



**Asia-Pacific
Economic Cooperation**

2020/SOM1/002
Agenda Item: 4A.5

APEC Regional Trends Analysis: Slower Growth, Bigger Challenges

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



**First Senior Officials' Meeting
Putrajaya, Malaysia
20-22 February 2020**

APEC Regional Trends Analysis (ARTA)
Counting What Counts: Going Beyond GDP

Gross domestic product (GDP) is an important barometer of economic health, providing estimates of the value of all goods and services produced within an economy. GDP and its related concepts, such as economic growth and productivity, dominate policy discussions and are often used as a proxy of economic achievement. The theme chapter of the APEC Regional Trends Analysis discusses the limitations and nuances of GDP: it provides vital indicators of economic output and risk, but is unable to inform on other important aspects of the economy such as wellbeing or sustainability. Economic policy discussions need to go beyond GDP and complement it with other measures that can inform on the distribution of economic benefits, the environmental costs of production, and the increasing importance of data in the digital economy.

The ARTA presentation will also discuss the latest macroeconomic developments in the APEC region, which showed a moderation in economic growth during Q1-Q3 2019 compared to Q1-Q3 2018, as uncertainty dampened trade, investments and consumer spending. In the short-term period covering 2019-2021, APEC is expected to continue to grow but at a moderated pace, in tandem with the global economy. Downside risks remain dominant as uncertainty persists. Amid elevated uncertainty, which has adversely affected traditional growth drivers such as consumption and trade, APEC needs to diversify sources of economic growth by boosting the services sector, taking advantage of digital opportunities, ensuring financial inclusion, and increasing women's economic participation towards sustainable and inclusive growth.



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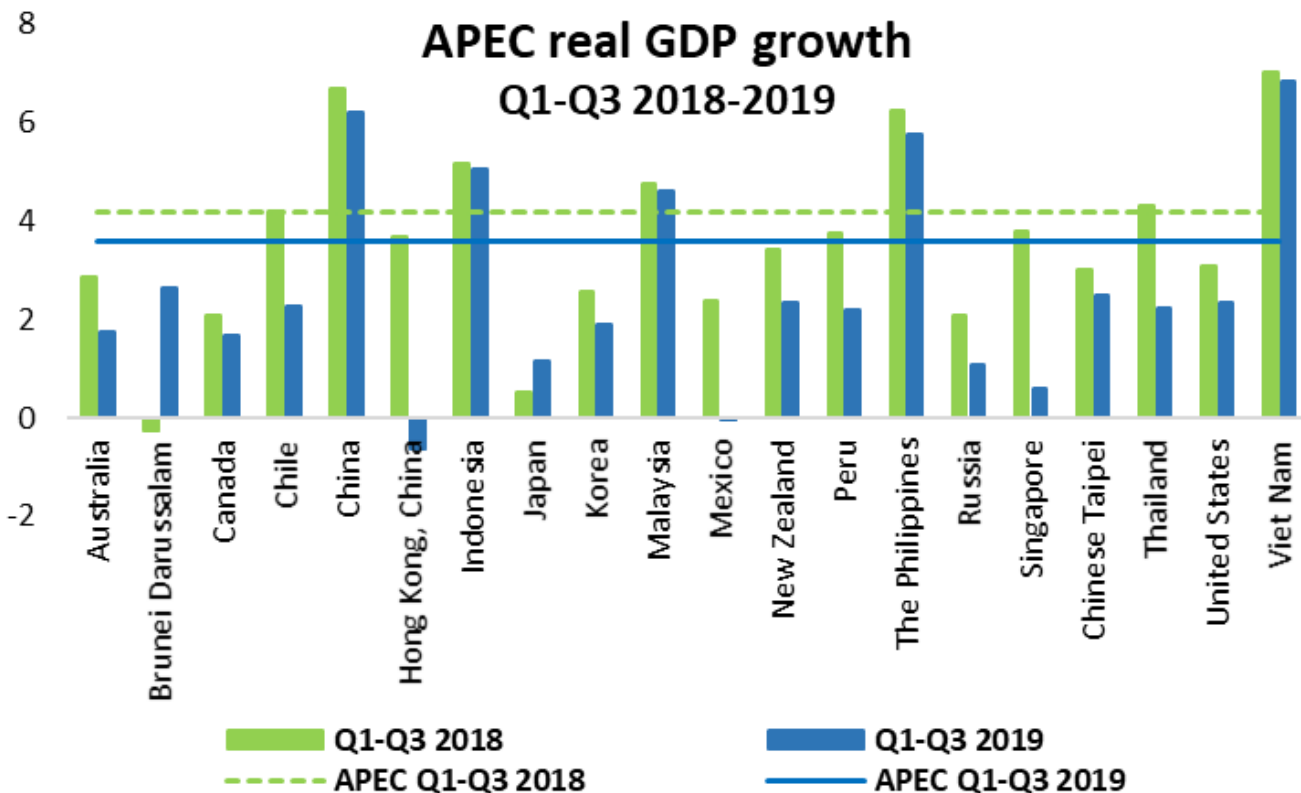
Dr. Denis Hew, Director
APEC Policy Support Unit

