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Agenda Item: 1.4

## **APEC Regional Trends Analysis – Mixed Growth and Heightened Uncertainty**

Purpose: Information  
Submitted by: Policy Support Unit, APEC Secretariat



**25th Finance Ministers' Meeting  
Port Moresby, Papua New Guinea  
17 October 2018**



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# APEC Regional Trends Analysis (ARTA)

## *Mixed growth amid heightened uncertainty*

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APEC Finance Ministers' Meeting

17 October 2018  
Port Moresby, Papua New Guinea

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for Asia-Pacific **Prosperity**

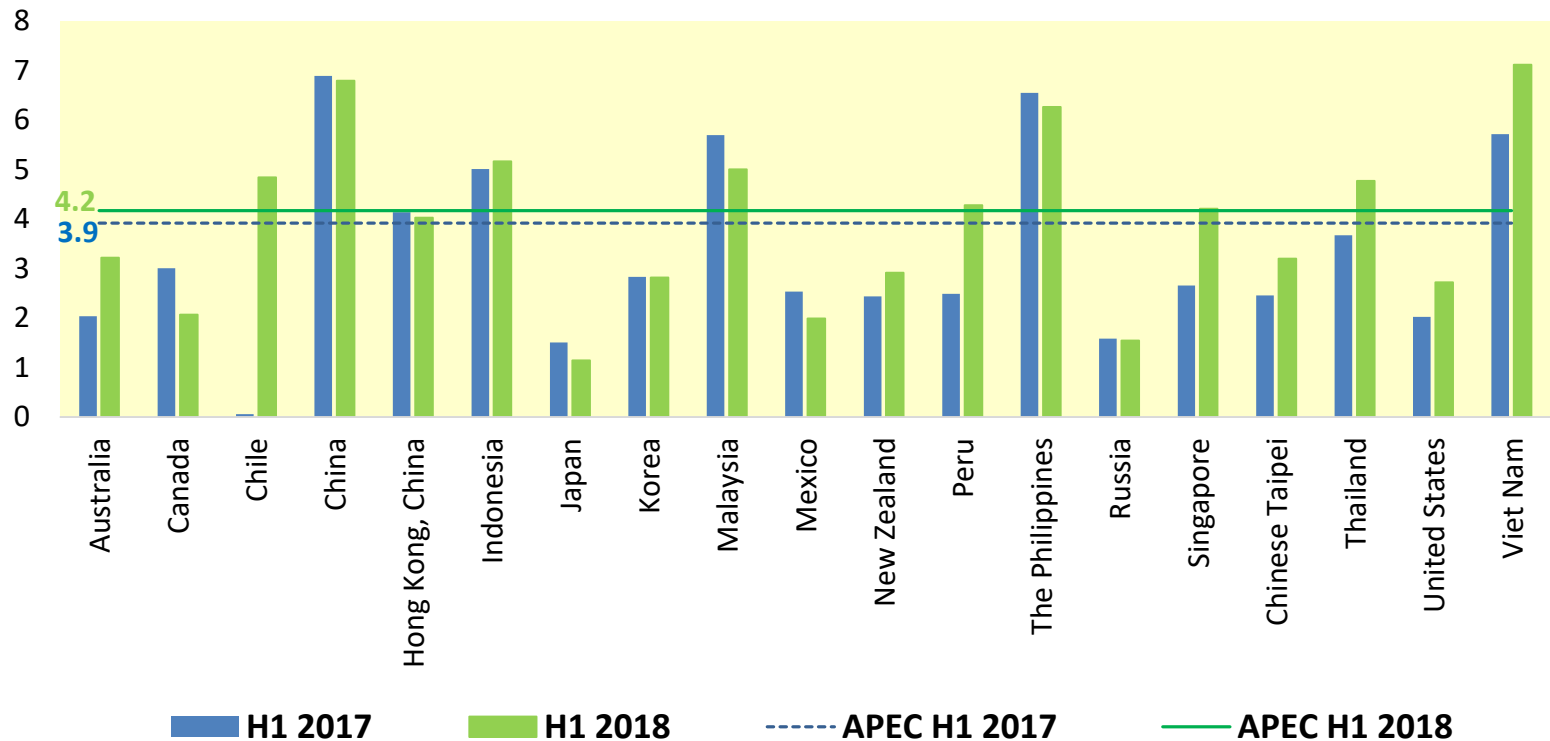
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# Growth is mixed in the APEC region due to elevated and prolonged uncertainty

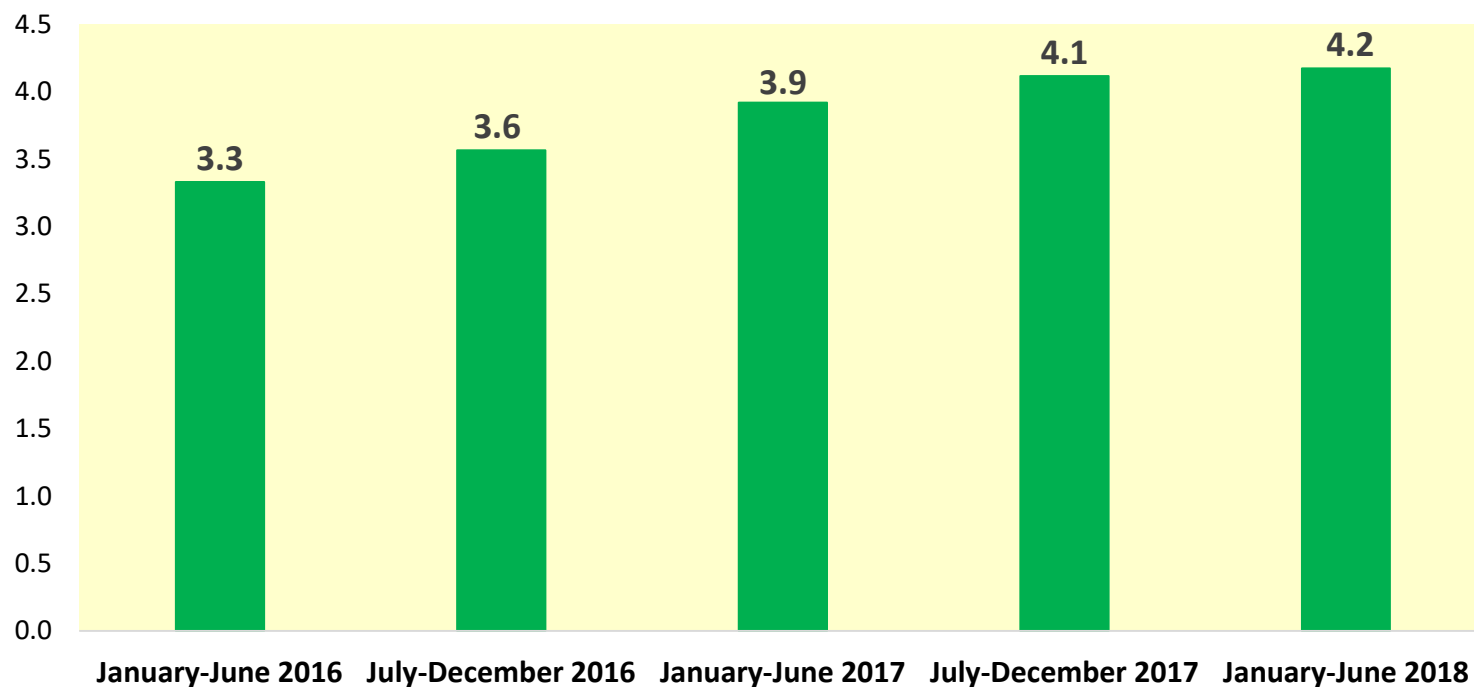
- Growth is uneven across APEC as economies face increased uncertainty from ongoing trade tensions, exchange rate pressures, and higher oil prices.

