



Asia-Pacific
Economic Cooperation

Advancing
Free Trade for Asia-Pacific
Prosperity

The role of structural reform in addressing current economic challenges

1-3 Jun 2016 – Workshop on RAASR IAPs

Presented by
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APEC Policy Support Unit

Objective



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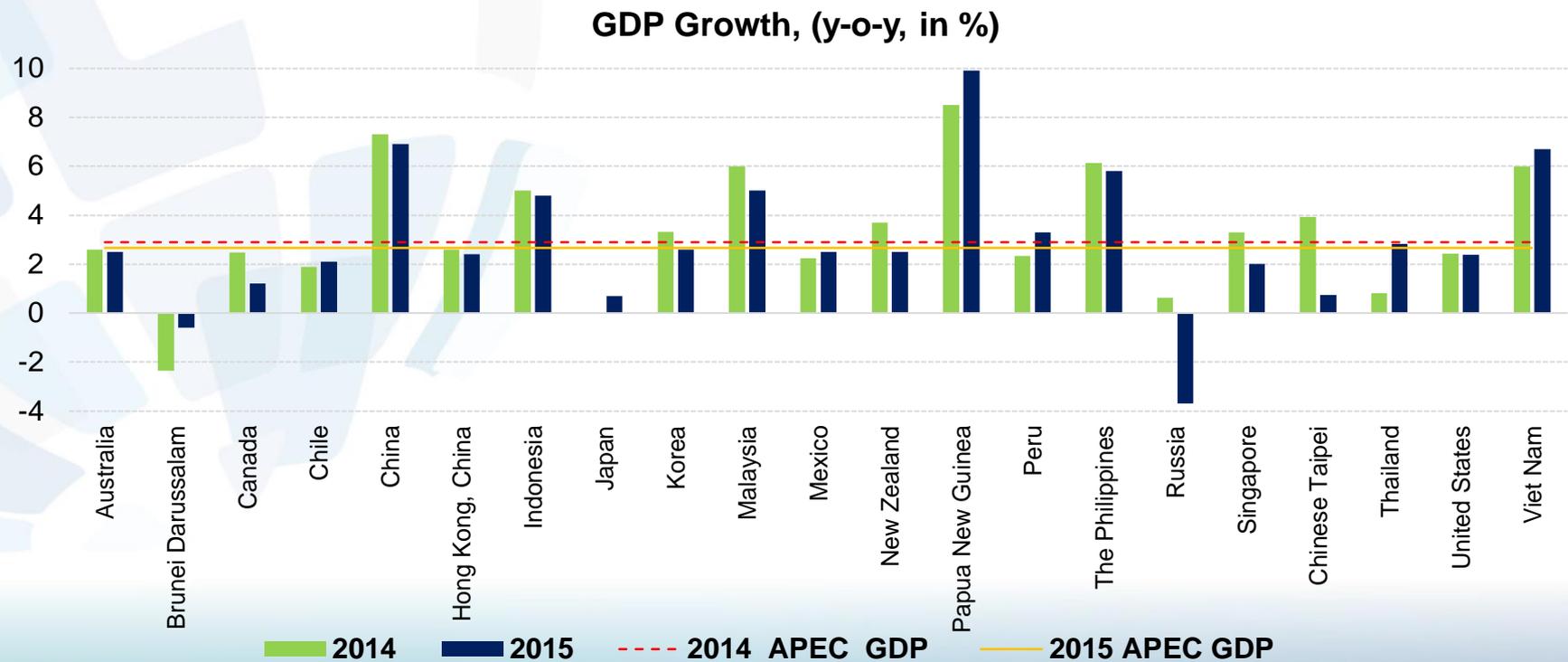
1. Regional economic trends
2. APEC structural reform initiatives
3. RAASR and today's workshop

The APEC region continued to grow amid challenges



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- The APEC region continued along the growth trajectory amid persistent challenges in the external and domestic fronts as gross domestic product (GDP) grew by 2.7 percent in 2015, although lower than the 2014 growth of 2.9 percent.



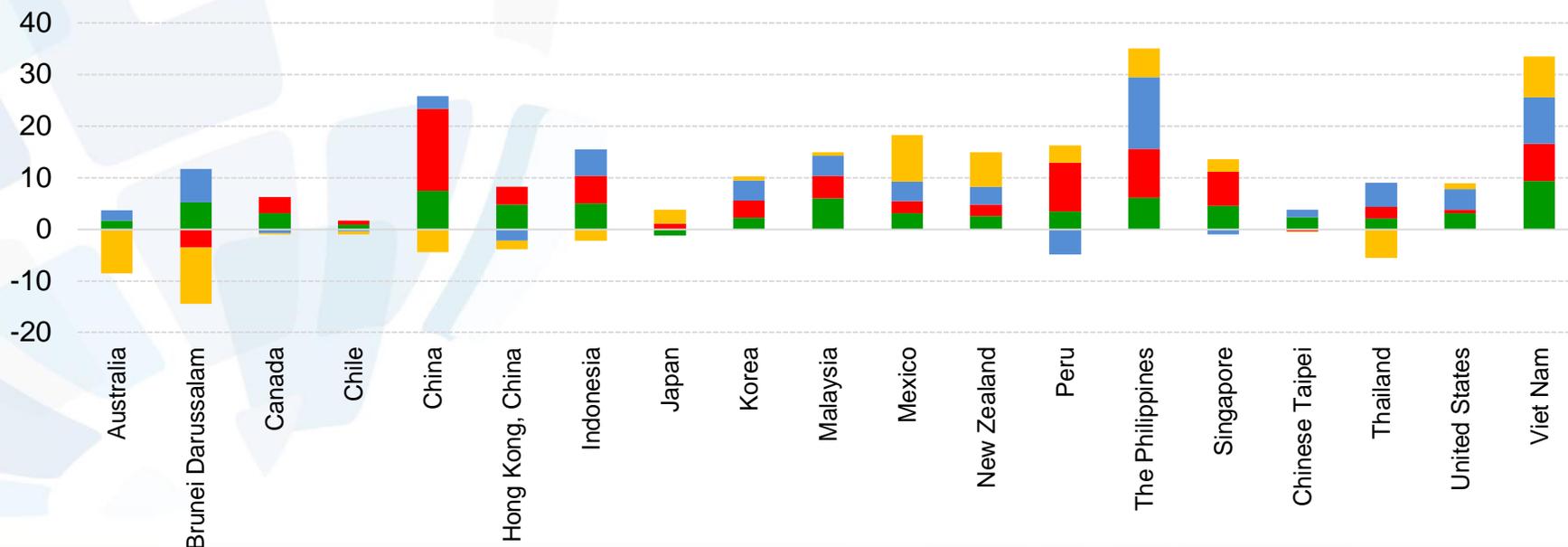
Private and government spending boosted growth



