Fostering Sustainable, Innovative and Inclusive Growth

Submitted by: Policy Support Unit, APEC Secretariat
Where APEC is now:
Growth in APEC mirrors weakness in global economy

- The APEC region continued to grow during Q2 2016 at 2.4 percent, slightly higher than the previous quarter’s level of 2.3 percent, but lower than the 2.8 percent GDP growth posted in Q2 2015.

GDP Growth Rates, year-on-year (y-o-y), Q2 2015 and Q2 2016

Note: Data not available for Brunei Darussalam and Papua New Guinea.
Sources: Asian Development Bank (ADB), International Financial Statistics (IFS), the World Bank (WB), the Economist Intelligence Unit, various economy sources, and APEC PSU staff calculations.
The contributions of private and public consumption to GDP growth remained crucial, particularly in view of persistently weak global demand which adversely affected trade growth.

**Note:** Data on quarterly contributions to GDP (expenditure side) are not available for Brunei Darussalam, Papua New Guinea, Russia, and Viet Nam. Missing bar per economy denotes either unavailability of data or zero percent.

**Source:** Statistics Offices and Central Banks of APEC member economies

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**Where APEC is now:**
Domestic consumption buoyed economic growth as trade remains low

- On average, the APEC region's merchandise trade values contracted by 6.4% for exports and 6.6% for imports

**Note:** Data not available for Papua New Guinea

**Source:** World Trade Organization (WTO), Brunei Darussalam Economic Planning and Development Office and APEC PSI staff calculations
In 2015, the APEC region attracted USD 953 billion worth of FDI, equivalent to around 54.1% of world FDI and a growth of 42.3% from the 2014 level. 

**FDI Flows (in billion US dollars) and APEC Share of World FDI (rhs, in %), 2000-2015**

- Trade-restrictive measures have increased while trade-facilitating measures have declined in APEC.
- Investment-friendly measures also went up, even as investment-restrictive measures were also slightly higher.

**Note:** Only nine of the 21 APEC member-economies belong to the G-20 including Australia, Canada, China, Indonesia, Japan, Korea, Mexico, Russia, and the United States.

**Source:** UNCTAD World Investment Report 2016

**Source:** OECD-WTO, Trade and Investment Measures.
Near-term outlook points to continued growth but downside risks are dominant

- In the near-term, APEC economies are expected to continue to grow but at varying speeds.
- Trade growth and FDI flows are anticipated to slow down in 2016 before picking up in 2017-2018.
- Upside potential for APEC growth could come from improvements in industrial production and commodity prices as well as sustained FDI inflows.
- Downside risks could emanate from China’s rebalancing, uncertainty in US interest rates, medium-term impact of Brexit, and rising protectionism.
- Balance of risks is tilted to the downside.
- An appropriate policy mix of short-term and medium-term measures supports higher and more sustainable growth.

### Real GDP Growth, in percent

![Real GDP Growth Chart](chart)

**Source:** IMF WEO October 2016

What’s next for APEC: Skills development in a Digital Age

- A higher rate of digital technology use is correlated with per capita GDP. A plausible explanation is that digital technology increases GDP through its impact on consumption and production, while a higher income also increases firms’ and households’ access to digital technology.
- But linkages between digital technology and employment are unclear, suggesting opposing impacts.

### Scatterplots of real per capita GDP and digital technology use, 2000-2014

![Scatterplots Chart](chart)

**Note:** Fitted curves are generated using non-parametric locally weighted scatterplot smoothing (LOWESS).

**Source:** World Bank, World Development Indicators and Directorate General for Budget, Accounting and Statistics (Chinese Taipei).
Skills needed in a modern economy

- Cognitive
  - literacy, numeracy, and cognitive skills
  - Problem-solving ability
  - Verbal ability, memory, and mental speed

- Social and behavioural
  - Socioemotional skills and personality
  - Openness to experience, conscientiousness, extraversion, and emotional stability
  - Self-regulation, mindset and interpersonal skills

- Technical
  - Knowledge of methods and tools
  - General technical skills from schooling and training
  - Occupation-specific skills

What’s next for APEC: Skills development in a Digital Age

• Employment in the digital age requires basic cognitive skills, such as literacy and numeracy, while a well-equipped worker needs skills that are easily transferable across jobs and occupations.

