



**Asia-Pacific
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APEC's Growth Strategy and Future Drivers of Growth

Submitted by: Policy Support Unit, APEC Secretariat



**Multi-Stakeholder Dialogue on APEC
Toward 2020 and Beyond
Port Moresby, Papua New Guinea
15 August 2018**



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APEC's Growth Strategy and Future Drivers of Growth

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

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The Beginning: The APEC Growth Strategy 2010

- As an economic recovery response to the 2008 Global Financial Crisis, APEC promoted an inclusive growth agenda at the 17th APEC Economic Leaders' Meeting in Singapore in November 2009.

“Fostering Inclusive Growth

We resolve to ensure that future economic growth is more inclusive, to broaden access to opportunities created by growth and to spread the benefits of growth more widely. This will enable our economies to better seize the opportunities created by globalization and to respond to its challenges. Inclusive growth will strengthen the consensus for free and open trade and investment.”



The Beginning: The APEC Growth Strategy 2010

- In 2010, the APEC Growth Strategy was launched, aimed at achieving growth that is:

- ✓ **Balanced**
- ✓ **Inclusive**
- ✓ **Sustainable**
- ✓ **Innovative, and**
- ✓ **Secure**

- Specific and interconnected initiatives were identified under the 5 attributes of growth.



APEC Objectives

- Sustainable Development
- Equitable Growth
- Strengthening Asia-Pacific Community

The Beginning: The APEC Growth Strategy 2010

- Attaining **balanced growth** means that economies function in fair and transparent regulatory systems to create a balanced macroeconomic environment.
- Promoting **inclusive growth** involves enabling all segments of economies—from micro-enterprises to women—to participate in the economy and global trade.
- Achieving **sustainable growth** means nurturing green technologies and energy efficiency to maintain economic prosperity while protecting the environment and addressing the effects of climate change.
- Enhancing **innovative growth** is creating the enabling environment that stimulates innovation in science and technology as key growth drivers for economies.
- Creating **secure growth** means minimizing natural and human-made risks to economic well-being from disasters and disease to terrorism and corruption.

The Beginning: The APEC Growth Strategy 2010

Growth Strategy Attributes	APEC Initiatives (non-exhaustive)
Balanced Growth	<ul style="list-style-type: none"> -APEC New Strategy for Structural Reform (ANSSR) -Ease of Doing Business --Action Agenda on Promoting Infrastructure Investment through Public Private Partnership -Investment Facilitation Plan (IFAP) -Good Regulatory Practice (GRP)
Inclusive Growth	<ul style="list-style-type: none"> -Initiatives for SMEs -APEC Scholarship and Internship Initiative -APEC Digital Opportunity Center
Sustainable Growth	<ul style="list-style-type: none"> -APEC List of Environmental Goods -Low-Carbon Model Towns -APEC Marine Sustainable Development Report
Innovative Growth	<ul style="list-style-type: none"> -APEC Initiative of Cooperation to Promote Internet Economy -Cross Border Privacy Enforcement Arrangement (CPEA) -APEC Initiative Toward Innovation-Driven Growth -APEC Electrical and Electronic Equipment Mutual Recognition Agreement -Business start-up and the development of entrepreneurial skills
Secure Growth	<ul style="list-style-type: none"> -Travel Facilitation Initiative -Authorized Economic Operator (AEO) Systems -APEC Counter-terrorism and Secure Trade Strategy -Energy Security Initiative (ESI) -Healthy Asia-Pacific 2020 -Action Plan on Food Security -APEC Network of Anti-Corruption Authorities and Law Enforcement Agencies (ACT-NET)

Assessment of the APEC Growth Strategy: Some Key Findings (PSU, November 2015)

- APEC economic growth has been collectively stronger compared to the rest of the world.
- Productivity and gross capital formation has increased in APEC, especially among developing economies.
- The 2008 GFC accentuated structural changes. The importance of trade in APEC's GDP weakened right after the crisis, particularly in developing economies.
- A rebalancing of growth is seen in the region post-GFC.
- Growth has been more inclusive in APEC, but more is needed to give equal opportunities to people.
- Efforts to grow in a more sustainable/green manner are increasing but insufficient.
- Access to technology has improved, but innovation remains heterogeneous in the region.
- Mixed results in secure growth; food security and nutrition have improved, but developing economies still need to catch up in such areas as infrastructure, government effectiveness, political stability, and control of corruption.
- Establishing detailed action plans and discussing on the feasibility of setting clear growth targets could be part of the post-2015 APEC Growth Strategy work.