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- The combination of steady private consumption and strong government spending boosted economic activity in the APEC region throughout 2015

Contributions to GDP Growth (y-o-y, in %)



■ Private consumption ■ Government Consumption ■ Gross Fixed Capital Formation ■ Exports of Goods and Services

Note: Data not available for Papua New Guinea and Russia.

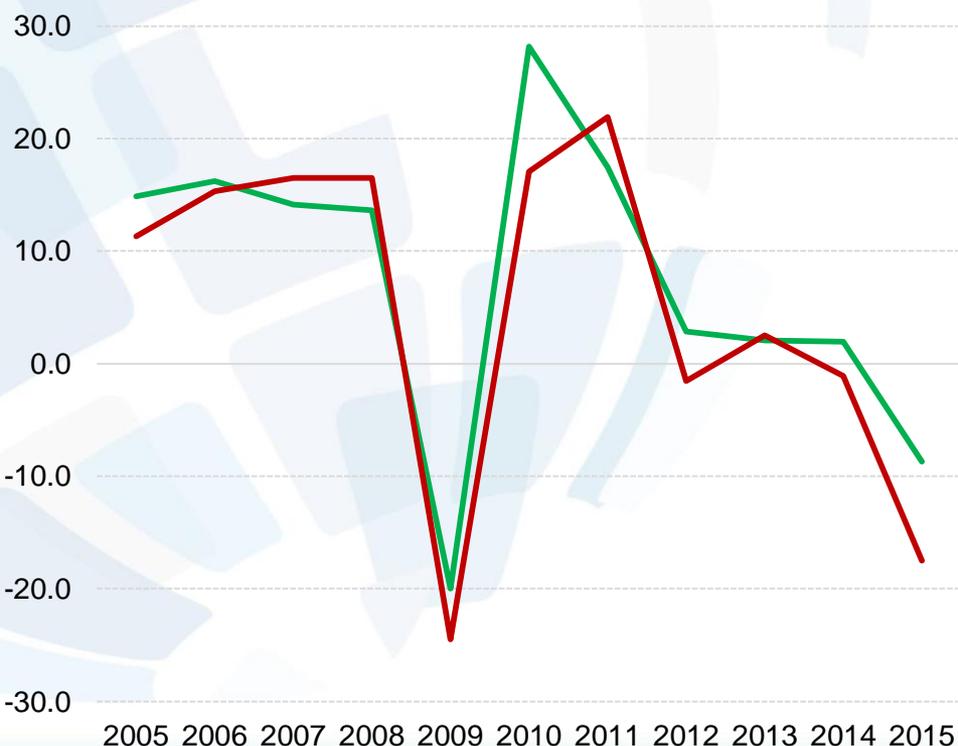
Source: ADB and economy sources

Growth in APEC's value of goods exports and imports has been contracting since 2011



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Export growth (y-o-y, in %), 2005-2015



— APEC — ROW

Source: PSU calculations based on data from World Trade Organization (WTO)