Real GDP Growth Rates, year-on-year (y-o-y, in%), 1H 2017 and 1H 2018



# Following a surge in growth from 2H 2016 to 1H 2017, APEC has since expanded by a slower pace, inching to 4.2 percent in 1H 2018

Real GDP Growth Rates, (weighted average, y-o-y, in%), 1H 2016-1H 2018

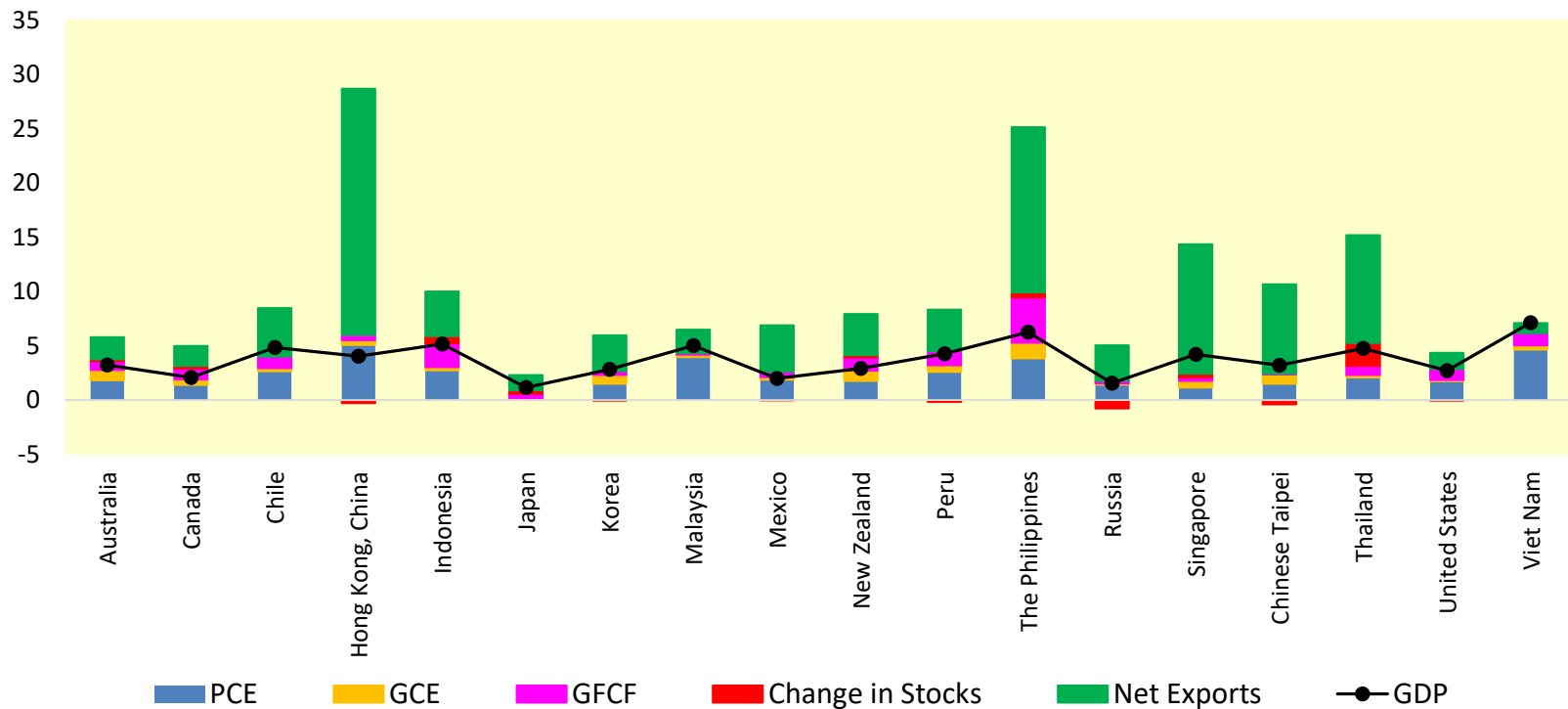


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# Domestic consumption remains as a stable source of growth even as exports sustain strength

- Household consumption continues to be a consistent driver of growth in the region, even as trade sustains solid contribution to APEC GDP growth from 2017 up to the first half of 2018.

