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Economic Cooperation**

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**2019/SOM1/FDM/006**

Agenda Item: 3.3

## **APEC Regional Trends Analysis - Mixed Growth Amid Heightened Uncertainty**

Purpose: Information

Submitted by: Policy Support Unit, APEC Secretariat



**APEC**  
CHILE 2019

**Finance and Central Bank Deputies' Meeting  
Santiago, Chile  
7-8 March 2019**



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# APEC Regional Trends Analysis (ARTA)

## *Mixed growth amid heightened uncertainty*

**Dr. Denis Hew, Director**  
APEC Policy Support Unit

APEC Finance and Central Bank  
Deputies' Meeting

7-8 March 2019  
Santiago, Chile

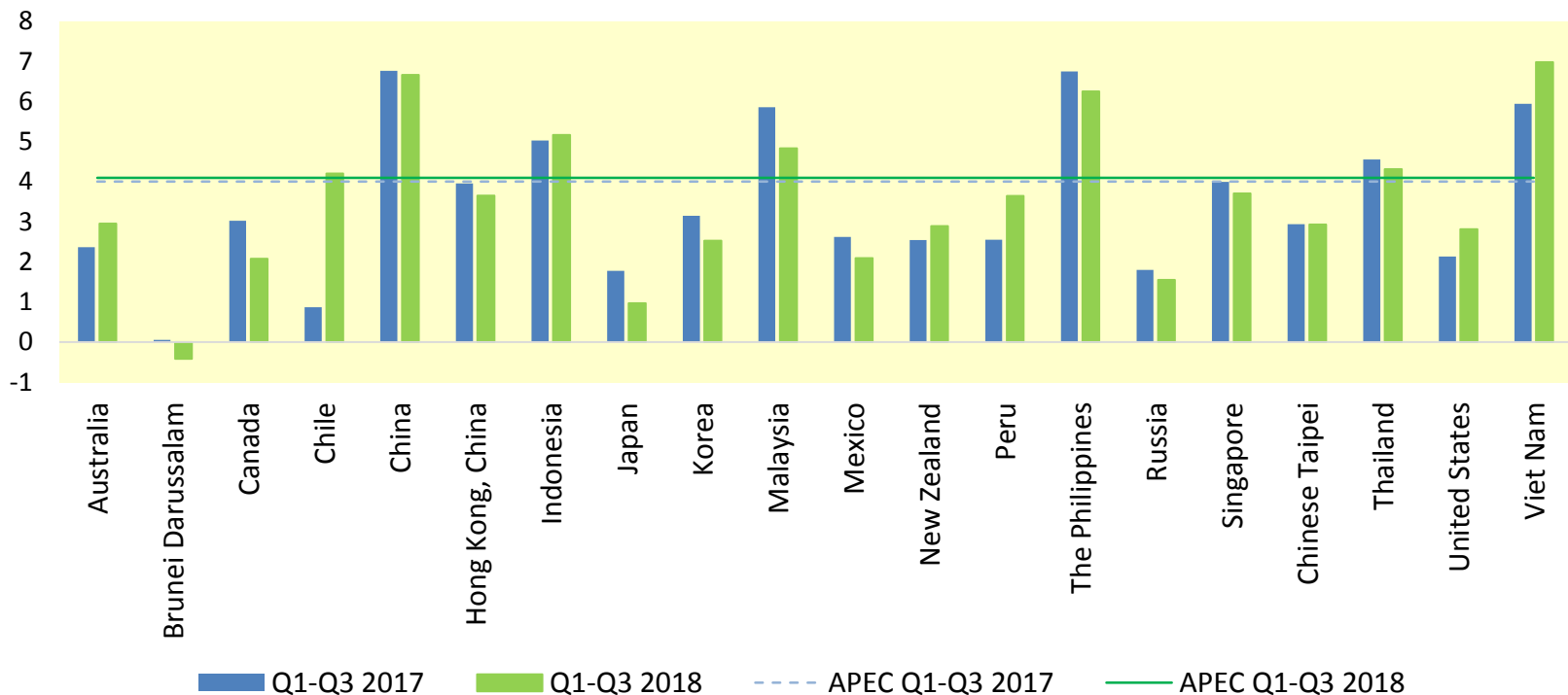


**Advancing** Free Trade  
for Asia-Pacific **Prosperity**

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

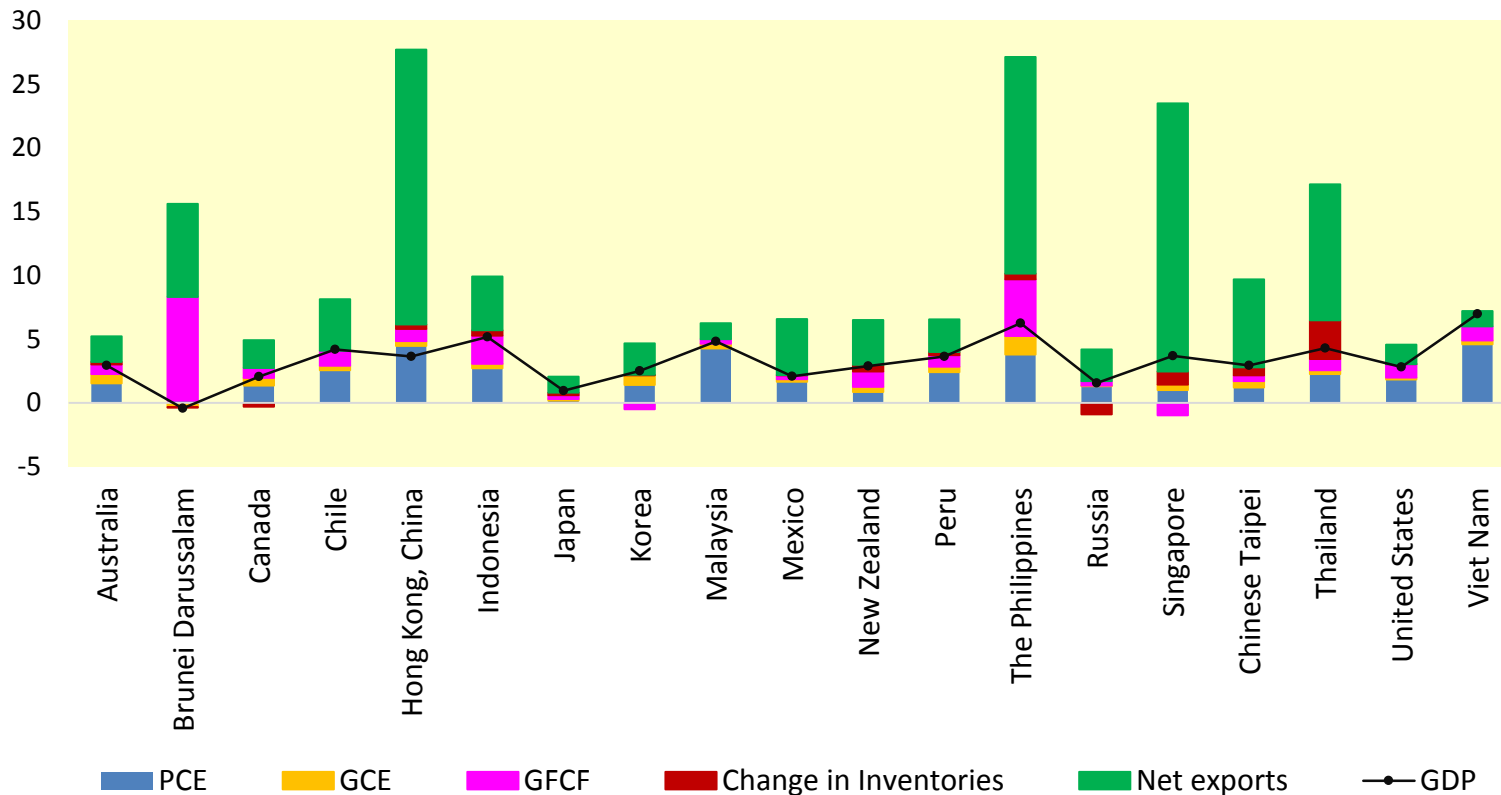
- Q1-Q3 2018 GDP growth of **4.1%** is slightly higher than Q1-Q3 2017 growth of **4.0%**
- **Growth is uneven** across APEC economies due to **heightened uncertainty**.