Import growth (y-o-y, in %), 2005-2015



— APEC — ROW

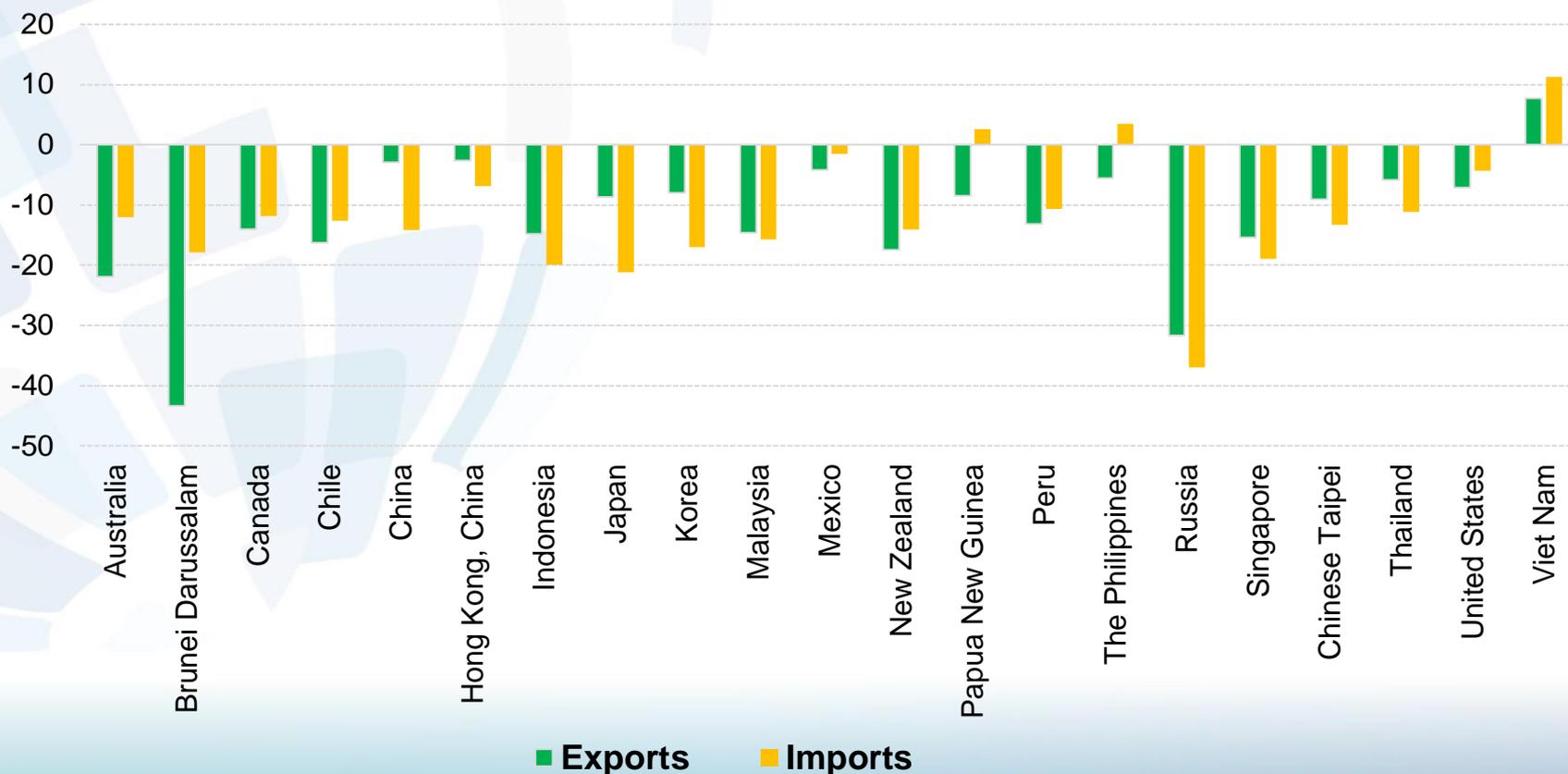
Source: PSU calculations based on data from World Trade Organization (WTO)

Exports and imports contracted among most APEC economies



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Merchandise export and import growth, (y-o-y, in %), 2015