Contribution to APEC Real GDP Growth (in%), January-June 2018

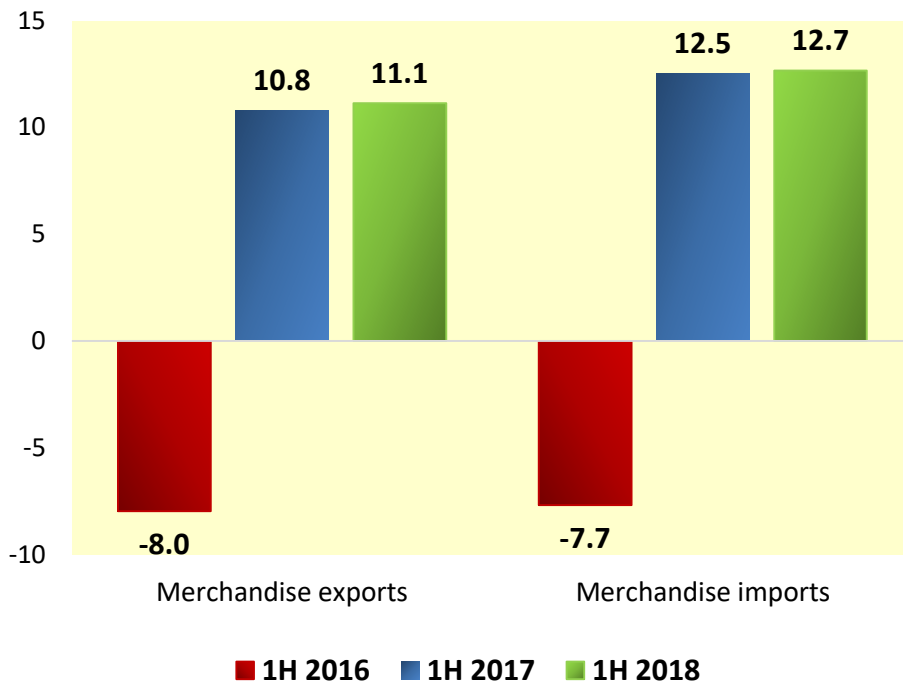


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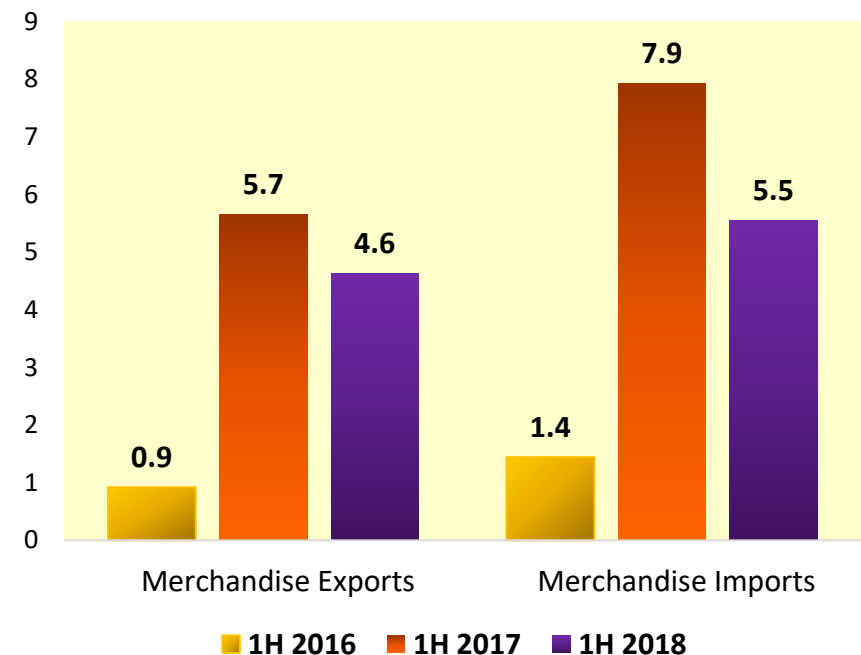
# While the value of merchandise trade shows modest gains, the volume of trade declines

- Even with the ongoing global demand momentum, the value of APEC trade went up only marginally in the first half of 2018.
- The rise in trade measures targeting exports has started to affect the volume of trade.

Value of APEC Trade (y-o-y, in%), H1 2016-2018



Volume of APEC Trade (y-o-y, in%), H1 2016-2018

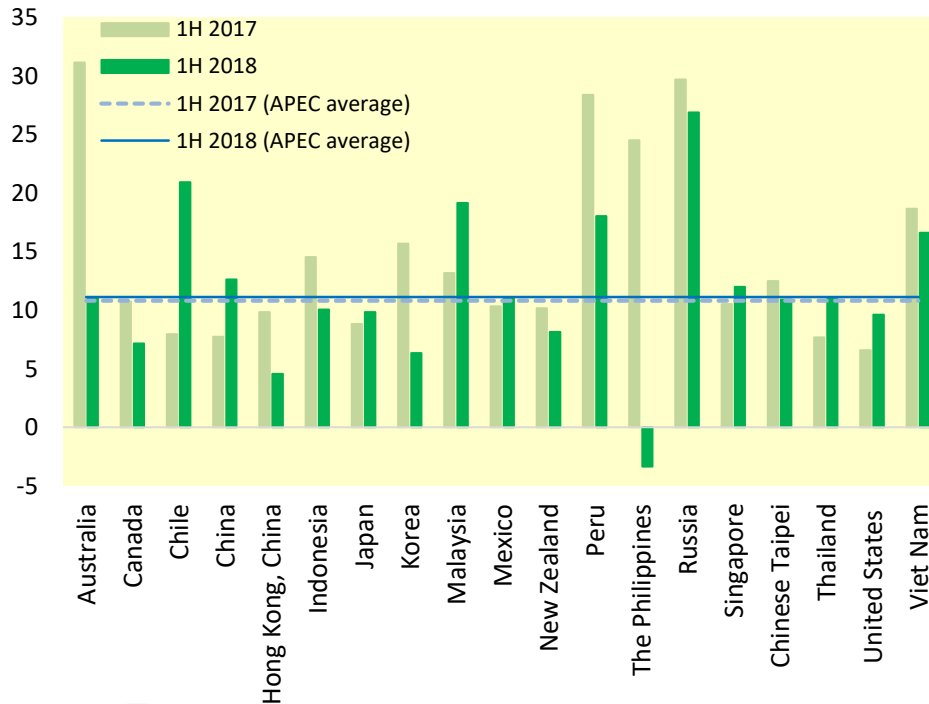


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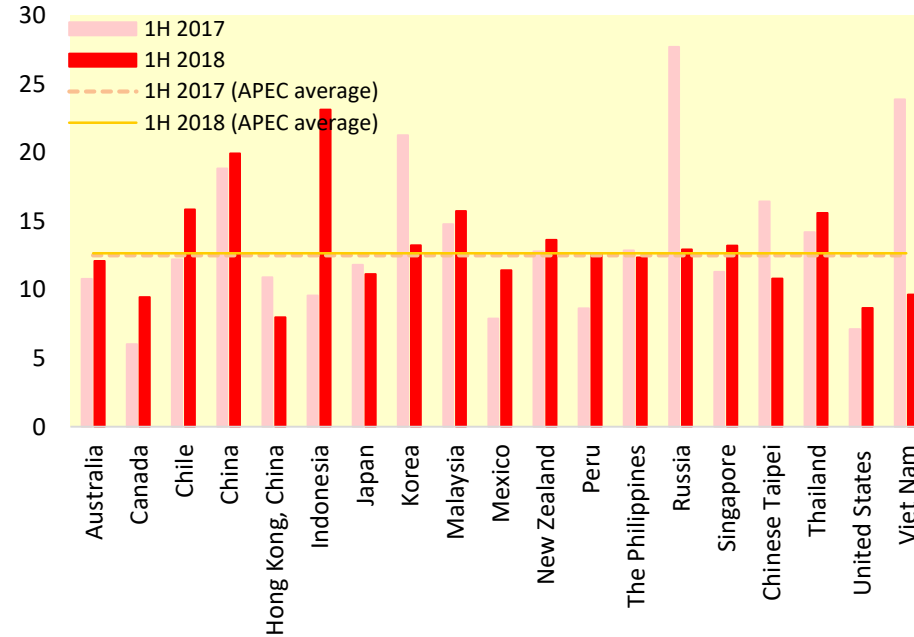
# Trade growth has also become uneven across APEC as trade tensions rise

- Along with GDP growth, exports performance has become uneven, with 11 APEC economies showing moderation so far in 2018 compared to a general reversal to growth in 2017.