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

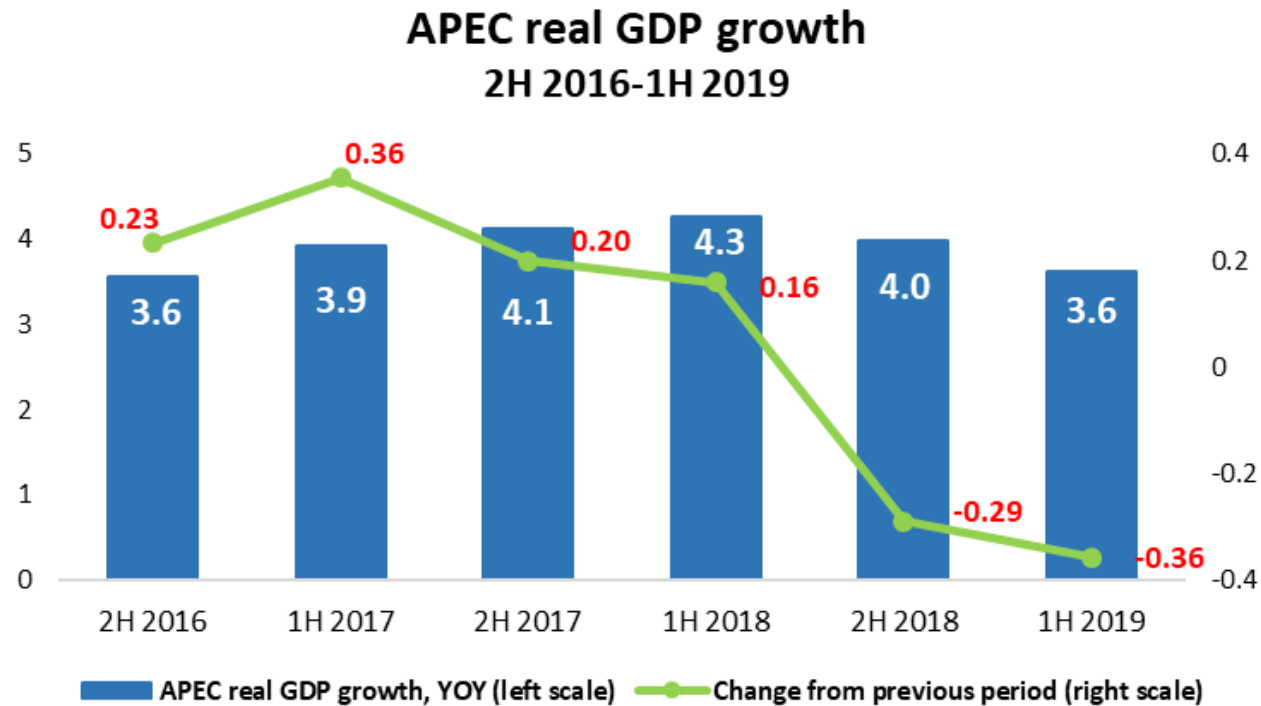
Uncertainty and trade frictions slow down APEC



APEC GDP growth slows to 3.6% in Jan-Sep 2019 from 4.2% in Jan-Sep 2018

Uncertainty and trade frictions slow down APEC

APEC started growing at a decelerated pace in the second half of 2017, at the onset of trade tensions



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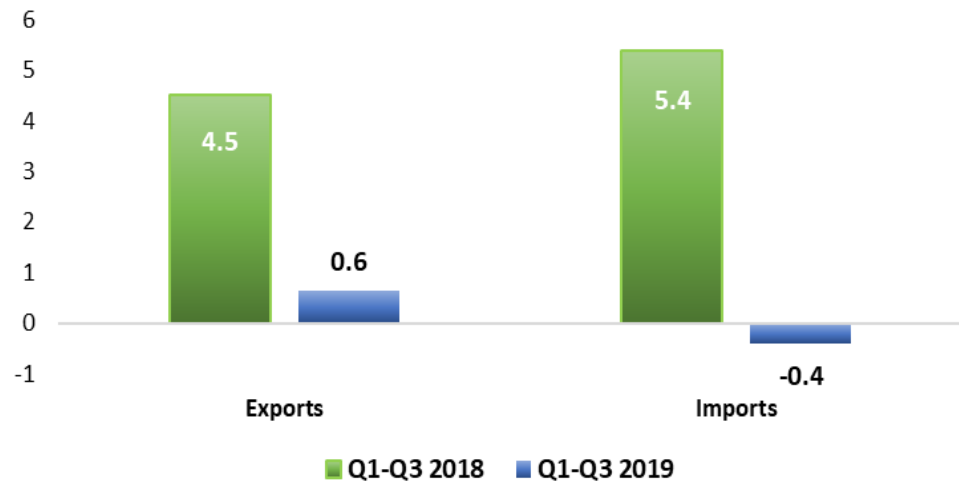
Merchandise trade contracts