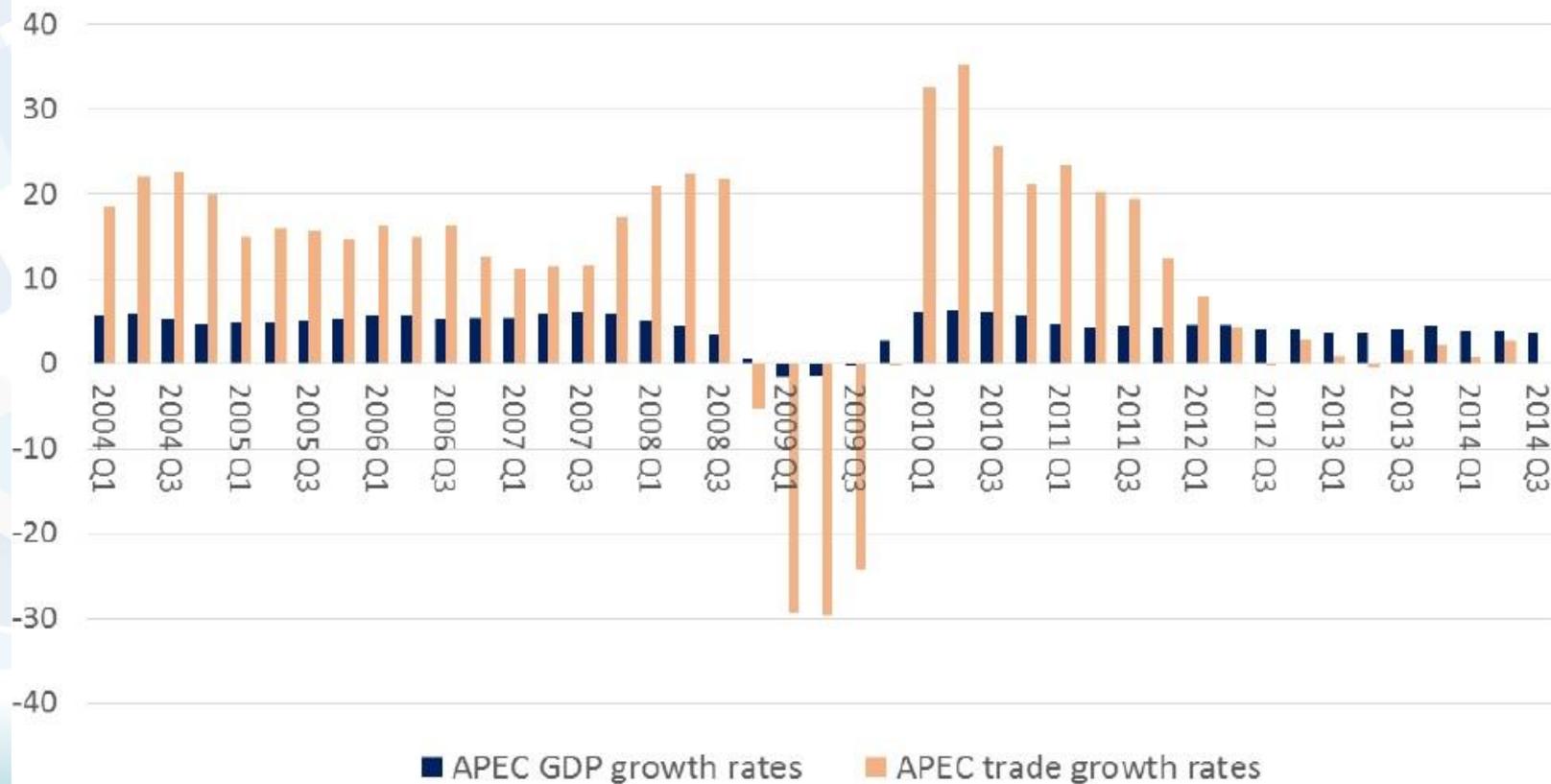
■ Exports ■ Imports

The contraction of trade is larger than that of GDP following the global financial crisis



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APEC GDP vis-à-vis trade growth rates (y-o-y, in %), Q1 2004–Q3 2014



Source: PSU calculations based on data from Thomson Reuters Datastream and International Monetary Fund.

APEC's trade performance is affected by cyclical and structural factors



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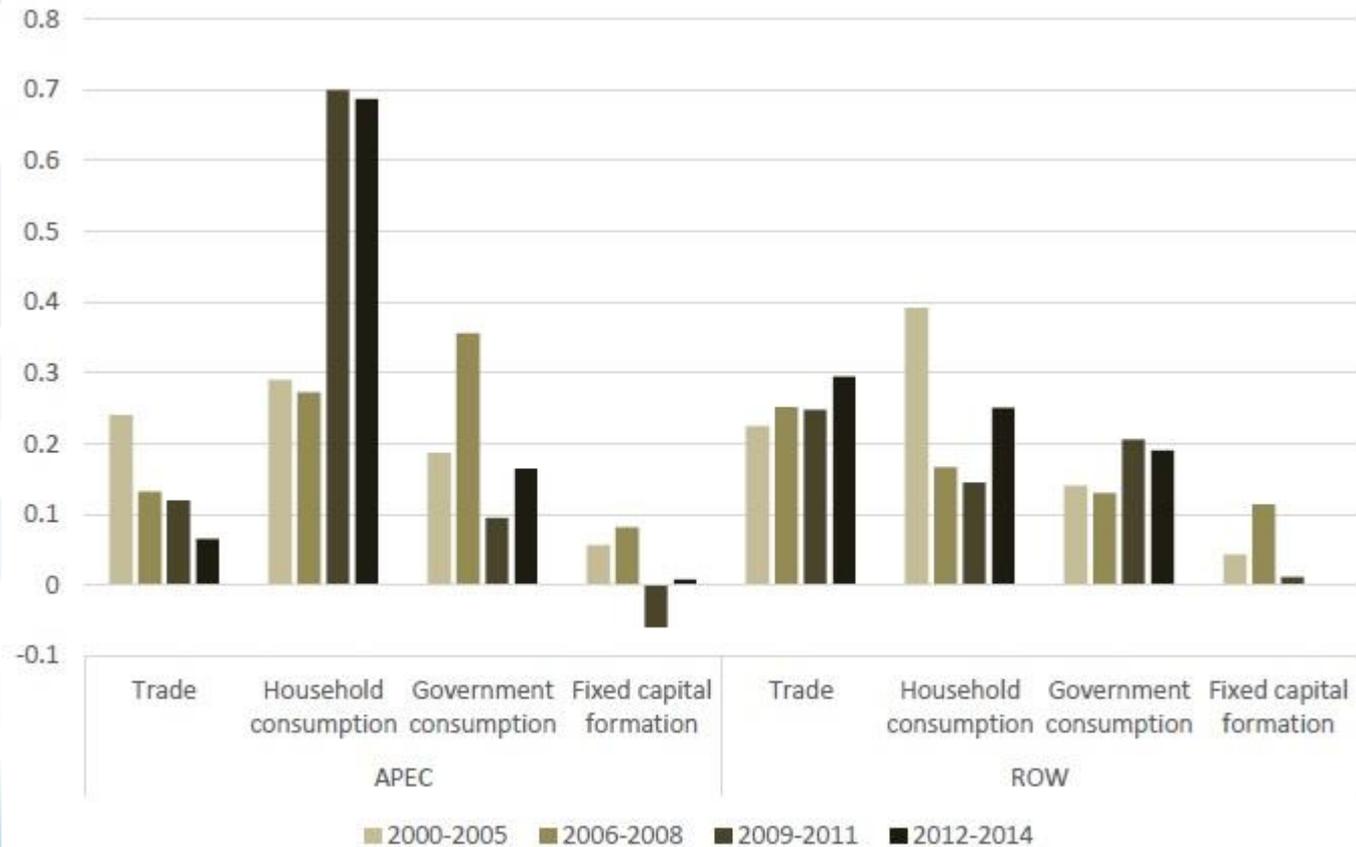
- **Cyclical factors**
 - significant slowdown in global demand
 - China's ongoing economic adjustment
 - sizeable decline in commodity prices
- **Structural shifts**
 - changes in global supply chains
 - product diversification and differentiation
 - trade and trade-related measures

If not trade, what is the alternative?