Continuing efforts: The APEC Strategy for Strengthening Quality Growth 2015-2020

- **Builds** on the 2010 APEC growth strategy.
- Identifies **Key Accountability Areas (KAAs)** strengthen and sustain quality growth and help align the Growth Strategy with the Sustainable Development Goals. The KAAs include:
 - ✓ Institution Building
 - ✓ Social Cohesion
 - ✓ Environmental Impact
- Emphasizes the important **role of the private sector** in achieving ‘growth that matters’ – fosters innovation, creates employment, and promotes social responsibility.



Continuing efforts: The APEC Strategy for Strengthening Quality Growth 2015-2020

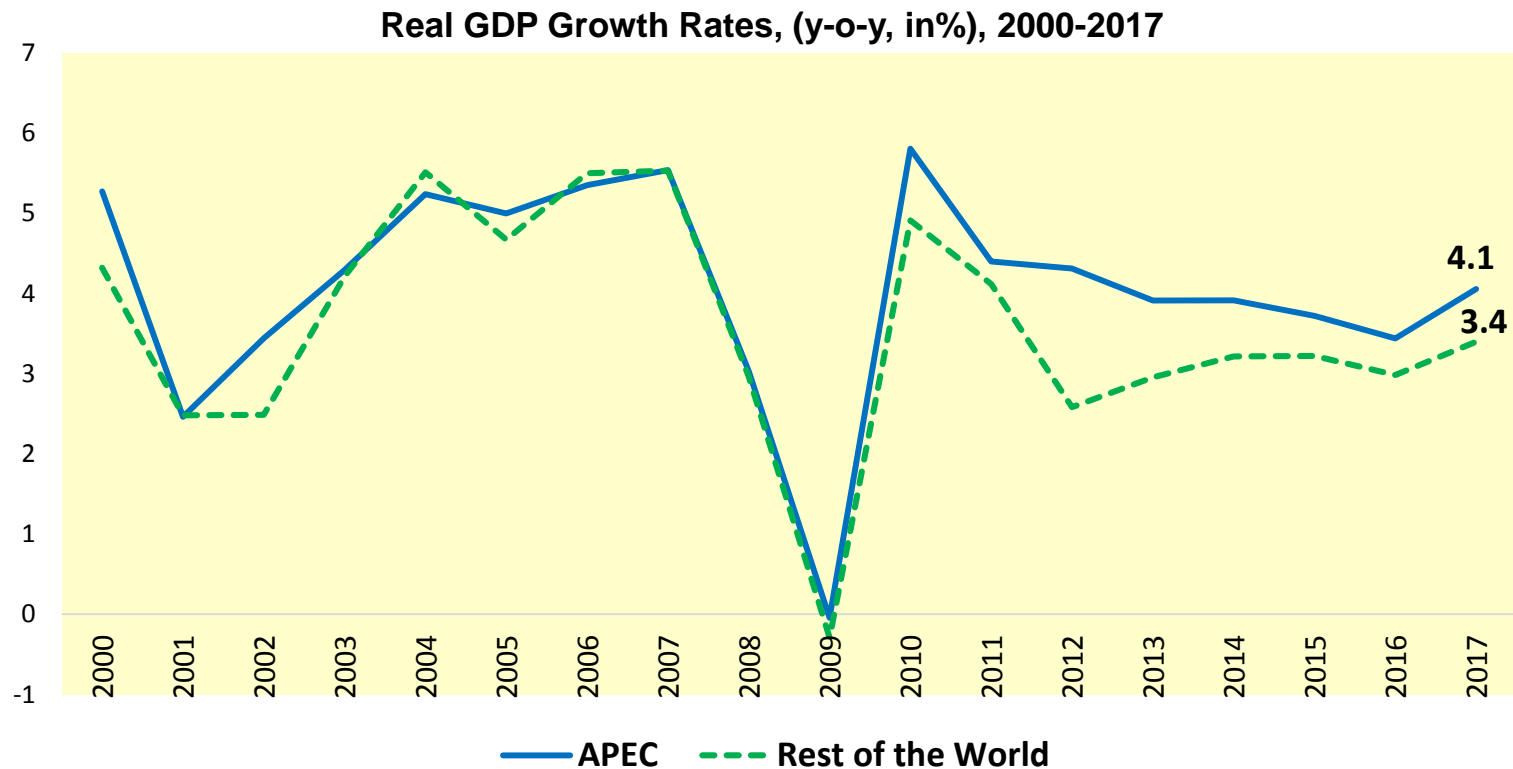
Key Accountability Areas (KAAs)	APEC Initiatives (non-exhaustive)
Institution Building	<ul style="list-style-type: none"> • Renewed APEC Agenda for Structural Reform (RAASR) 2016-2020 • Ease of Doing Business • ACT Network of Anti-Corruption and Law Enforcement Authorities • Quality Infrastructure Investment • PPP Guidebook
Social Cohesion	<ul style="list-style-type: none"> • Promoting Employment of Persons with Disabilities • SME Digital Transformation Workshop • Women and the Economy Forum • Workshop on Sharing Experiences on Adapting to Ageing Population • Roadmap to Global Medical Product Quality and Supply Chain Security
Environmental Impact	<ul style="list-style-type: none"> • Environmental Services Action Plan • Environmental Goods List • Strategy on Green, Sustainable and Innovative Start-ups • Expert Consultation on Food Losses and Waste Reduction • Low Carbon Model Town