Imposition of trade barriers has negatively affected trade performance

Growth in the value of merchandise trade
YOY, Q1-Q3 2018-2019



Growth in the volume of merchandise trade
YOY, Q1-Q3 2018-2019



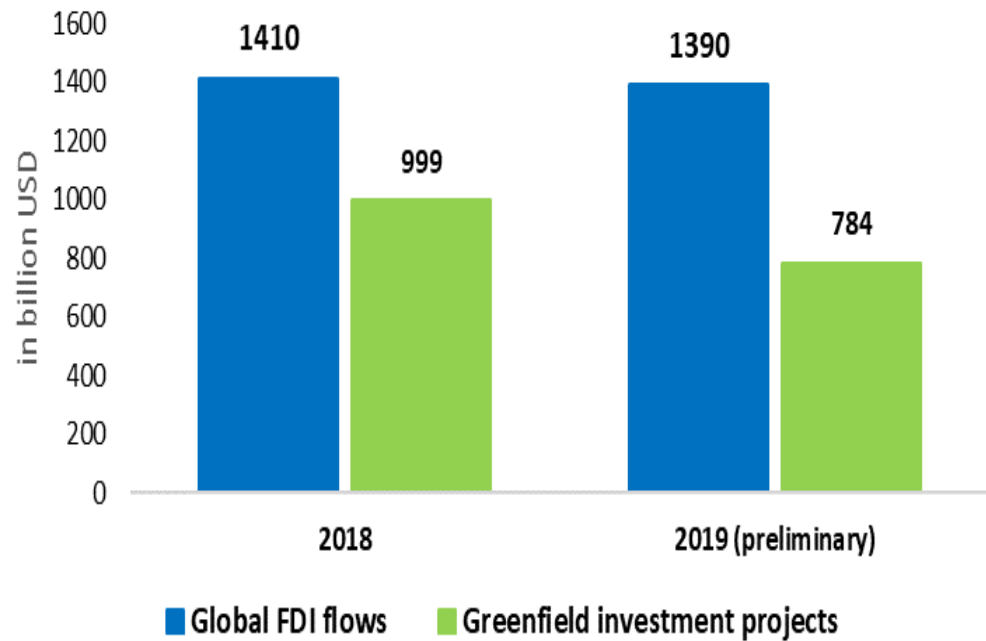
Global FDI flows and greenfield investments also decline

Global FDI flows decreased by 1% in 2019 from 2018

Greenfield investments were lower by 22%

As share of global FDI, greenfield projects comprised only 56% in 2019 from 71% in 2018