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Estimates of GDP growth elasticity, 2000-2014

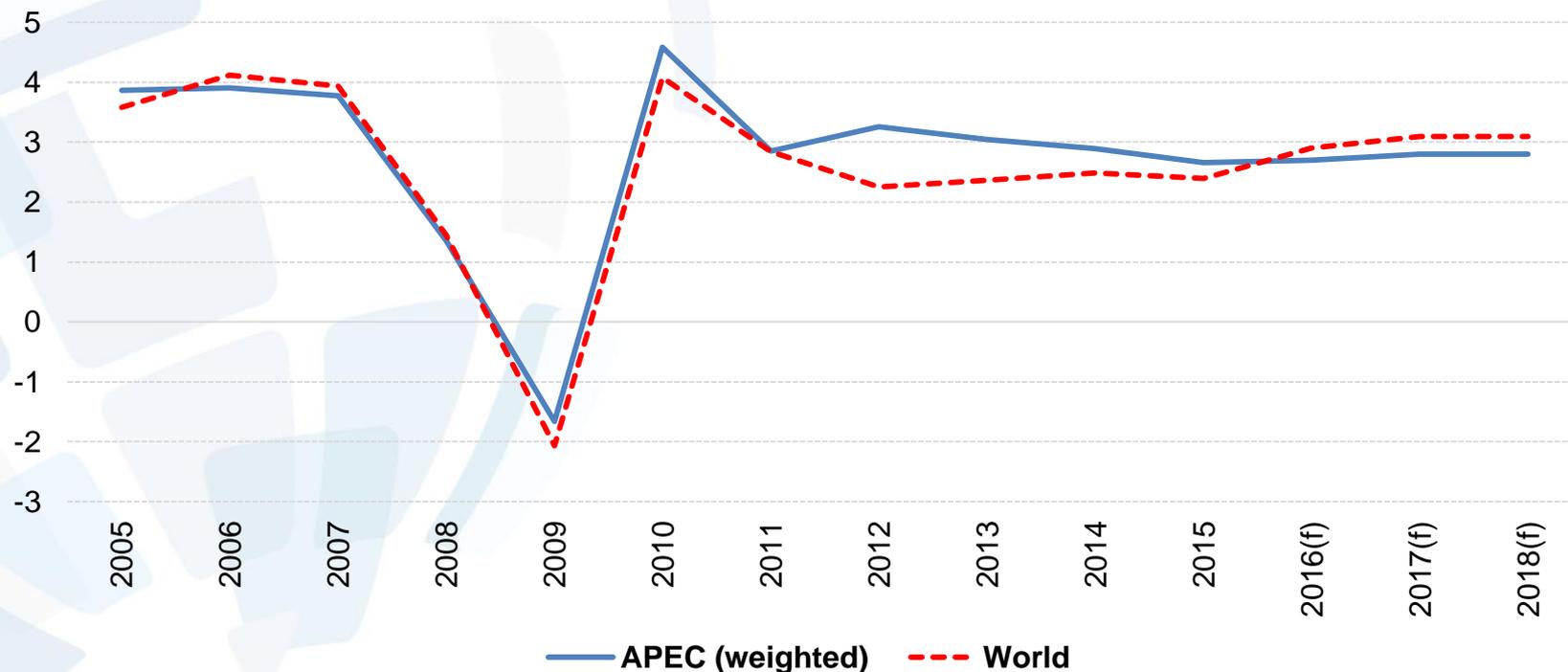


Source: PSU calculations based on data from World Bank.

APEC outpaced world growth in 2015, but regional output is expected to grow below world GDP in 2016-2018



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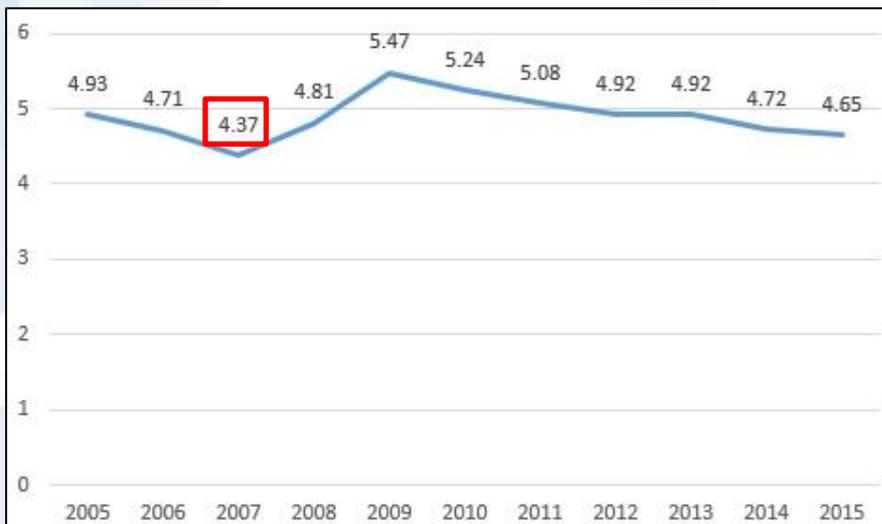
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016(f)	2017(f)	2018(f)
APEC	3.9	3.9	3.8	1.4	-1.7	4.6	2.9	3.3	3.0	2.9	2.7	2.7	2.8	2.8
World	3.6	4.1	3.9	1.5	-2.1	4.1	2.8	2.3	2.4	2.5	2.4	2.9	3.1	3.1

Sluggish growth affects the real side of economy such as unemployment rate. In addition, labor productivity growth is falling.