Continuing efforts: The APEC Action Agenda on Advancing Economic, Financial and Social Inclusion in the APEC Region 2017

Key Pillars	Priority Areas of Work
Economic Inclusion	<ul style="list-style-type: none">-Equal access to economic opportunities and employment-Regional integration-Infrastructure investments-Internet and digital economy
Financial Inclusion	<ul style="list-style-type: none">-Financial infrastructure development-Access to appropriate financial products and services-Conducive regulatory environment for microfinance-Financial literacy/education-International cooperation
Social Inclusion	<ul style="list-style-type: none">-Eco-systems for digitalization and technological innovation-Social empowerment of vulnerable groups-Social safety nets

APEC Growth: Higher than the world post-GFC

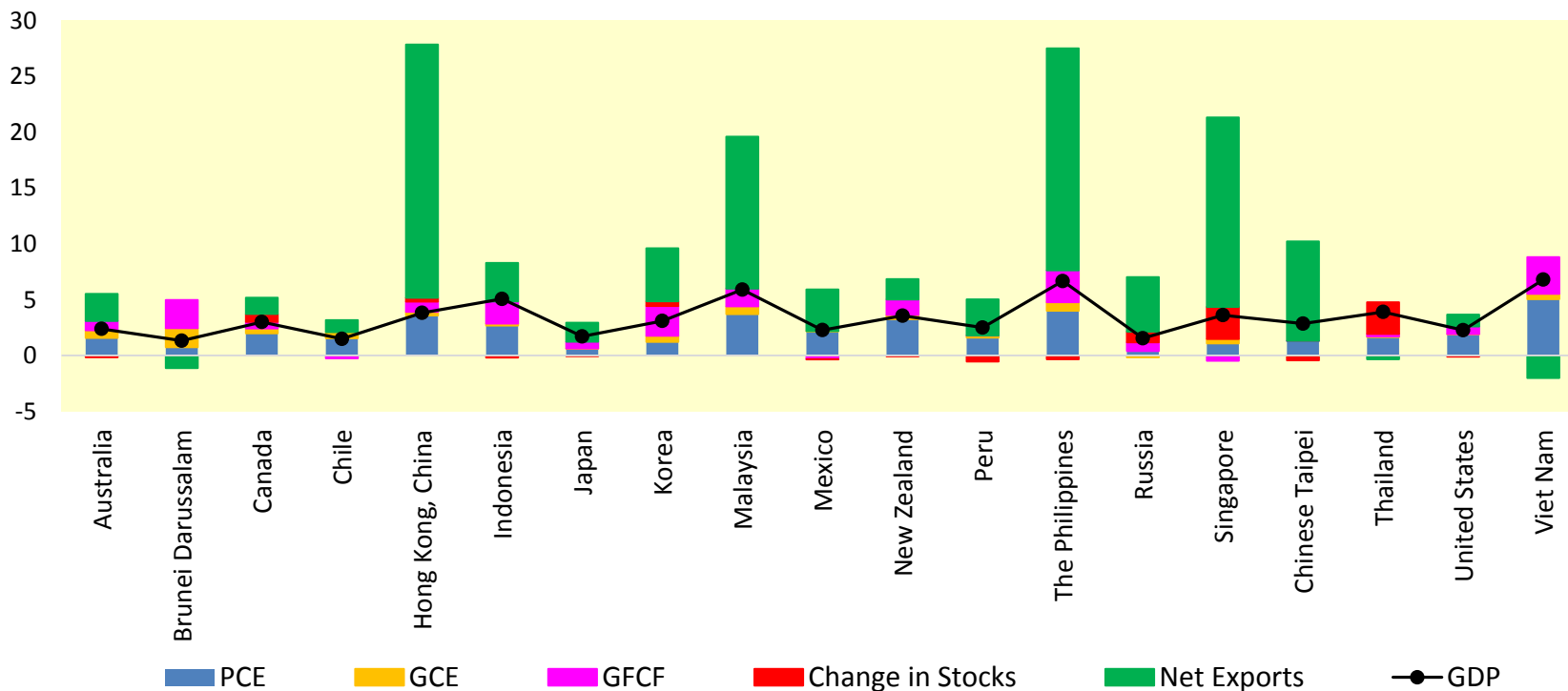
- The focus on strong, sustainable, and inclusive growth is bearing fruit, with APEC growth increasing post-GFC, outpacing the rest of the world.



Where we are now: Broad-based recovery as consumption, exports, and fixed capital support APEC growth in 2017

- While household consumption continues to be a consistent driver of growth in the region, trade provided a solid contribution to APEC GDP growth in 2017 even as capital formation remained stable.