**Growth in the Value of Merchandise Exports (y-o-y, in%), 1H 2017 and 1H 2018**



**Growth in the Value of Merchandise Imports (y-o-y, in%), 1H 2017 and 1H 2018**

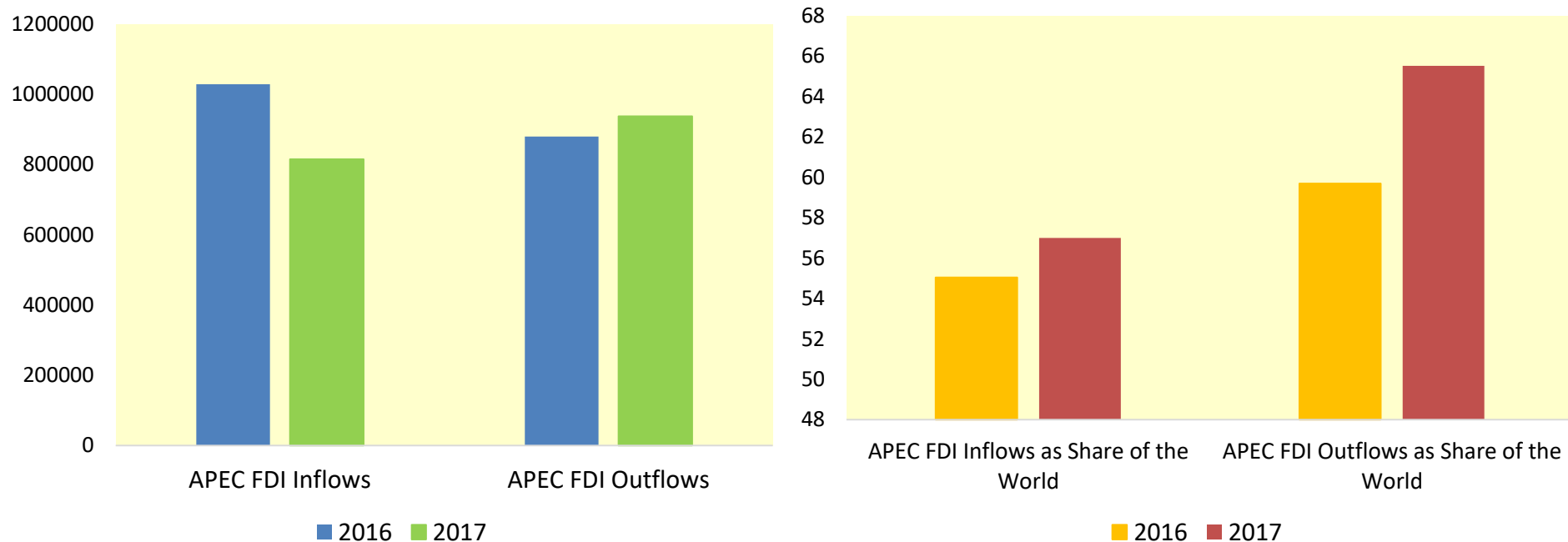


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# FDI inflows to APEC slows as FDI outflows rises in tandem with global movements

- Global FDI flows dropped by 23 percent to US\$1.43 trillion in 2017.
- APEC FDI inflows also fell by 20.7 percent in 2017 while APEC FDI outflows rose by 6.5 percent.
- APEC's share of world FDI inflows increased to 57 percent in 2017 but its share of FDI outflows was also higher at 65.5 percent.

**FDI Inflows and Outflows in APEC (value in million USD, share in percent), 2016-2017**

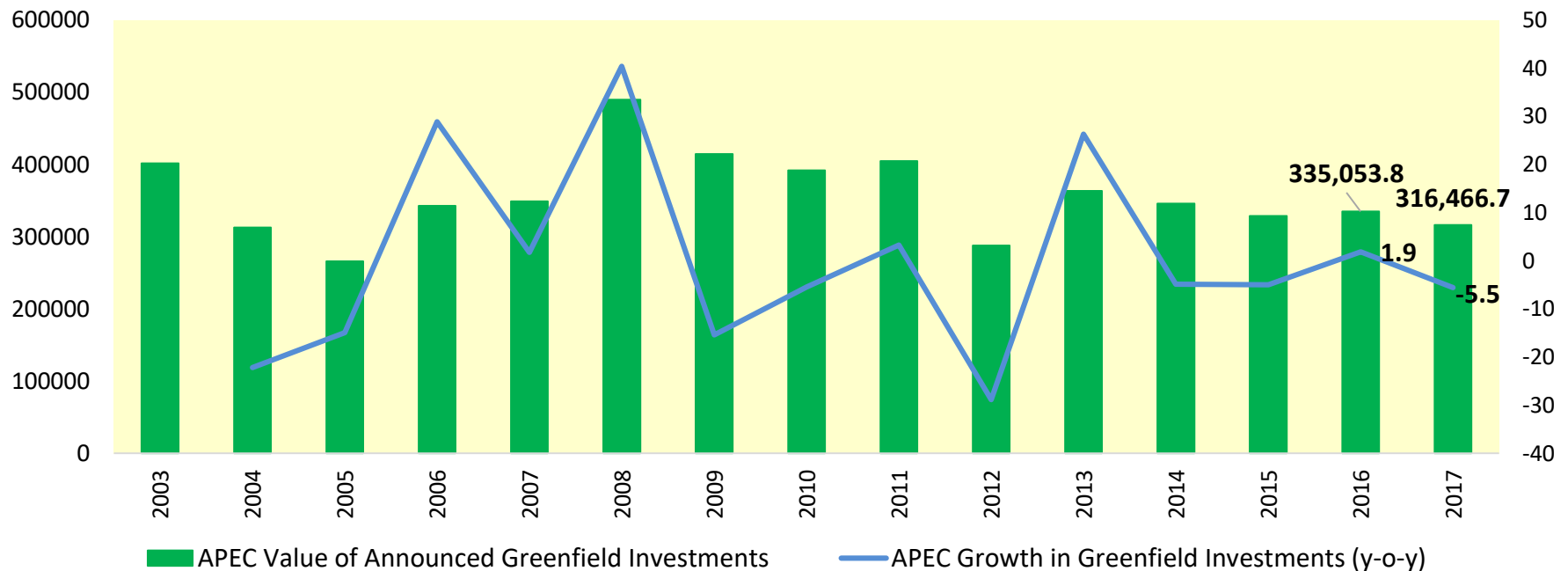




# Value of announced greenfield investments also decreases in 2017, both globally and in APEC

- Greenfield investments in the APEC region declined by 5.5 percent in 2017, reflective of the 13.6-percent drop in world greenfield investments. This is cause for concern because greenfield investments are good indicators of investors' optimism about medium-term economic prospects since such projects require transfer of resources, equipment, technology, and skills from the investor to the economy.