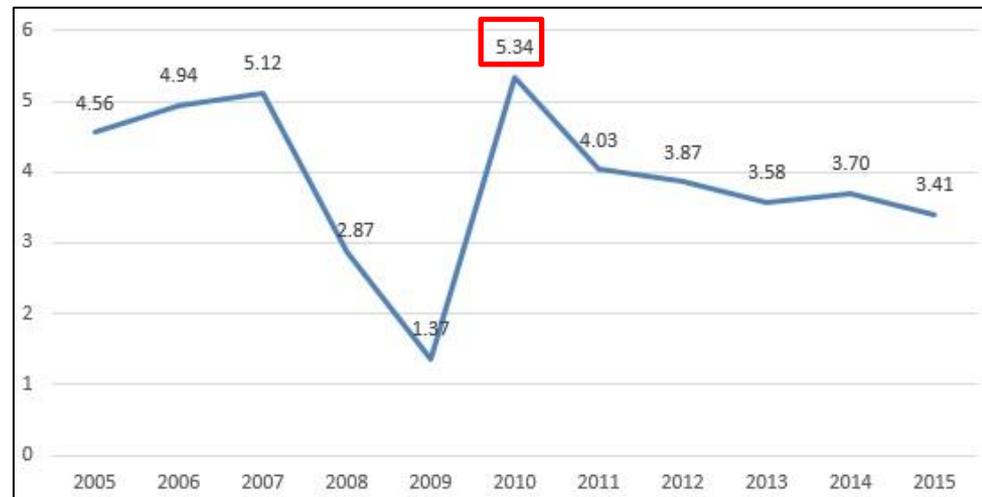
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Unemployment rate for APEC, % (2005-15)



Source: PSU calculations based on data from ILO.

Change in labor productivity per person employed in APEC, % (2005-15)



Note: APEC data does not include Brunei Darussalam and Papua New Guinea.

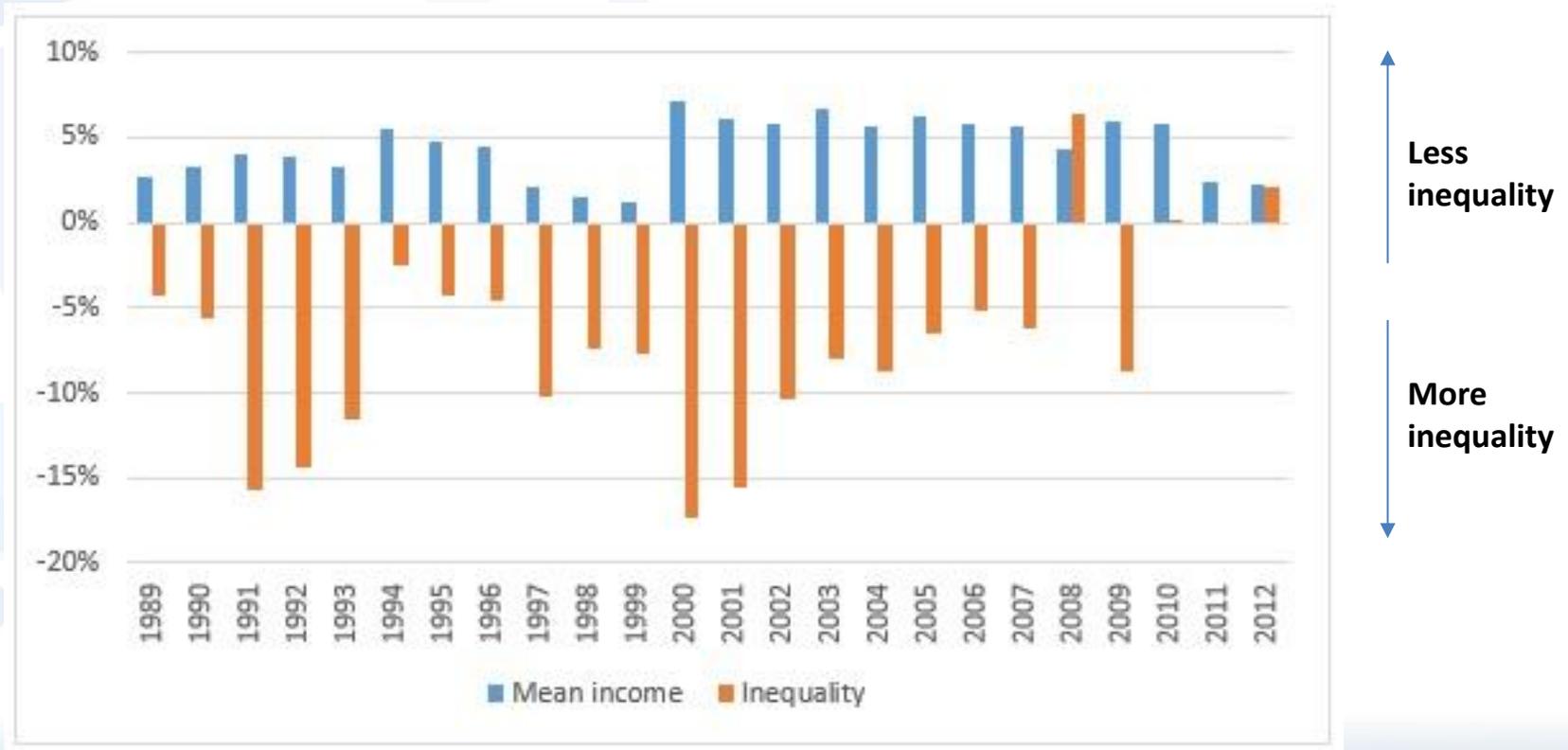
Source: PSU calculations based on data from The Conference Board Total Economy Database.