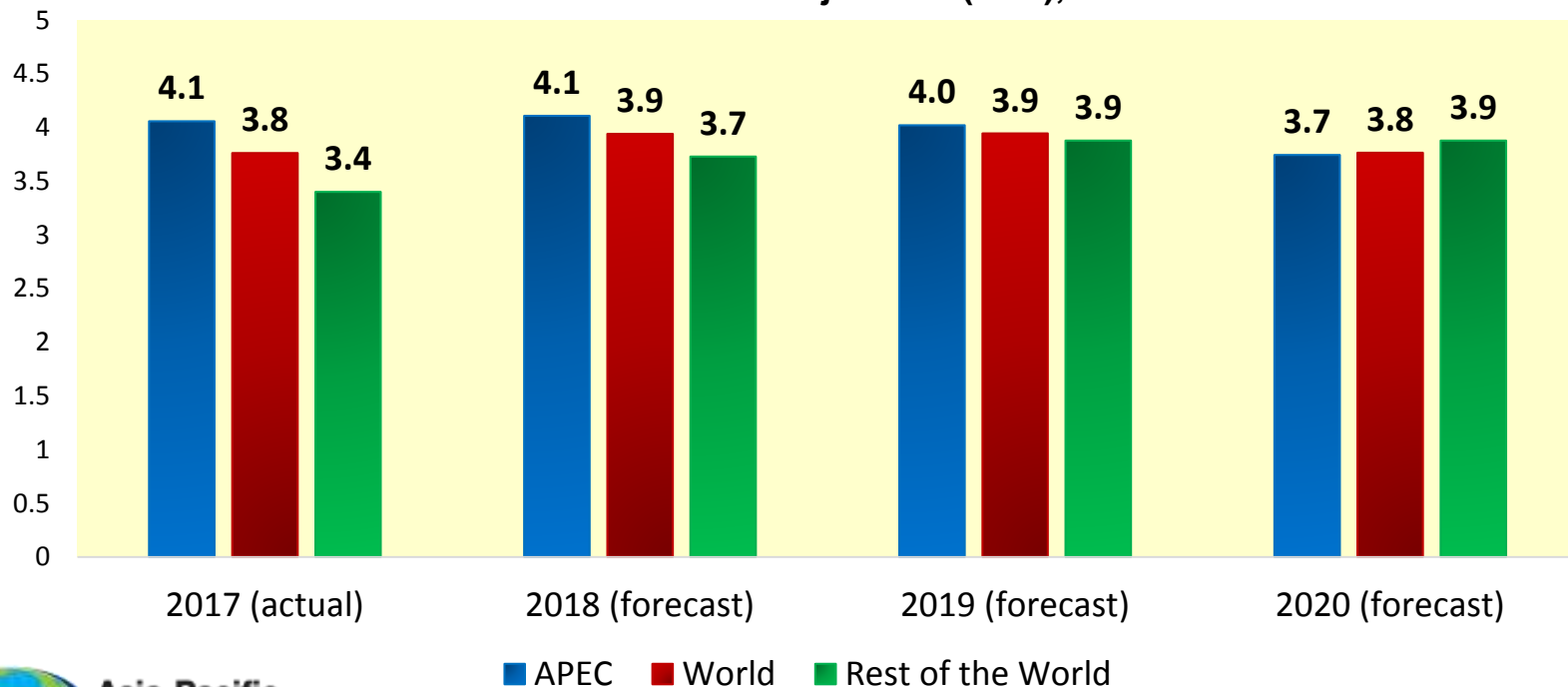
Contribution to APEC Real GDP Growth (in%), 2017



The APEC region is expected to continue along the path of high economic growth in the near-term

- The APEC region is seen to continue to benefit from the positive feedback loop of:
 - ✓ increased strength in global economic activity → higher demand + increased consumer and business confidence → stronger consumption, investment, and trade activity.
- But growth also needs to be sustainable and inclusive.