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



# Domestic consumption remains steady while exports sustain contribution to growth

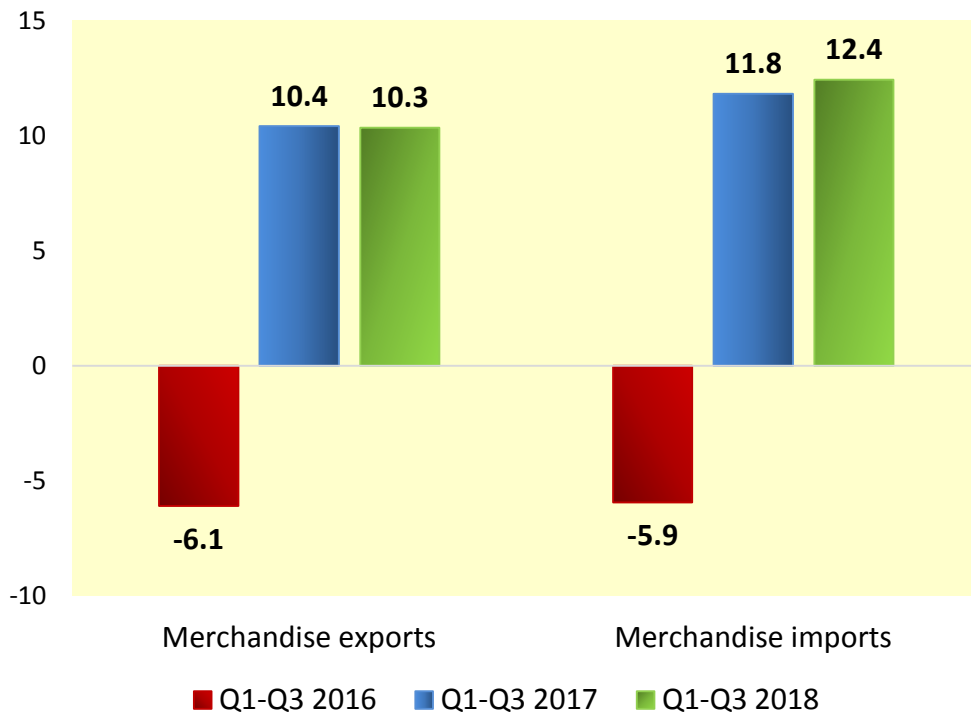
Contribution to APEC Real GDP Growth (in%), January-September 2018



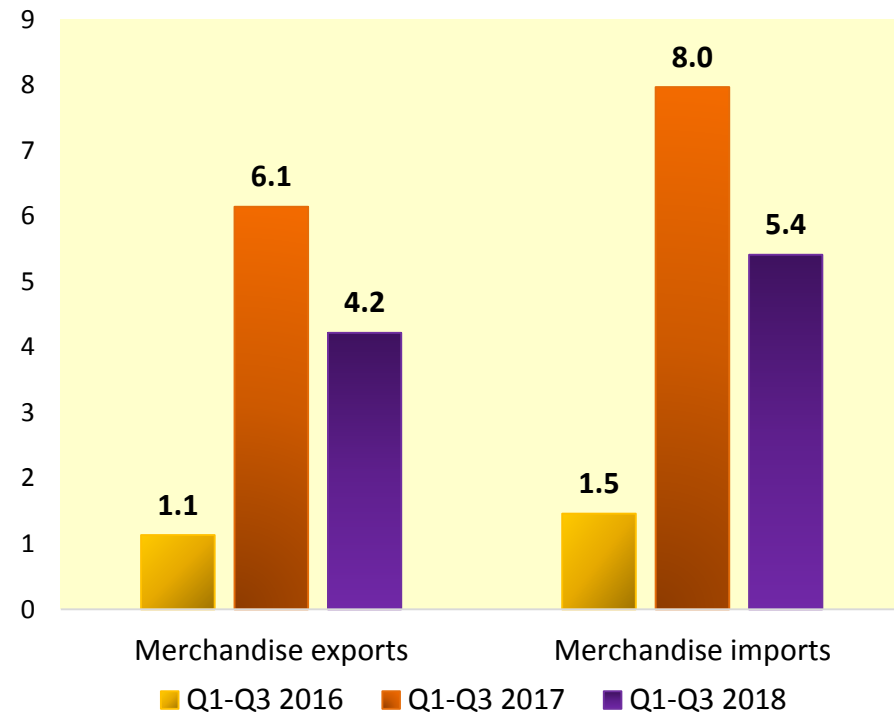
# Merchandise trade growth is starting to moderate