Value of Announced Greenfield Investments (value in million USD, y-o-y growth in %), 2003-2017

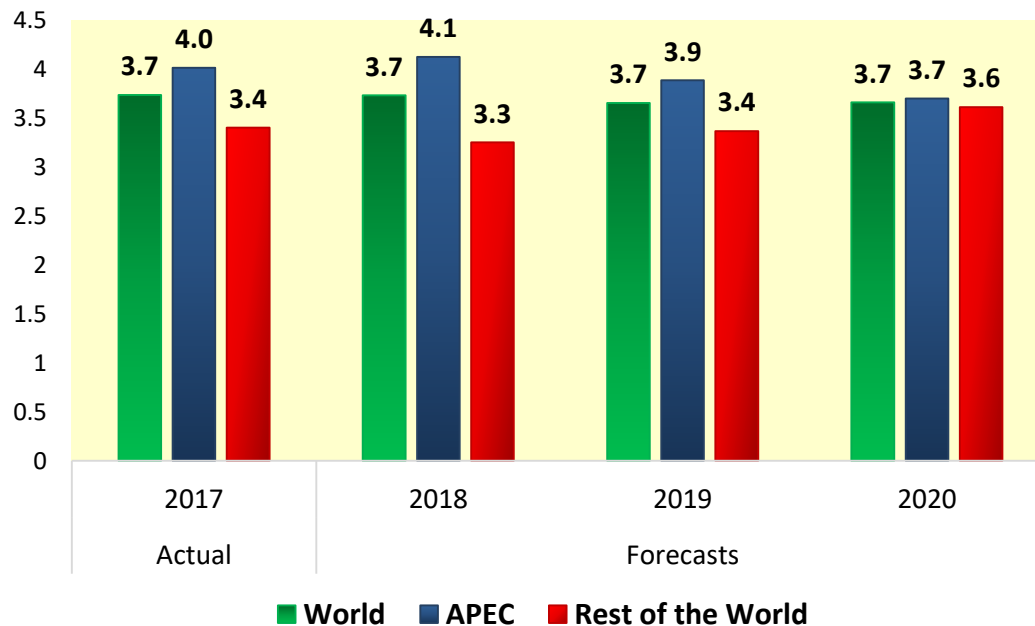


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# APEC region is expected to continue to grow at 4.1 percent in 2018, moderating in 2019-2020 along with world growth

- In the short-term, and barring adverse shocks, the APEC region is seen to continue to grow at 4.1% in 2018, benefiting from the sustained strength in global domestic demand.
- However, growth in APEC is projected to moderate in 2019-2020 in tandem with world growth.

Short-term GDP Growth Projections (in %), 2018-2020



	GDP Forecasts, IMF World Economic Outlook								
	April 2018			October 2018			Difference		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
World	3.9	3.9	3.8	3.7	3.7	3.7	-0.2	-0.2	-0.1
APEC	4.1	4.0	3.7	4.1	3.9	3.7	0.0	-0.1	0.0
ROW	3.6	3.8	3.9	3.3	3.4	3.6	-0.3	-0.4	-0.3



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# Uncertainty has tilted risks to the downside, both in the short-term and medium-term

- **Downside risks:**

- Protectionist trade measures and counter-measures
  - The WTO recently downgraded its outlook for world merchandise trade volume:

	Sep-18	Apr-18	Difference
2018	3.9	4.4	-0.5
2019	3.7	4	-0.3

- Policy uncertainty (monetary, fiscal, and trade policies)
- Upward trend in commodity prices and inflation rates coupled with exchange rate pressures
- Episodes of financial market volatilities

- **Upside Potential:**

- Continued strength in global demand redounding to domestic consumption

- **Other factors:**

- UK-EU relationship post-Brexit
- Ongoing geo-political tensions
- Terrorist attacks
- Adverse weather conditions

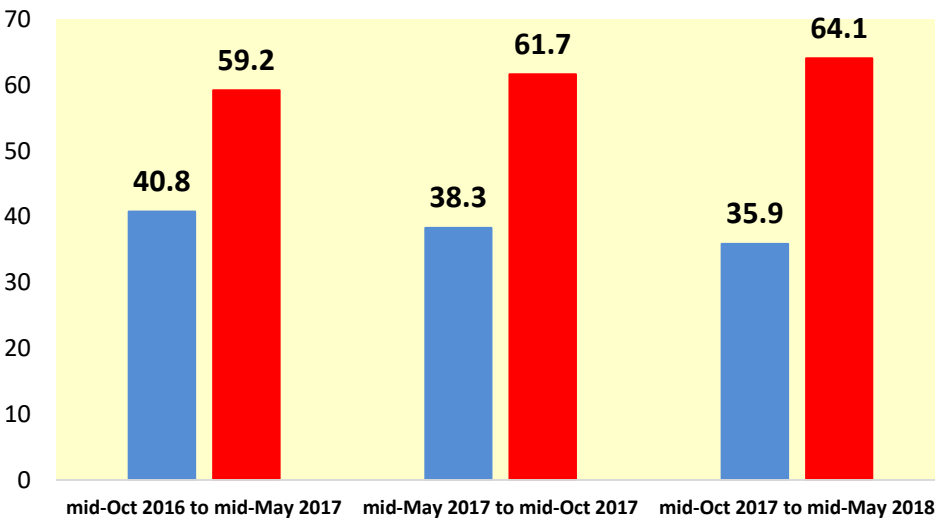


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# Restrictive trade and investment measures have outweighed facilitating measures

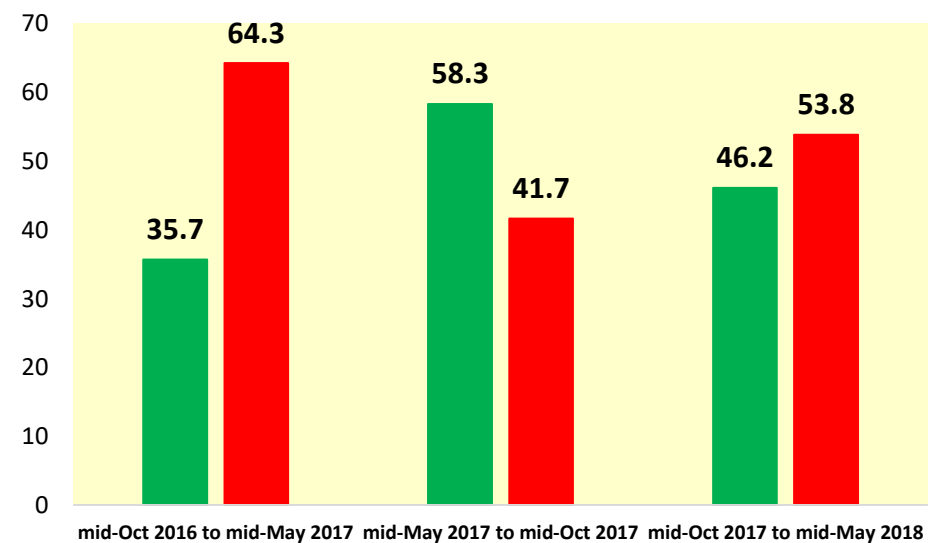
- As of the WTO-OECD-UNCTAD monitoring reports on trade and investment measures covering the period mid-October 2017 to mid-May 2018:
  - Restrictive trade and investment measures outnumbered facilitating measures