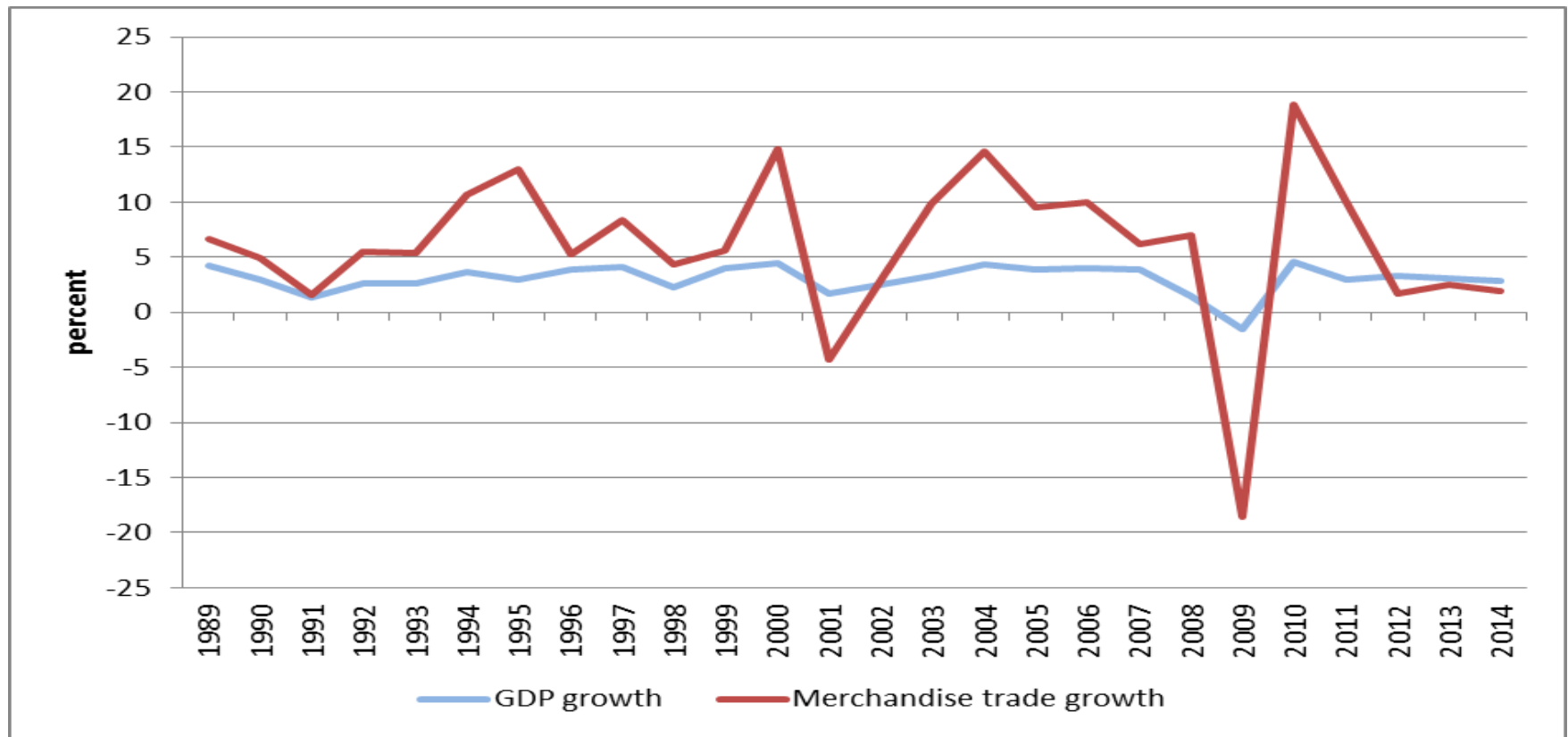
Short-term GDP Growth Projections (in %), 2018-2020



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

PSU Policy Brief (September 2015) “Structural Reform for Resilient and Inclusive Growth”:

- ❖ Since APEC’s establishment in 1989, there have only been two years when APEC trade growth was markedly lower than GDP growth: in 2001 during the dot-com bust and in 2009 in the aftermath of the GFC. However, since 2012, trade growth has been lagging behind GDP growth.
- ❖ **Message: APEC may need to look beyond trade to ensure that growth is balanced, sustainable, and inclusive.**



Boosting reliable sources of APEC Growth

- In the immediate term, 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**



Looking for Future Drivers of APEC Growth: Opportunities and challenges in the digital economy

Opportunities:

- Internet traffic flows between economies have increased significantly over time.
 - Data show that in just 5 years (2008-2013), flows increased 7 times.
- The share of digital component of certain categories of items are also on the rise.
 - E-commerce now makes up over 12 percent of total goods trade.
- Digital tools are transforming lives and the way people do business.
 - The advent of marketplace platforms has made it easier for more businesses particularly SMEs to globalize and sell to a market larger than their own domestic ones.

Challenges:

- Economic and social
 - Re-skilling people, upgrading education levels, and enhancing government revenue efforts to invest more on education, health, and social services.
- Content and technical
 - Issues of data privacy and security, net-neutrality, and interoperability.
- Infrastructure investment
 - Facilitate access to broadband and smartphones.



Looking for Future Drivers of APEC Growth: Developing green technology

• Promoting green technology among MSMEs

- MSMEs comprise about 97% of all enterprises and employ 50% of the workforce in APEC.
- The aggregate environmental impact of MSMEs could be significant, so it might be imperative to address associated challenges:
 - ✓ define “green, sustainable and innovative MSME”;
 - ✓ gather baseline data;
 - ✓ establish framework, assess APEC work and determine gaps; and
 - ✓ develop appropriate green growth indicators.