- Growth in the value of merchandise exports declined while it went up for merchandise imports.
- Growth in the volume of merchandise exports and imports decreased.

Value of APEC Trade (y-o-y, in%), Q1-Q3 2016-2018



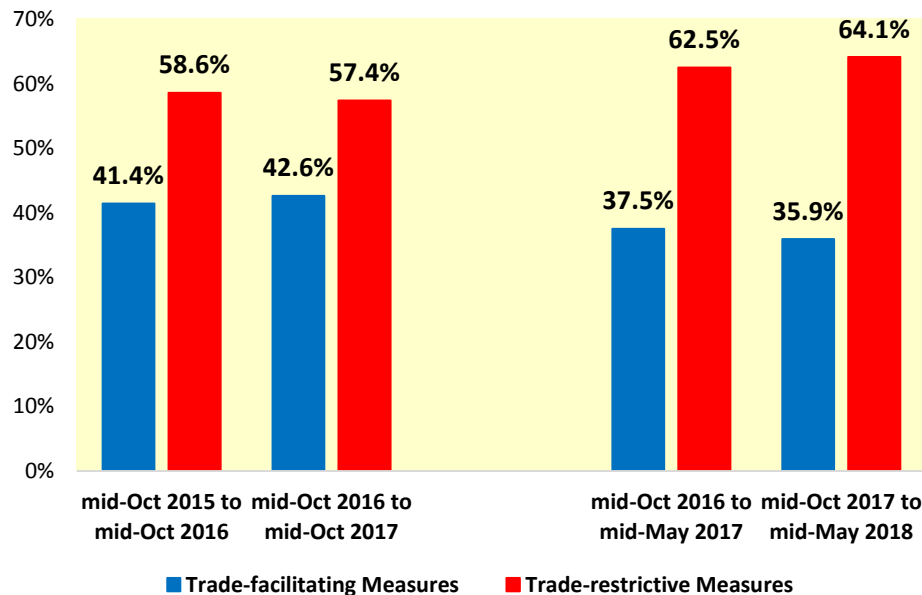
Volume of APEC Trade (y-o-y, in%), Q1-Q3 2016-2018



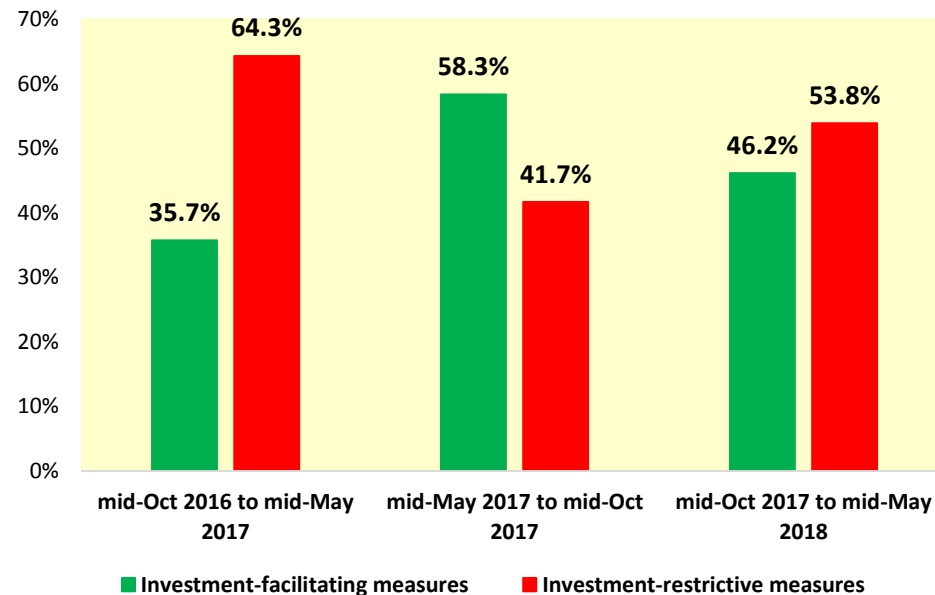
# Restrictive trade and investment measures have outweighed facilitating measures

