and regulatory framework which is especially burdensome for SMEs and MEs. A promising practical initiative from the Philippines is promoting trade facilitation for SMEs. A concrete proposal in this regard is raising the threshold value of imports that would be exempted from customs duties, taxes and other documentary fees. In a similar vein, APEC economies with FTAs should be encouraged to raise the threshold where Certificate of Origin (CO) is waived. Another possible area for cooperation and further work is the creation of an APEC Trade Repository. This could be an expansion of the ASEAN Trade Repository initiative to cover all APEC member economies.

Other possible areas include seeking concrete measures in aligning IFRS with SMEs interest. This could involve developing a more suitable, standard accounting system and books that are less complex for SMEs to comply with, but credible and informative enough about the SME (and ME) credit status and standing needed in both international or local transactions. Related to this, advancing financial literacy in SMEs is another possible area. This could entail education and technical programs across economies. Efforts along these lines would encourage SMEs to become better versed and more capable in dealing with the intricate business environment and regulatory framework. These would help mainstream SMEs in the supply chain within and outside the local economy.

Finally, a possible additional stimulus for SMEs could be APEC cooperation in facilitating franchising activities. In essence, franchising is replicating a business success. The owner of the concept or a business model (franchisor) allows another company (franchisee) to

replicate the business according to the same concept, model, image and quality standards.<sup>12</sup> The franchisor provides the franchisee with know-how, licenses and training. The franchisee would usually provide the investment, but in some cases, the franchisee and franchisor could establish a joint venture. Hence, potentially, franchising could address most of the constraints faced by SMEs, particularly lack of skills and access to technology and know how; and in the case of joint ventures, financial constraints as well. Classic examples of franchising are in fast food chains, hotel chains, car hire companies and retailing. In recent years, franchising activities have expanded to many business fields, big and small, in the goods and services sectors.

In sum, SME Development as a major domestic policy objective that is consistent and reinforced within the regional (and global) environment such as APEC, would not only engender inclusive growth. More than this, SMEs could become drivers of growth- for the domestic, as well as the regional economy.

*Women in SMEs: increasing opportunities for women in APEC*<sup>13</sup>

Finally, women in APEC have a special role in SME development and inclusive growth. Increasing women's economic opportunities in the APEC region and in the world is grounded on: 1) women comprise half of the human resources of many economies and evidences show that economies do better when women are harnessed; 2) it is a moral imperative and is a matter of fairness and equity; and 3) women have the right to (economic) development. Currently, women's participation is skewed toward the micro and small enterprises and most function as own account workers or self-employed entrepreneurs in the informal economy, especially in the developing countries.

With far more limited access to finance than their male counterparts, women in economic enterprise are found mostly in SMEs and MEs. As such, they face the usual barriers and constraints, and more. Among the common challenges to women entrepreneurs are access to finance, productive resources including entitlement to land and property rights, and information; sustaining and scaling up enterprises; lack social preparation and technical skills for enterprise building, and readiness for global markets; lack of representation in decision making structures; vulnerability and lack of access to health and socio-legal protection and dearth of data for planning and program impact analysis.

APEC economies can expand women's economic opportunities through practical measures: empowering women by globalizing their outlook; organizing women entrepreneurs in the formal and informal sectors, technical and vocational education, leadership and political representation, more attention to micro-entrepreneurs in the informal economy in order to scale up their enterprises; enhancing women's enterprise

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<sup>12</sup> Jose de Caldas Lima, *Patterns of Internationalization for Developing Country Enterprises (Alliances and Joint Ventures)*. UNIDO 2008

<sup>13</sup> This part is lifted from Lucita Lazo on *Increasing Economic Opportunities of Women in the APEC* of Research Project APEC 2015.

competitiveness through innovation and capacity development in entrepreneurship; ensuring enterprise resilience and reducing vulnerability.

The women labor force represents productive human capital. Various studies show how female-headed enterprises have higher loan repayment rates. Success stories in women-related activities APEC projects abound. In the end, increasing the opportunities of women in APEC contributes not just to inclusive growth, but to growth and regional integration itself.

### **3.3 Investing in Human Capital Development**

This leads to the next topic on the importance of Human Capital. Success in SMEs, promoting participation, increasing productivity and in general encouraging growth and inclusion within the context of regional economic integration, would be limited without capable Human Resources.

Education, training, and on the whole Human Resource Development (HRD), are investments in human capital, which, like any other form of investments (and capital), raise output and the productivity of workers. The link to growth is thus clear, and indeed empirical studies [Mankiw, Romer and Weil, 1992; Barro, 1991; Hanushek, 1995] bear this out. Education quantity (enrolment rates) and quality (availability and quality of physical capital, teacher training) are positively associated with higher growth rates. Empirical studies also show positive impact of education and training on individual earnings.