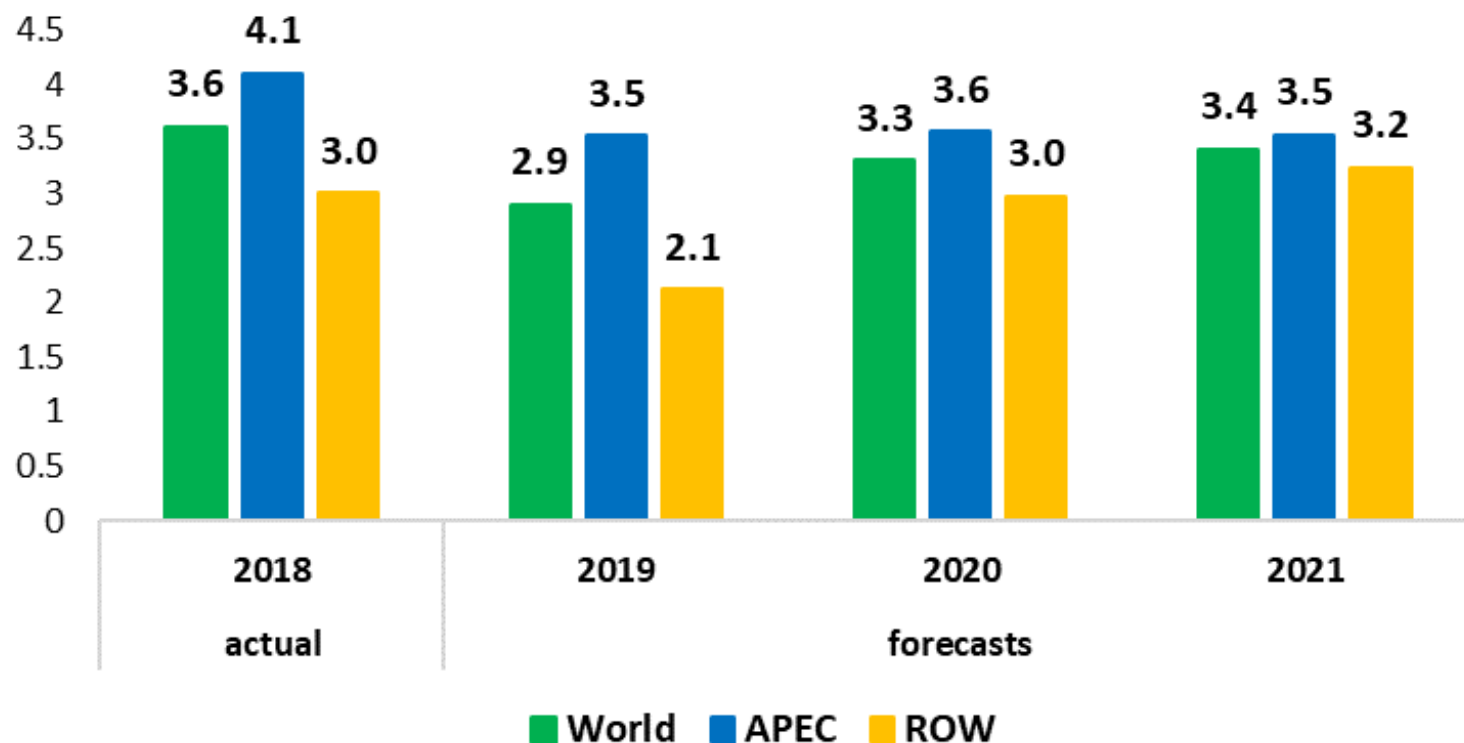
Global FDI and Greenfield investments 2018-2019



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APEC is expected to moderate in 2019-2021 in tandem with the global economy

Real GDP Growth



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Signs of stabilization but downside risks remain

Support to growth could come from:

- US-China phase one trade deal
- Continued accommodative monetary policy
- Pick-up in global manufacturing and trade activity
- Diminished likelihood of a no-deal Brexit

But downside risks remain:

- Fragile business sentiment affecting investment decisions
- Persistent trade tensions and policy uncertainty
- Extreme weather conditions and their impact on lives and livelihoods
- Spread of infectious diseases such as the Novel Coronavirus



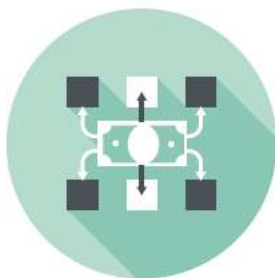
APEC economies should diversify sources of growth



Services sector



Digital opportunities



Financial inclusion



Women's economic
empowerment



Counting What Counts: Going beyond GDP

“The welfare of a nation can, therefore, scarcely be inferred from a measurement of national income.”

– Simon Kuznets, 1934



FATHER OF GDP

Simon Kuznets was awarded the Nobel Memorial Prize in Economic Science in 1971 and is widely regarded as the father of GDP.

He warned about the limitations and potential for misinterpretation of what would eventually be called GDP.



Counting What Counts: Going beyond GDP

GDP is a vital measure of economic performance, but it has blind spots



Distribution and inequality



Environmental impacts



Informal economy



Parental or volunteer services



Free digital services



Quality of goods or services



Counting What Counts: Going beyond GDP

GDP needs to be complemented with other measures, e.g.



GREEN GDP

GDP plus depletion of natural resources and degradation of the environment



GENDER INEQUALITY INDEX

Uses sex-disaggregated data to examine differences in access to economic opportunity



HUMAN DEVELOPMENT INDEX (HDI)

Assesses standard of living through health, knowledge, and material conditions



GENUINE PROGRESS INDICATOR (GPI)

Adjusts GDP by adding domestic labour and discounting for inequality, loss of leisure, and environmental impact



EXPANDED GDP (EGDP)

Captures the value of a free service, such as in the digital economy, by measuring consumers' willingness-to-pay for the service



INCLUSIVE WEALTH INDEX (IWI)

Considers the long-run sustainability of growth by accounting for human, natural, and physical capital



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