• A worker needs to be adaptive and flexible, being quick to learn new skills as they are required by the job market. As the World Bank (2016) put them, workers in the digital age require higher-order cognitive, socioemotional, and technical skills.

Evolution of APEC Growth Strategy (2009-present)

• In 2009, the APEC Growth Strategy was launched in response to the 2008 Global Financial Crisis.

• In 2010, APEC Leaders endorsed the APEC Growth Strategy, which aimed to achieve balanced, inclusive, sustainable, innovative, and secure growth.

• Consistent with other APEC initiatives, the APEC Growth Strategy (2010-2015) rests on three pillars:
  1. trade and investment liberalization;
  2. business facilitation; and
  3. economic and technical cooperation.

APEC Objectives
- Sustainable Development
- Equitable Growth
- Strengthening Asia-Pacific Community
In 2014, APEC Leaders endorsed the Accord on Innovative Development, Economic Reform and Growth, which aims to promote closer cooperation in five areas:

1. Economic reform;
2. New economy;
3. Innovative growth;
4. Inclusive support; and
5. Urbanization.

In 2015, reaffirming their commitment to the 2010 APEC Growth Strategy, APEC Leaders agreed on an APEC Strategy for Strengthening Quality Growth (2015-2020), by contributing to the achievement of three Key Accountability Areas (KAAs):

1. Institution building;
2. Social Cohesion; and
3. Environmental Impact

Recent Studies on Inclusive Growth by the APEC Policy Support Unit (PSU)

The following lists selected APEC-PSU studies, policy briefs, and other papers on inclusive growth from 2014-present:

<table>
<thead>
<tr>
<th>Selected PSU Studies</th>
<th>Key Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Integrating SMEs into Global Value Chains: Policy Principles and Best Practices (May 2014)</td>
<td>• Policies to integrate SMEs are needed on two levels: 1) on a general/horizontal level, economies should promote awareness and understanding of the benefits of global value chains; and 2) on an industry-specific level, economies should identify strengths, weaknesses, opportunities and threats for domestic SMEs to enter into global value chains and assist SMEs with relevant policy tools/packages.</td>
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<td>Innovation, Competitiveness and the Role of Fiscal Policies (November 2014)</td>
<td>• APEC members need to place greater emphasis on promoting research and development (R&amp;D) and encouraging innovation as important pathways to strengthen the region’s competitiveness, raise labor productivity and address the effects of changing demographics.</td>
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### Recent Studies on Inclusive Growth by the APEC Policy Support Unit (PSU)

#### Selected PSU Studies

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<td>• Household demand—rather than trade or government spending—is the main driver of growth in the APEC region in recent years. Based on this finding, it seems that future APEC growth lies in strengthening household consumption through structural reform. Numerous studies show that structural reforms not only contribute to raising productivity, they also help make growth more inclusive.</td>
<td>Structural Reform for Resilient and Inclusive Growth (August 2015)</td>
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<td>• APEC economies have been undertaking efforts to improve the conditions for the participation of women in the economy, however, women participation in such areas as financial services; science, technology and engineering; and leadership positions in both public and private sectors remain low.</td>
<td>The APEC Women and The Economy Dashboard 2015 (September 2015)</td>
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<td>• Enhancing the inclusiveness of tourism requires active policymaking at three levels: destination, economy, and international.</td>
<td>Tourist Arrivals and Inclusive Growth (August 2016)</td>
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<td>• Proposed 17 indicators associated to the RAASR pillar on “deeper participation by all segments of society including MSMEs, women, youth, older workers, and people with disabilities”, ensuring that indicators contribute towards evaluating the inclusiveness of structural reform policies.</td>
<td>Exploring Quantitative Indicators for Effective Monitoring of APEC-wide Progress on Structural Reform under RAASR 2016-2020 (October 2016)</td>
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"The prospects for the shared prosperity of APEC will depend on innovative development, economic reform, and growth in the region, which are complementary and mutually reinforcing."

-2014 APEC Leaders’ Declaration
11 November 2014, Beijing, China

• In response to the statement by APEC leaders, the 2015 AEPR conducted a study to examine the link between structural policy settings and firm-level innovation across the APEC region.

• The findings of the AEPR study show that:
  ➢ There is significant diversity even between economies at the same levels of development.
  ➢ Structural policies play a critical role in the development of high performing national innovation systems.
  ➢ All member-economies face capability challenges in developing policies and institutions that will improve firm innovation outcomes.

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