Hence, APEC advances in regional economic integration and SME development need to be supported with HRD and Human Capital to promote inclusive growth. In addition, there is also a positive link between HRD and innovation because of the positive impact of human capital endowment on the country's ability to 'adopt, adapt and imitate' new technology.

For any government, investment in human capital is possibly the most important development policy tool for achieving inclusive growth. In general, this is largely a domestic endeavor- the provision of education, training and HRD to its population. However, with regional integration, demand and supply for both products and factors of production, including labor, are affected not just by the domestic market but also by the larger regional market. And advancing regional economic integration and inclusive growth would require regional cooperation in HRD. That is, HRD is an important regional concern.

Indeed, Human Capacity Building (HCB)<sup>14</sup> has been tackled as a priority area in APEC. In 2001, the first High Level Meeting on Human Capacity Building (HLM-HCB) was

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<sup>14</sup> There is probably a slight, nuanced difference between HCB and HRD, the former being more associated with stock, but this study uses HCB and HRB interchangeably.

held in Beijing under the theme New Economy, New Strategy: Cooperation and Innovation to Build Human Capacity for Common Prosperity. Initiatives that followed attempted to address the following objectives of the HCB working group: (1) bridging the digital divide and expanding internet access, (2) setting up a life-long education and building a learning society, (3) strengthening the managerial and employee training and enhancing enterprises competence in the context of economic globalization, and lastly, (4) integrating the resources and promoting the overall HCB.

There were also initiatives to address HRD needs of SMEs and MEs (2005), as well as HCB for Natural Hazard Mitigation in Cities & Coastal Regions (2008), and in science and math (2009). In 2010, a Framework and Strategic Approach in APEC Capacity Building and HRD was presented in Singapore.

Human Capacity development is a major priority area for Philippine APEC 2015 hosting. APEC 2015 will hold the second High Level Policy Dialogue on Human Capacity Building (HLPD-HCB) in May.

Tullao et al recommend the following specific proposals for further APEC Cooperative Measures in Human Resource Development:<sup>15</sup>

- Establish and maintain academic exchanges. This is important to develop a sense of community among professors and students in APEC economies.
- The economic and technological gaps among APEC member economies provide avenues for cooperation and technical assistance. Cooperation can take the form of sharing of modern equipment and technologies, teacher training in technical and vocational skills, accreditation and qualification measures in technical competency.
- Enhance and expand existing cooperative programs and networks in the region, e. g. the ASEAN University Network (AUN), Southeast Asian Ministers of Education Organization (SEAMEO), Association of Southeast Asian Institutions of Higher Learning (ASAIHL).
- Exchange of best practices in addressing the problem of educated unemployment and talent mismatch as well as the migration of human resources will be useful.
- Aside from exchange of professors, the twinning of academic programs among universities in the region should be expanded. Universities among developed economies in the region may partner with key universities in the developing economies in terms of faculty development, program cooperation and joint research undertakings.

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<sup>15</sup> These recommendations are lifted from Tereso S. Tullao, Jr., Christopher James Cabuay and Daniel Hofileña on “*Establishing the Linkages of Human Resource Development with Inclusive Growth*” of Research Project APEC 2015.

### 3.4 Addressing Sustainability and Resilience

APEC would need to address more directly the objectives of sustainability and resilience within the regional economic integration framework. Economies across the globe are becoming more vulnerable to climate change and increasing natural disasters. Addressing this threat would require looking at food security issues, disaster risk reduction management, and improving the resilience of the economy. In addition, a more open and integrated regional economy could entail adjustment costs, and uneven opportunities. In this regard it is also important to look at social protection and safety nets for those negatively affected.

#### 3.4.1 Food Security<sup>16</sup>

The recent food price hikes have led governments around the world to refocus their priorities on agriculture, particularly in addressing food security issues. The plateauing capacity to grow food in the next decades as foreseen by some scientists, as well as the continued threats of climate change, contributes to the anxiety of many countries to have a more abundant food supply.

Following the World Food Summit (1996), food security is defined as a state “when all people, at all times, have physical, social, and economic access to sufficient, safe, and nutritious food which meets their dietary needs and food preferences for an active and healthy lifestyle.” Within this definition and framework, food security can be characterized into four dimensions namely, availability, accessibility, utilization, and stability. To satisfy all of these dimensions, an entire food system that is robust to threats (e.g. climate change, rising population, and continuing poverty) must be put in place.