**Trade Measures (as % of total)**



■ Trade-facilitating measures ■ Trade-restrictive measures

**Investment Measures (as % of total)**



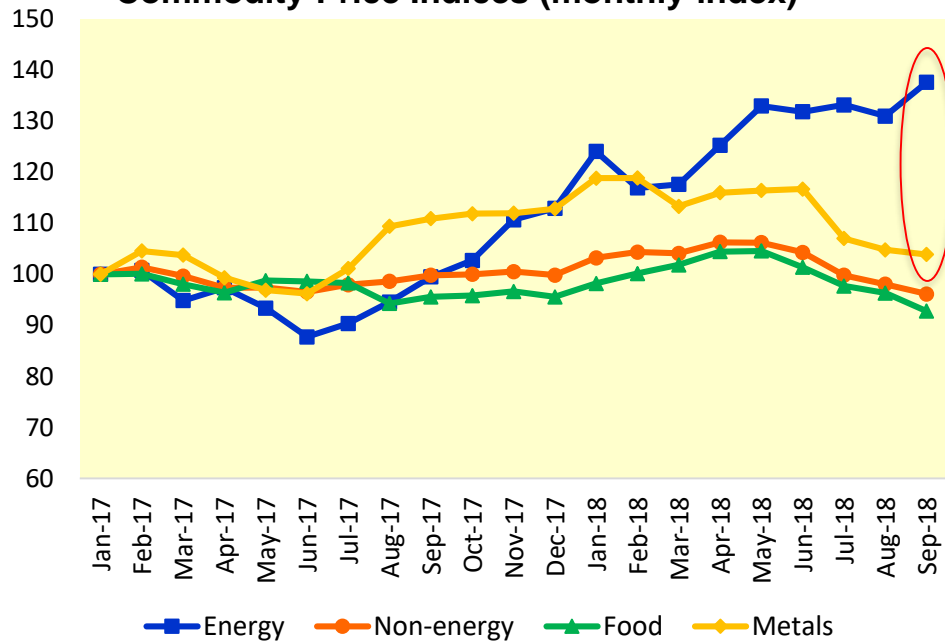
■ Investment-facilitating measures ■ Investment-restrictive measures



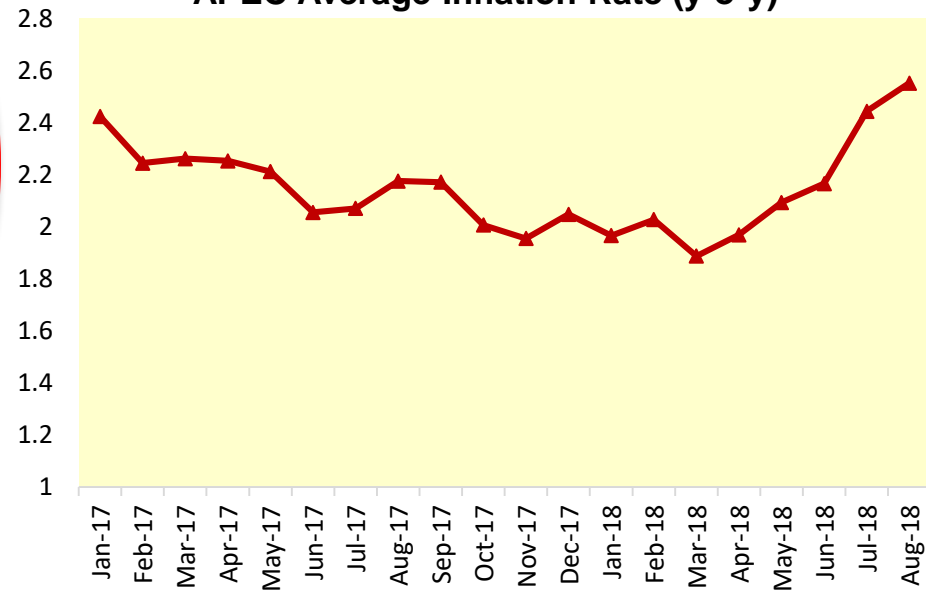
# Global commodity prices are expected to trend upwards in the near-term, led by energy

- Energy and metal prices have increased as of September 2018.
- In APEC, inflation averaged higher at 2.6% as of August 2018 from 2% in January 2017.
- The combination of strong global demand and supply constraints is expected to lead to higher commodity prices in the short-term, with forecasts of a 20 percent increase in energy prices in 2018.