- According to WTO reports on trade developments covering all APEC economies, trade-restrictive measures have consistently outnumbered trade-facilitating measures from mid-Oct 2015 to mid-May 2018.
- Latest available data also show an uptick in investment-restricting measures.

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

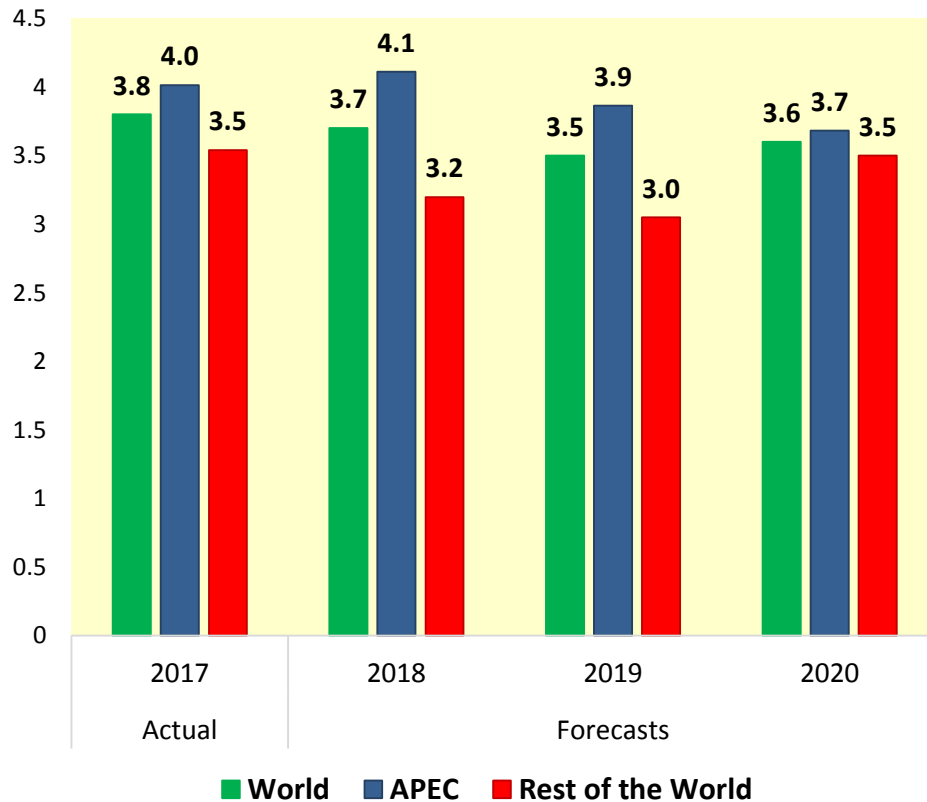


**Investment Measures (as % of total)**



# APEC region is estimated to have expanded by 4.1 percent in 2018, and expected to moderate in 2019-2020, still outpacing the rest of the world

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



- The balance of risks has tilted to the **downside** for both the **short term and medium term** due to uncertainty.
- A substantial part of this uncertainty is attributed to **escalating trade tensions**.