Although mean household income has been increasing since APEC's inception in 1989, inequality has also grown in most years



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Growth in mean income and inequality in APEC, % (1989-2012)



Note: APEC economies with data in PovcalNet are Australia; Canada; Chile; China; Indonesia; Japan; Malaysia; Mexico; Peru; the Philippines; Papua New Guinea; Russia; Thailand; United States; and Viet Nam.

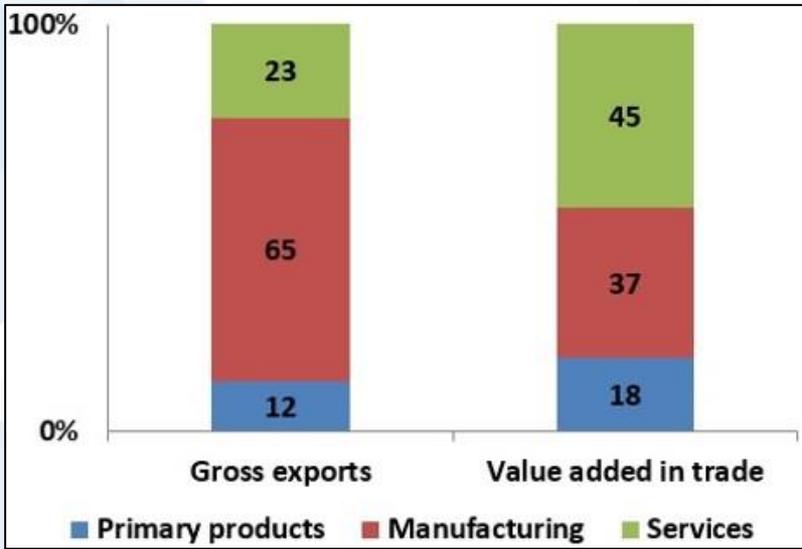
Source: PSU calculations based on data from World Bank PovcalNet

Structural changes are taking place (e.g. the role of services, digital trade, etc.)



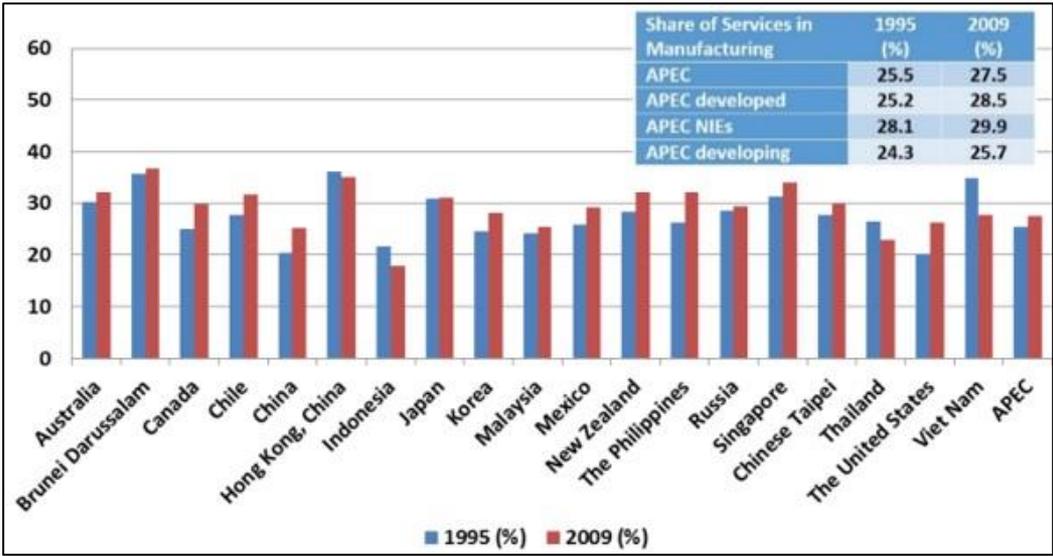
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Sector composition of global gross exports and value added trade, 2008



Source: OECD-WTO Trade in Value Added (TiVA) database

Share of services value added in manufacturing exports (1995 and 2009)