**Commodity Price Indices (monthly index)**



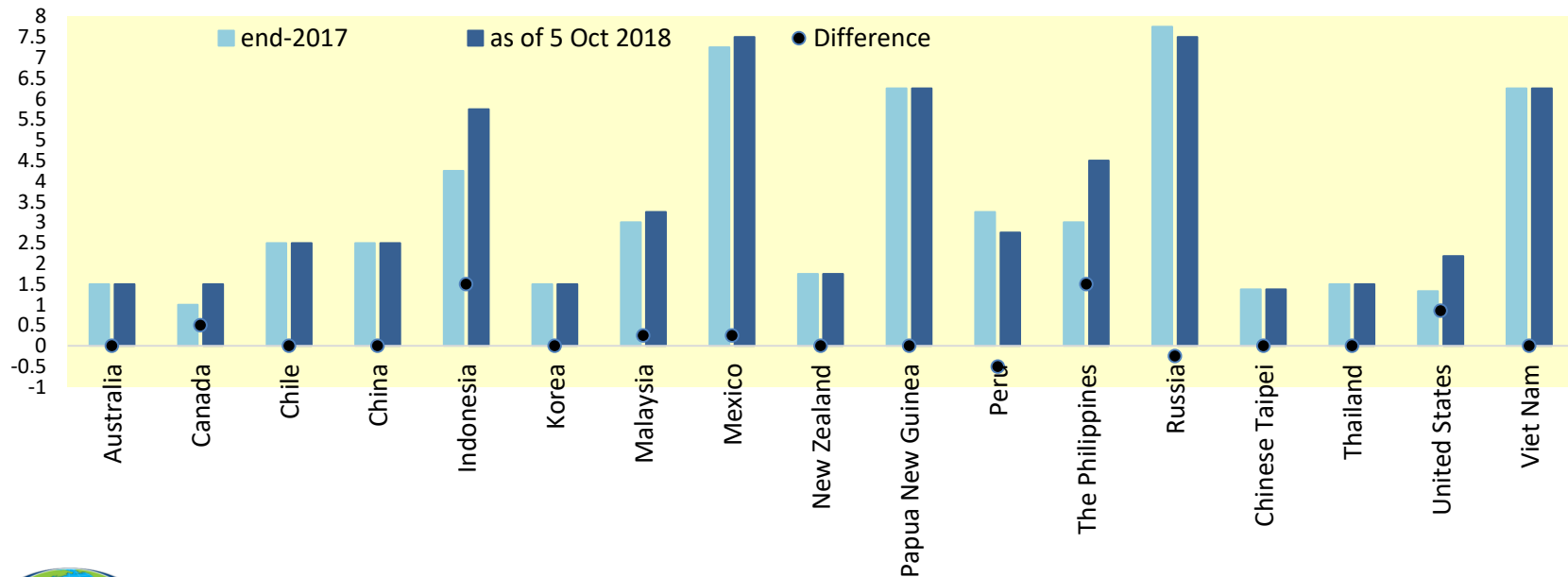
**APEC Average Inflation Rate (y-o-y)**



# Monetary policy: a delicate balance between supporting growth and managing inflation

- As of early October 2018, monetary policy decisions across APEC have been largely neutral.
- The US FOMC has implemented a gradual tightening of its target for the federal funds rate since Dec 2017 in view of a stronger US economy.
- Rising inflation combined with higher US interest rates could prompt a synchronized policy rate increase across the world, which could impact on the ongoing global economic momentum.

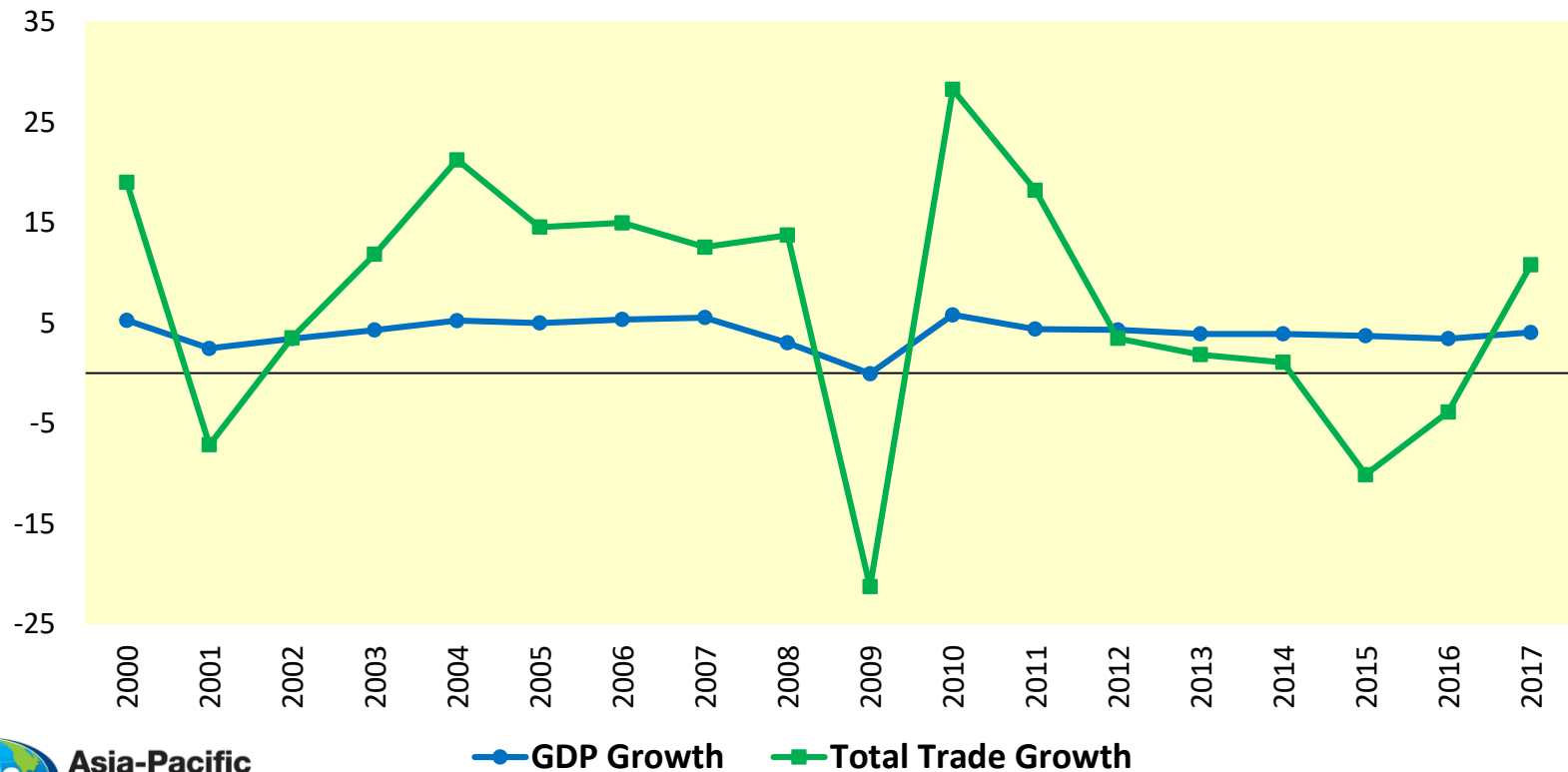
Monetary Policy Rates (in %)



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# Going forward: APEC cannot rely only on trade alone to drive economic growth in the region

- Since APEC's establishment in 1989, there have only been two years when APEC trade growth was lower than GDP growth: in 2001 during the dot-com bust and in 2009 in the aftermath of the GFC.
- However, from 2012-2016, trade growth has been lagging behind GDP growth. In 2017, trade growth has outpaced GDP growth.
- **Message: Trade as a driver of growth is no longer reliable, so that APEC may need to look beyond trade to ensure that growth is balanced, sustainable, and inclusive.**



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● GDP Growth

■ Total Trade Growth

# Boosting reliable sources of APEC Growth

- Amid persistent uncertainty in the external environment, APEC needs to continue to boost reliable sources of growth.
- On the demand side:
  - ✓ **domestic consumption** continues to be the strong and steady support to economic growth.
  - ✓ there is room for **private investment** to contribute more to economic growth
  - ✓ the **growing middle class** in the region is a market segment that could significantly strengthen domestic demand
- On the supply side:
  - ✓ enhance the **services sector** to unlock opportunities for APEC economies
  - ✓ greater flexibility to **shift resources across sectors**