	IMF GDP Projections (WEO)					
	<u>October 2018</u>		<u>January 2019</u>		<u>Difference</u>	
	2019	2020	2019	2020	2019	2020
World	3.7	3.7	3.5	3.6	-0.2	-0.1
APEC	3.9	3.7	3.9	3.7	0.0	0.0
Rest of the World	3.4	3.6	3.0	3.5	-0.4	-0.1



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

- **Downside risks:**

- Trade policy uncertainty, including protectionist trade measures and counter-measures
  - The WTO 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

- Latest WTO trade indicator points to slower trade growth into Q1 2019
  - Greater-than-expected China slowdown
  - Episodes of financial market volatilities
- **Upside Potential:**
    - Continued strength in global demand redounding to domestic consumption
  - **Other possible factors:**
    - Brexit negotiations
    - Ongoing geo-political tensions
    - Terrorism
    - Adverse weather conditions, natural disasters

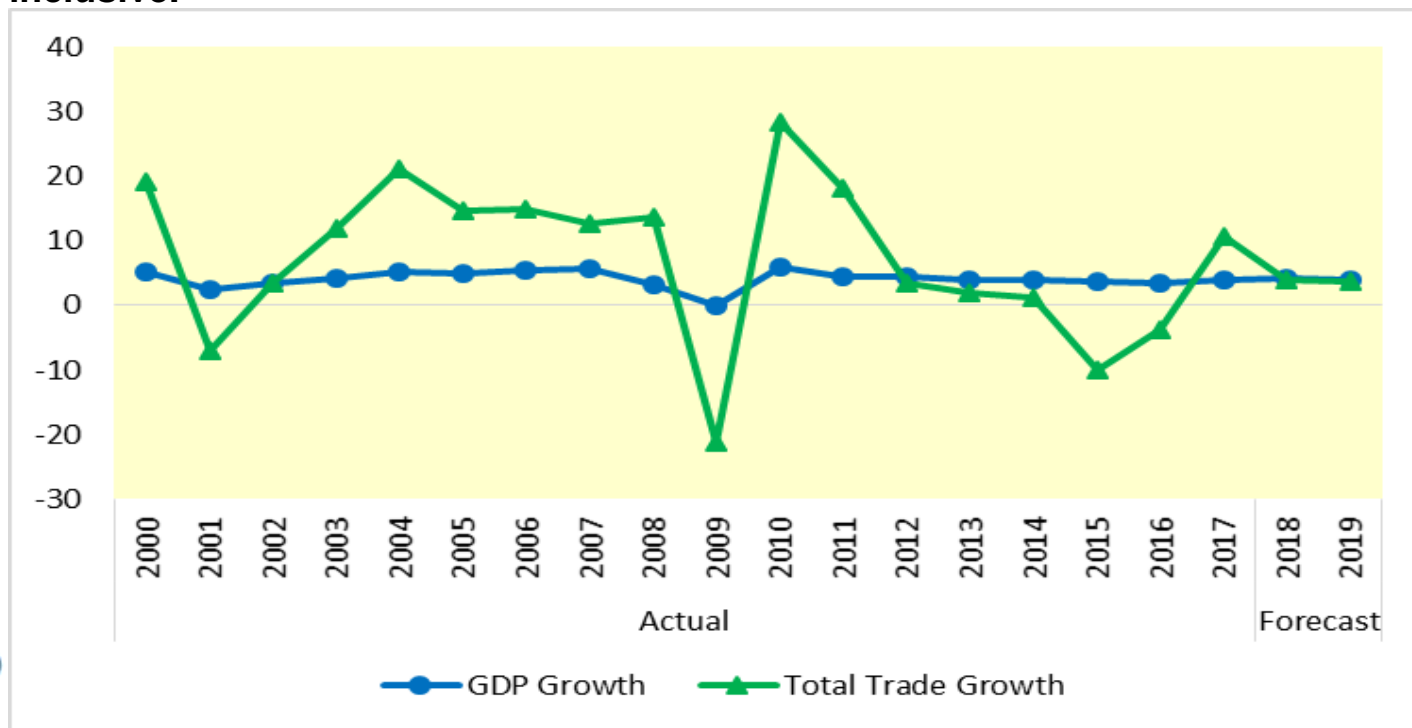


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# A PSU study shows that trade is no longer the reliable driver of APEC economic growth it once was