Initiatives toward the attainment of global food security have been done not just unilaterally but also regionally and globally. Among the platforms that have made great efforts in this aspect is APEC. Food security would remain high in the APEC agenda.

Briones et al suggest that one possible topic in the food security agenda is biotechnology as a means to achieve greater food production and productivity. The Philippines has a long history of biotechnology activities, such as plant and animal varietal improvements, biosafety, disease and pest management, among others. The country was among the first to develop its biotechnology regulatory framework in Asia. However there are many impediments that need to be addressed. First, promotion of biotechnology would entail huge public investments, which has been the problem of the agriculture research and development sector. In addition, standards and regulations in relation to product safety and quality of the country are

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<sup>16</sup> This section lifts from Briones, Roehlano, Galang I., and Israel D., on “Inputs For Philippine Hosting Of Apec 2015: Food Security” in Research Project APEC 2015.



adequate but the implementation of these is quite problematic because of the overlapping functions of some government agencies. Another major problem is the resistance of some sectors in the civil society opposed to science-based improvements in the agriculture sector, especially those that employ genetic engineering.

Another possible topic would be the promotion of sustainable food supply chains. This is well-supported by key government agencies. Furthermore, this would serve as a major instrument as well for promoting inclusive growth. A key aspect that must be considered is sustainability of these food supply chains. A sustainable food supply chain must have a steady resource base, must be financially viable, and must be resilient to shocks or threats (e.g. climate change, growing population, and others). The elements of this agenda cut across the components of the APEC's Road Map for Food Security by 2020.

A major application of a sustainable food supply chain is in the fishery sector. This coincides with a Blue Economy Agenda. The Philippines can aggressively champion the Blue Economy approach as an innovative way of managing the national and APEC-wide fisheries resources and coastal and oceanic waters. The Blue Economy stands for a way of designing business by using the resources available in cascading systems, where the waste of one product becomes the input to create a new cash flow. It aims at creating jobs, building up social capital and rising income while saving the environment. It aims to promote sustainable utilization of marine resources, spanning fisheries, energy and international trade, among other aspects.

In sum, Briones et al recommend that the Philippines should adopt agribusiness development that is based on sustainable food supply chains as a priority advocacy, while continuing to promote elements of food security as expressed in the APEC Road Map. This approach integrates a strong position on Blue Economy with the agribusiness development and road map thrusts of the Department of Trade and Industry (DTI) and the Department of Agriculture (DA).

### 3.4.2 Climate Change and Disaster Risk Reduction Management

The APEC region has suffered more than its share of natural disasters, with more than 50% of the world's intense natural disasters visiting the region between 1975 and 2012 (EM-DAT). The Philippines in particular still feels the aftermath of Haiyan in 2013. The number of recorded disasters has also risen, with fewer than 100 in 1975 to more than 400 in 2005.<sup>17</sup> This implies not only rising damage costs from natural disaster but also increasing probability of a catastrophic event that could occur in the vulnerable areas of the region.

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<sup>17</sup> Figures from the Independent Evaluation Group of the World Bank:  
[http://siteresources.worldbank.org/EXTEVAWBASSND/Resources/natural\\_disasters\\_fact\\_sheet.pdf](http://siteresources.worldbank.org/EXTEVAWBASSND/Resources/natural_disasters_fact_sheet.pdf)

The financial implications could be massive, especially in terms of damages on private assets, public infrastructure and on the productive agents of the economy. Various estimates show that the magnitude of damages and losses on economies could hover around a fraction of one percent to a tenth of GDP, depending on the degree of exposure.

*Need for a regional financial framework for disaster management*<sup>18</sup>

Most often, the individual governments bear a large part of assuming the cost of disasters, especially in emerging economies where the private sector and the capital markets are not fully developed. The available resources within governments are mostly insufficient to address the cost of response, rehabilitation and reconstruction, which could result in adverse impacts on the overall fiscal and macroeconomic condition of the particular economy. On top of that, the burden on the society, particularly the poor, is prolonged by the inability to deliver services due to the financial constraints resulting from a disaster.