# Harnessing Future Drivers of APEC Growth

- **Opportunities in the digital economy**
  - **E-commerce** now makes up over 12 percent of total goods trade.
  - The advent of marketplace platforms has made it easier for more businesses particularly **SMEs to globalize** and sell to a market beyond domestic consumers.
- **Developing green technology**
  - Promoting **green technology among MSMEs**
  - Making environmental **resources more sustainable**
  - Further **reducing tariffs on environmental goods**
- **Increasing greenfield investments**
  - Economies benefit from greenfield investments since they require **transfer of resources, equipment, technology, and skills** from the investor to the economy.
- **Implementing productivity-enhancing reforms**
  - Improve **education, health, and other social services**
  - Encourage **innovation**
  - Bridge **infrastructure gaps**
  - Increase **women's participation** in economic activities



# Current Issues that Impact on Future Growth:

## ✓ **Demographics:**

- Addressing ageing population
- Allocating resources to prepare for significant future economic issues such as lower labor supply and higher healthcare costs

## ✓ **Digitalization and Employment:**

- Job replacement: mid-skill jobs can be replaced by computers
- Job polarization: as most routine mid-skill jobs are computerized, only non-routine and discretionary jobs at the low- and high-end of the skill spectrum will remain

## ✓ **Natural disasters and diseases:**

- ❖ In some developing economies, households near the poverty line are one disaster or disease away from falling into poverty
- ❖ Fiscal implications are significant and wide-ranging: preparing institutions, allocating emergency funds, repairing infrastructures, providing temporary shelters and livelihoods, among others.



# Trade, Policy, and the Pursuit of Inclusion

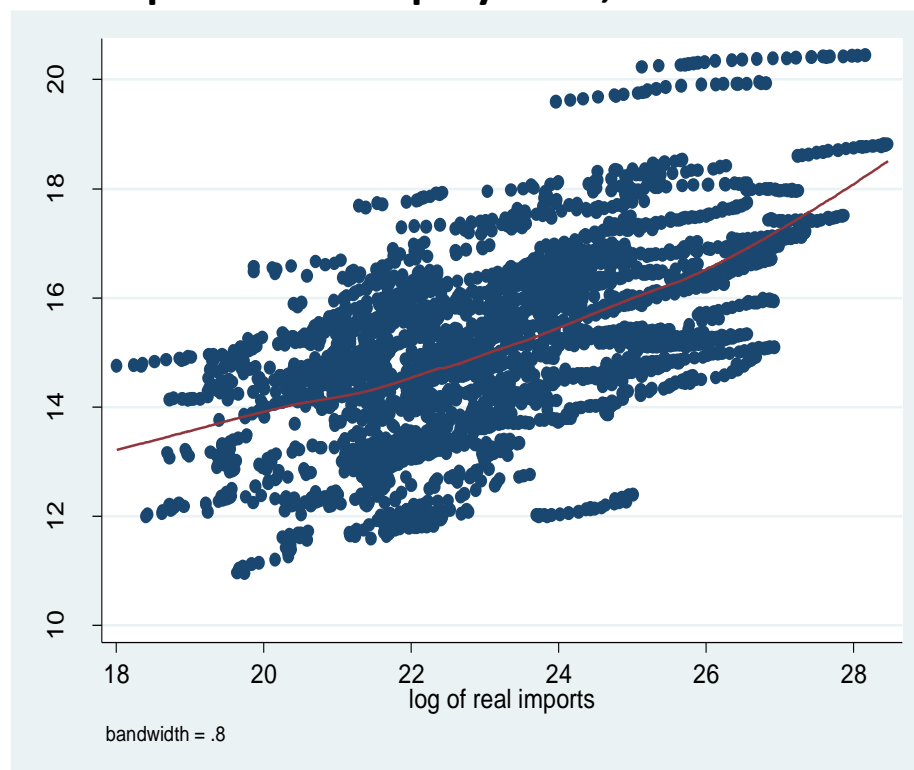
- **APEC Leaders have called for more inclusion in the region**
  - **2016 APEC Leaders Statement:** benefits of trade and globalization should be spread more equally
  - **2017 APEC Action Agenda on Economic, Financial, and Social Inclusion:** inclusive APEC community by 2030
- **Inclusion is often cited as a reason for protectionism**
  - Increase production at home
  - Protect local firms and industries
  - Protect jobs and raise workers' income
  - “Bring back” jobs that were outsourced



# Trade, Policy, and the Pursuit of Inclusion

- **Trade and globalisation can have negative impacts**
  - Reduced employment in import-competing sectors
  - Offshoring and automation
  - Declining labour share in GDP
- **But protectionism is not inclusion**
  - Imports are not negatively correlated with employment at the macro level
  - Good for jobs in protected industry; bad for jobs elsewhere
  - Impacts: jobs losses and lower real wages in non-protected sectors; lower overall economic growth

Imports and employment, 1991–2016



# Trade, Policy, and the Pursuit of Inclusion

- **What is inclusion?**
  - Everyone contributes; everyone benefits
  - Need to address factors that prevent people from developing their capabilities and accessing economic opportunities
- **What contributes to inclusion?**
  - **Access to human capital development:** skills, health
  - **Access to opportunities:** infrastructure, financial inclusion
  - **Social inclusion policies:** labour policies, social protection, fiscal policies
  - **Trade and regional integration:** expand the set of available opportunities



# Trade, Policy, and the Pursuit of Inclusion

- **Importance of financial inclusion**
  - Helps households smooth consumption and mitigate economic risks
  - Enables access to human capital investment (education, healthcare)
  - Enables digital transactions for goods and services (e.g., e-commerce, sharing economy)
  - Access to credit for investment and entrepreneurship
- **APEC work on financial inclusion**
  - **APEC Financial Inclusion Initiative (2010)**: promote efficient and affordable financial services for MSMEs and households; establish Asia-Pacific Forum on Financial Inclusion with ABAC
  - **Cebu Action Plan (2015)**: one of the key objectives is to “advance financial inclusion for all households and business (including those led by women)”; Pillar 1 on Promoting Financial Integration focuses on financial inclusion, financial literacy, and making financial services more affordable
  - **Capacity-building package on financial inclusion and consumer protection (2018)**: initiated in SFOM 2018 in Madang, Papua New Guinea; case studies, good practices and policy principles on financial inclusion, innovation, literacy, and consumer protection; for delivery by FMM 2019



# Trade, Policy, and the Pursuit of Inclusion

- **Addressing inclusion in trade**

- **Trade adjustment policies:** addressing behind-the-border issues
- **Labour standards:** avoid a race to the bottom in wages and working conditions; application of ILO labour standards
- **Environment:** poor households are more vulnerable to, and less able to cope with, the impacts of environmental damage and extreme weather
- **Gender:** non-discrimination and support for women workers
- **Minorities:** promote greater involvement of indigenous groups and minorities in trade
- **MSMEs:** improving access to finance and fostering the use of e-commerce



# Trade, Policy, and the Pursuit of Inclusion

- **Policy pronouncements are good, but implementation is better**
  - Targeting and focusing of efforts
  - Complementarity of policies
  - Monitoring and evaluation
  - Accounting for local contexts
  - Sustainability





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