- 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, APEC trade outpaced GDP growth, with a projected convergence in 2018-2019.
- **Key finding: Trade as a driver of growth is no longer reliable.** In fact, when the responsiveness of economic growth to trade started to slow down, **trade was replaced by domestic consumption as the stable and strong source of growth among APEC economies.**
- **Message: APEC may need to look beyond trade to ensure that growth is balanced, sustainable, and inclusive.**



# 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.
  - ✓ 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



# Harnessing Future Drivers of APEC Growth

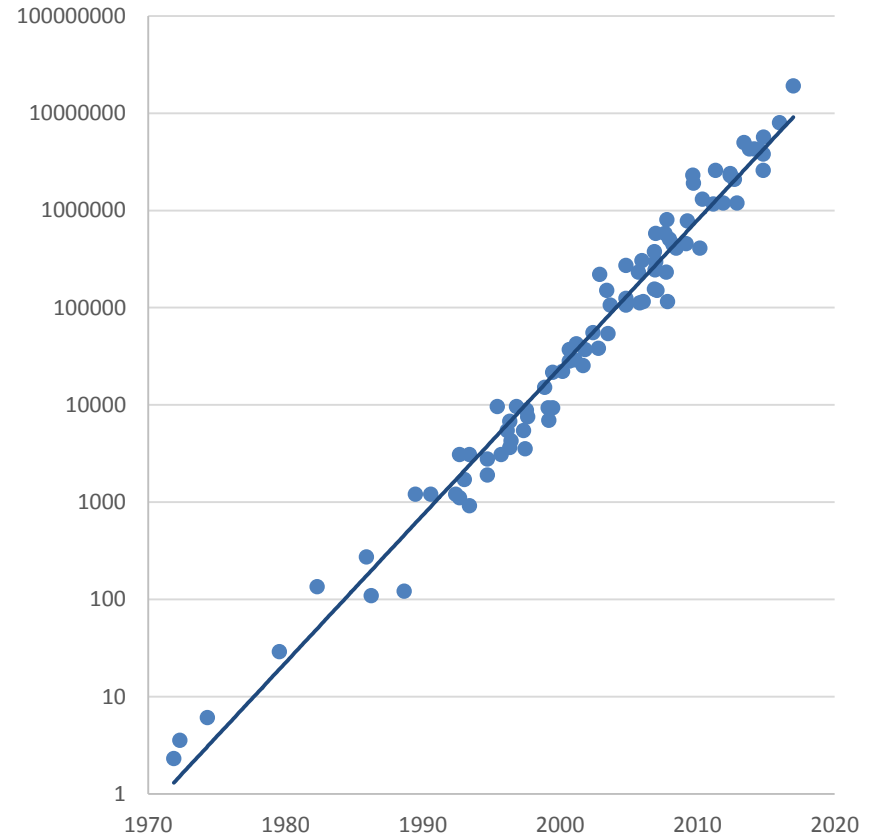
- **Opportunities in the digital economy**
  - **E-commerce** is estimated to make up over 12 percent of total goods trade.
  - Marketplace platforms have made it easier for more businesses particularly **SMEs to globalize** and sell to a market beyond domestic consumers.
- **Developing green technology**
  - 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



# The Digital Productivity Paradox

- **Industry 1.0:** Mechanisation, steam power
- **Industry 2.0:** Mass production, electrification
- **Industry 3.0:** Computerisation, automation
- **Industry 4.0:** Big data, decentralisation, interconnection
  
- Enabled by advancements in digital technology
- Changes the way we work, live, and interact
- Historically led to productivity growth and real wage growth → better living standards