As such, there is a need to improve the current system of financing the cost of disasters in a manner that would enhance the roles of the domestic private sector and international financial market. With globalization and increased interconnectedness, disasters tend to carry risks that cross borders, calling for a greater and more concerted global/regional effort. Vidal and Medalla (2015) propose to expand the prevailing regional cooperation within APEC towards improving access to finance for disaster recovery and reconstruction and taking a more pro-active approach to risk financing. In many cases, developing economies do not have the capacity to come up with a refined risk assessment on their own and would have to rely on international scientific and technical institutions to provide the necessary assistance. The technical cooperation of building up and sharing of information, experiences, and technology as a cross-cutting effort that informs governments of the risks is an initial step that should be complemented by other forms of partnerships, including exploring better options for financing disaster risks. There is a need for better and more informed ways to apportion roles and responsibilities. This is not only within economies and across tiers of the public sector. There are efforts that may be initiated at the regional and international level to distribute risks and leverage resources. In the process, more innovative market instruments for the region could also be developed.

The benefits of pursuing a regional financial framework and instrument for disaster could not be underscored enough given the increasing interdependence in these economies. The vulnerability of economies to natural disasters necessitates the formulation and adoption of relevant policies that will better utilize market

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<sup>18</sup> This section lifts from PIDS DP 2015-21 by Vidar and Medalla on “*Deepening Regional Cooperation for Disaster Recovery and Reconstruction: A Proposal for Proactive Approach to Risk Financing.*”

mechanisms. Complementary policies at the regional level can be instituted to provide better incentives to individual economies to set appropriate policies at the national level.

The international capital market can reduce the immediate financial impact at the national level, by providing compensation for the loss of capital and income and by spreading the burden in a spatial and temporal manner. But the utilization of such market mechanisms clearly needs to be enhanced and promoted. Within APEC, this effort can be contextualized in the overall attempt to improve economic environment, especially the financial intermediaries and the capital market. More recently, in the 6th Emergency Preparedness Working Group Meeting in China in February 2014, a project on Disaster Risk Financing and Insurance (DRFI) has been proposed aiming to establish cross-continental linkages among APEC economies to facilitate exchange of experiences in disaster risk financing and to foster an early thinking of an APEC regional risk transfer market and mechanism. More efforts can then be targeted towards setting the appropriate institutional mechanisms and policies and widening the range of market-based instruments available at the international/regional level.

Natural disasters also open up opportunities to rebuild safer and more resilient communities – to ‘build back better.’ Arranging funds in an ex-ante manner would help facilitate this process by adding up to the available funds that each economy has for reconstruction and rehabilitation. As the APEC economies continue to commit to deepening regional integration, reducing vulnerabilities to exogenous shocks, such as natural disasters, has clear benefits for the members. Enhancing the resilience of economies to disaster risks has clear implications on sustained productivity and strong rates of growth.

#### *Need to build MSMEs resilience to natural disasters<sup>19</sup>*

With APEC goals of promoting regional growth and inclusion, it is particularly important to focus on means to address the vulnerability of micro, small and medium enterprises (MSMEs) to natural disasters. The impacts of natural disasters can be devastating to business operation and viability. MSMEs suffer the most as they are relatively resource constrained and less equipped. Recent studies show that MSMEs in the Philippines, while relatively flexible, have limited access to a broader set of coping strategies and are generally not prepared for nature related disasters. Most MSMEs in developing countries are also characterized by informality and noncompliance with industry norms and regulations, limiting their capacity to adopt risk management tools and expand customer and supply base. The situation is further aggravated as governments focus more on relief, search and rescue operations, and social services.

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<sup>19</sup> This section lifts from Ballesteros and Domingo on “*Building Philippine MSMEs Resilience to Natural Disasters*” of the Research Project APEC 2015

The present national Disaster Risk Reduction Management (DRRM) policy framework in the Philippines is designed to adhere to the principles of proactivity and active response. Increased awareness and understanding among the various stakeholders are viewed as key in increasing resilience and decreasing vulnerabilities to disaster events. However, Ballesteros and Domingo find that there is apparent disaggregation or lack of sectoral focus on the policy framework that drives DRRM among the different stakeholders in the country, particularly between households and businesses.

Moving forward would require combined efforts from the private sector, including MSMEs, and the government; effective policy translation from national into local and sectoral action plans; application of local learning and best practices; and enhanced regional cooperation within the APEC community. Ballesteros and Domingo stress the need for a collective commitment to strengthen MSME resilience to shocks, and bring more focus to normalizing economic activities in pre and post disaster planning and operation. Disaster resilience among MSMEs can be enhanced through three fronts: (a) organizational capacity build-up, (b) policy and institutional support tackling socioeconomic drivers of risks in pre-disaster stage, and (c) prompt and sustained economic restoration and support efforts in the aftermath of disaster.