• Making environmental resources more sustainable

- Adopting a greener approach could make resources more sustainable, benefiting resource-dependent economies in the long run.

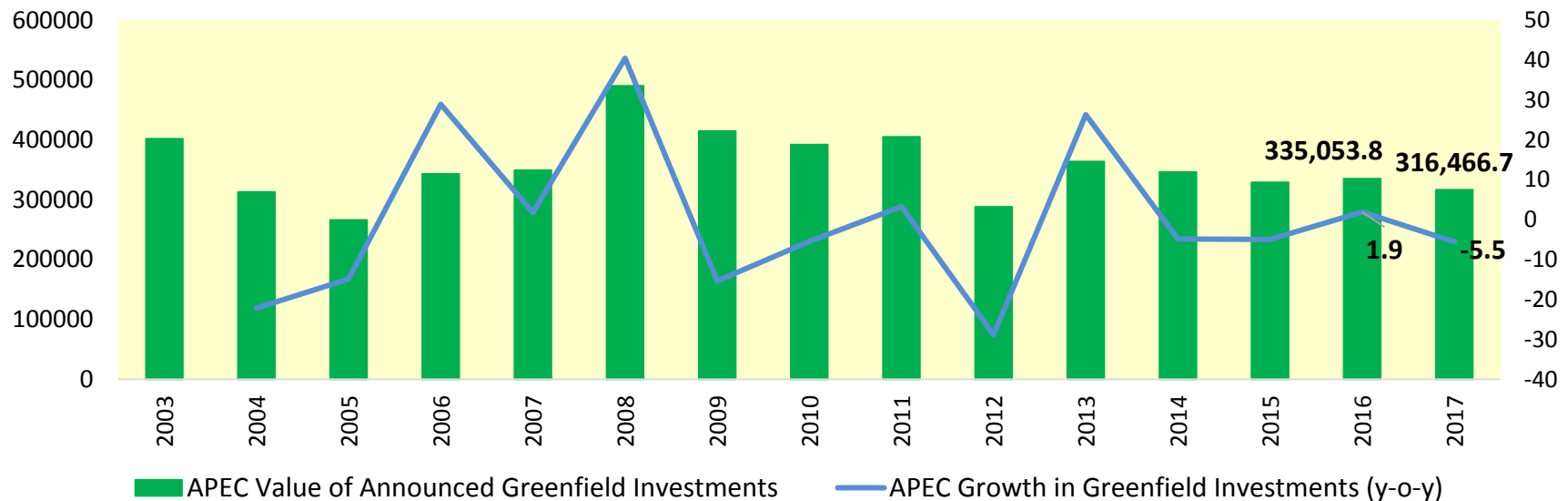
• Reducing tariffs on environmental goods

- In 2012, APEC Leaders agreed to cut tariff rates on 54 environmental goods to 5% by 2015. An assessment conducted in 2016 showed that most economies had successfully reduced their tariff rates while the rest had plans to do so.

Looking for Future Drivers of APEC Growth: Increasing greenfield investments

- Greenfield investments in the APEC region declined by 5.5 percent in 2017, reflective of the 13.6-percent drop in world greenfield investments.
- Economies benefit from greenfield investments since they require transfer of resources, equipment, technology, and skills from the investor to the economy.
- It may be worthwhile to identify ways on how to expand greenfield investments in APEC.

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



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Looking for Future Drivers of APEC Growth: Implementing productivity-enhancing reforms

- **Reforms that:**

- ✓ **Improve education, health, and other social services:**

- ❖ Economies with enough fiscal room can invest more to improve social services; for economies with fiscal constraints, prioritizing education and health outcomes could be an option
- ❖ Equip people with “future-ready” skills

- ✓ **Encourage innovation:**

- ❖ Create a conducive environment that stimulate innovation in science and technology
- ❖ Develop skilled, adaptable, and professional workforce

- ✓ **Bridge infrastructure gaps:**

- ❖ Enhance connectivity and technological capacity



Current Issues that Impact on Future Growth

- **Prevailing issues that could affect 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.



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