**Transistor count per integrated circuit (in thousands), 1972–2017**



# The Digital Productivity Paradox



Maps



GPS



Libraries/  
Archives



Search  
Engines



Snail  
mail



Email/  
Messaging apps



Manual  
transcription



Voice-to-  
text apps



Typewriters -----> Word processors



Manual book-  
keeping/inventory



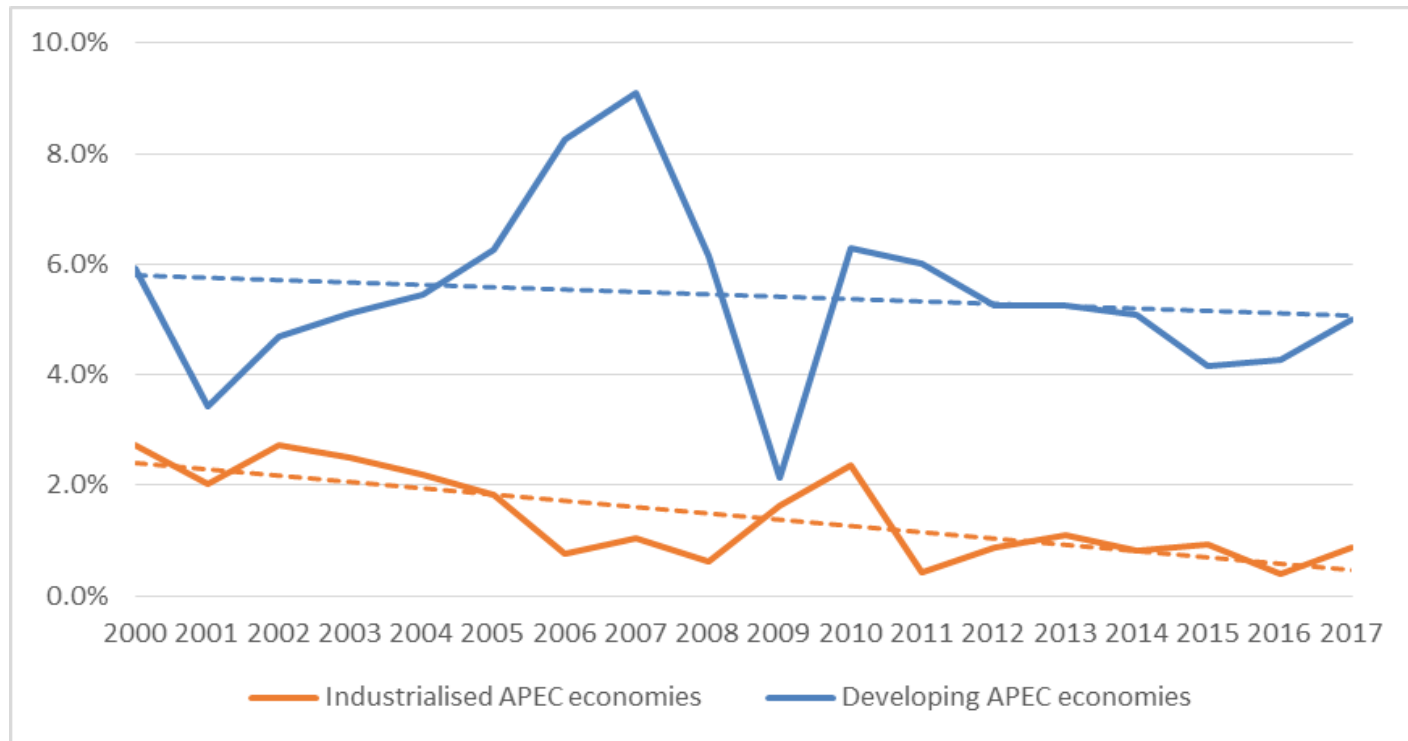
Point-of-sale  
systems



# The Digital Productivity Paradox

- All these technological advancements should be leading to sustained labour productivity and real wage growth, but...

**APEC labour productivity growth, 2000-2017**



# The Digital Productivity Paradox

- Outdated economic structures and indicators
- Constraints to entrepreneurship and innovation
- Structural unemployment
- Policy uncertainty

# The Digital Productivity Paradox

- Need for structural reforms
  - AEPR 2019 topic
- Revise ways of doing things
- Upgrade skills and social protection



# Find out more

## APEC Online and Social Media



Infographic:

[https://www.apec.org/Press/Infographics/1112\\_ARTA1](https://www.apec.org/Press/Infographics/1112_ARTA1)

Full report:

<https://www.apec.org/Publications/2018/11/APEC-Regional-Trends-Analysis---The-Digital-Productivity-Paradox>

# Find out more

## APEC Online and Social Media



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