In the regional front, APEC member countries can strengthen each other through knowledge sharing, integrated early warning systems, and disaster emergency logistic support. Regional cooperation is further reinforced with APEC pushing for continued policy dialogues, and collaborative work on the following concerns: (1) Vulnerability Assessment of Supply Chain Critical Points; (2) Best Practices on Critical Infrastructure Protection; (3) Business Continuity Management Public Private Partnership; and (4) Identifying Best Practices on Flexible Regulations.

#### 3.4.3 Effective and sustainable social protection and social safety net program<sup>20</sup>

Finally, a corollary to the objective of inclusion and inclusive growth is social protection. Reforms and policies would always have mixed, non-uniform impacts. Even if, on the whole, the net benefits are substantial, some sectors could either be neglected or negatively affected. Some sectors are more vulnerable than others, even as some gain more than others. Cuenca looks at ensuring effective and sustainable social protection and social safety net programs to address the social dimension of economic liberalization, which is a major element in APEC and regional economic integration.

Cuenca noted that the Philippines has Operational Framework on Social Protection, which is indicative of the Philippine government's commitment in ensuring that social protection programs are well-designed (e.g., programs drawn-up address the

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<sup>20</sup> This section lifts from Cuenca on "Social Protection in the Philippines: In Pursuit of Inclusive Growth" of the Research Project APEC 2015.

identified risks and vulnerabilities) and well-implemented (e.g., key participatory strategies) and in turn, the ultimate goal of better and improved quality of life for program beneficiaries is achieved. In addition, it also shows the government’s effort in ensuring efficient and effective use of limited resources, i.e., by harmonizing all social protection programs. However, she also notes problems arising from scarce government resources.

#### 4. Concluding Remarks

These studies commissioned under the DFA-PIDS MOA are being undertaken with a view not only to provide inputs for the Philippines’ APEC hosting in 2015 from APEC perspective but also to contribute to and advocate for good domestic reforms in the longer term. The studies look at what are being done under APEC with respect to respective areas, where we are, our capabilities and weaknesses especially in relation to our neighbors in the region. The benchmarking exercises are useful as inputs to providing better direction for local reforms and as indicators of the areas where governance efforts need to level up. Indeed, the national interests are being reinforced and enhanced when reforms are undertaken in tandem with the region that would tend to produce larger and more sustained benefits.

A lot more insights could be found in the individual policy studies of the Research Project APEC 2015. Table 2 below lists the policy papers grouped according to their relevance to the APEC 2015 major priority areas.

Table 2: Research Project APEC 2015 Policy Papers

<b>Policy Studies</b>	<b>Authors</b>
<b>Priority 1: Enhancing the Regional Economic Agenda</b>	
Supporting WTO and Evaluating Pathways to the Free Trade Area of the Asia Pacific (FTAAP)	Erlinda M. Medalla and Angelica B. Maddawin
APEC 2015: GVCs and Services	Ramonette B. Serafica
The BPO Challenge: Leveraging Capabilities, Creating Opportunities	Fatima del Prado
Facilitating People-to-People Tourism	Oscar F. Picazo, Soraya Ututalum, and Nina Ashley de la Cruz
Towards and Beyond Asia-Pacific Economic Cooperation Summit 2015: Key Issues and Challenges of Professional Service Mobility	Stephanie E. Flores, Aniceto C. Orbeta, Jr. and Kathrina G. Gonzales
Philippine Priorities in Expanding APEC-wide Connectivity through Infrastructure Development	Adora Navarro
Supply Chain Connectivity: Enhancing Participation in the Global Supply Chain	Epictetus E. Patalinghug
<b>Priority 2: Fostering SMEs Participation in Regional and Global Markets</b>	

Mainstreaming SMEs: Promoting Inclusive Growth in APEC	Melalyn C. Mantaring and Erlinda M. Medalla
Increasing Economic Opportunities of Women in APEC	Lucita Lazo
<b>Priority 3: Supporting and Investing in Human Resources</b>	
Establishing the Linkages of Human Resource Development with Inclusive Growth	Tereso S. Tullao Jr., Christopher James Cabuay and Daniel Hofileña
<b>Priority 4: Building Sustainable and Resilient Communities</b>	
Inputs for Philippine Hosting of APEC 2015: Food Security	Roehlano M. Briones, Ivory Myka R. Galang and Danilo C. Israel
Deepening Regional Cooperation for Disaster Recovery and Reconstruction: A Proposal for Proactive Approach to Risk Financing	Cathy G. Vidar and Erlinda M. Medalla
Building Philippine MSMEs Resilience to Natural Disasters	Marife M. Ballesteros and Sonny N. Domingo
Social Protection in the Philippines: In Pursuit of Inclusive Growth	Janet S. Cuenca

#### Additional References

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