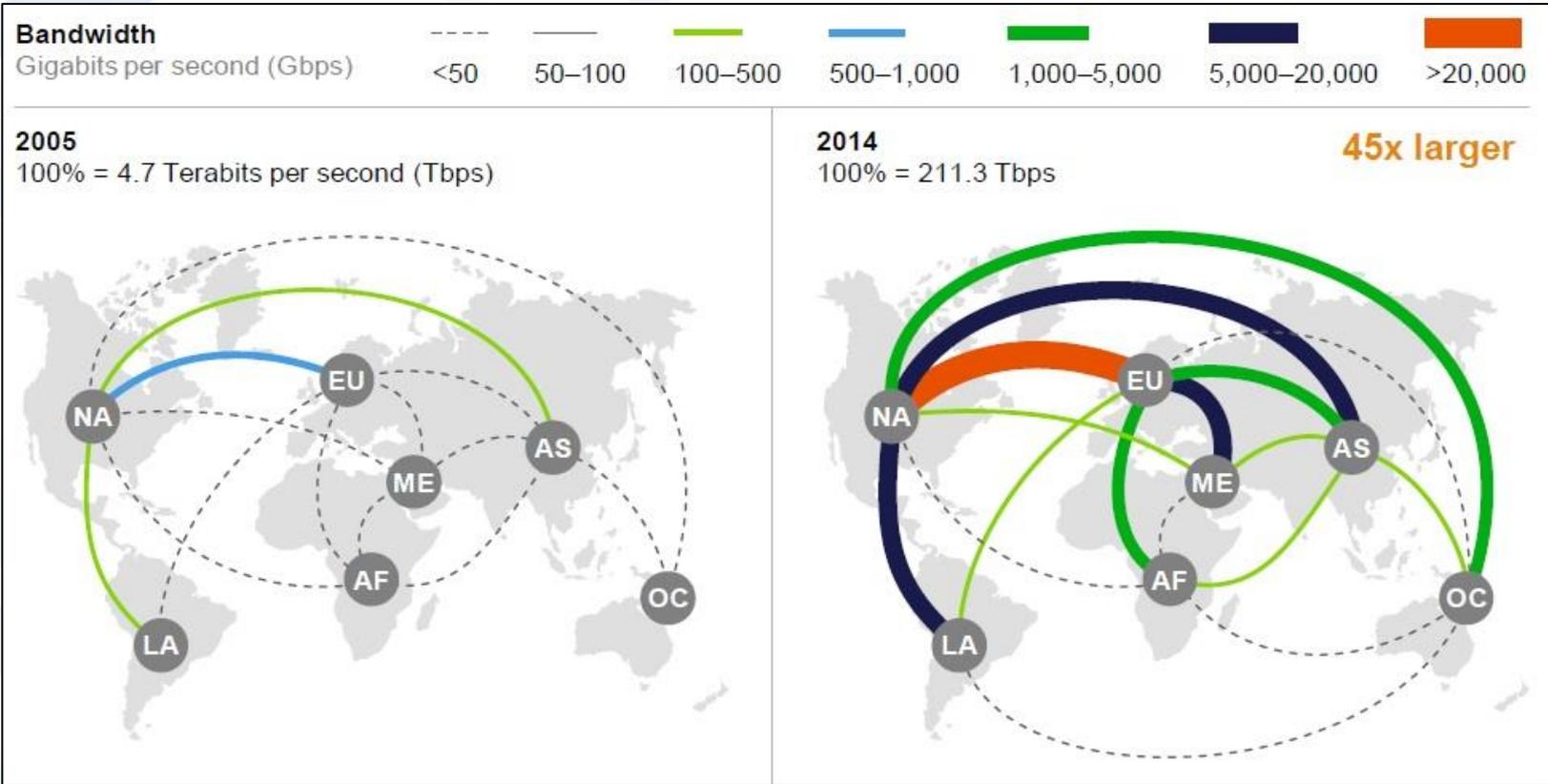


Note: APEC data excludes Papua New Guinea and Peru
 Source: APEC Policy Support Unit computation based on OECD-WTO Trade in Value Added (TiVA) database

Structural changes are taking place (e.g. the role of services, digital trade, etc.)



Cross-border data flows, 2005 and 2014



Note: NA: United States and Canada; EU: Europe; AS: Asia; LA: Latin America; ME: Middle East; AF: Africa; OC: Oceania

Source: McKinsey Global Institute

APEC Regional Trends Analysis (ARTA) points to slowing growth in terms of GDP, trade, and investments, reflecting external weakness



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- Dealing with downside risks
 - protracted and significant decline in commodity prices
 - repercussions of China's economic transformation
 - weaker Japanese growth
- Boosting domestic growth drivers
 - trade competitiveness
 - trade-facilitating policies
 - monetary and fiscal stimulus measures
 - structural reforms

Structural reform: what is it?



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Policy change related to institutional frameworks, regulation and design of government policy, so barriers to market-based incentives, competition, regional economic integration and improved economic performance are minimized (PSU, 2011; APEC, 2013).

From structural reform to (inclusive) growth



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More open, well-functioning, transparent and competitive markets

Deeper participation by all segments of society, including MSMEs, women, youth, older workers, and people with disabilities

Sustainable social policies that promote the other pillars, enhance economic resilience, and are well-targeted, effective and non-discriminatory



Lower cost of doing business

Unlock significant productivity gains

Increase opportunities and prospects

Minimize negative impacts of open trade and investment

Increase labor pool /economically active population with diverse set of skills



(Inclusive) Growth

APEC structural reform initiatives through the years



- Leaders' Agenda to Implement Structural Reform (LAISR)
 - Adopted in 2004
 - 5 priorities to focus through to 2010:
 - Regulatory reform
 - Competition policy
 - Corporate governance
 - Public sector governance
 - Strengthening economic and legal infrastructure
 - Stock-take indicated progress across 5 priorities, with regulatory reform being the most significant

APEC structural reform initiatives through the years



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- APEC New Strategy for Structural Reform (ANSSR)
 - Adopted in 2010
 - Expanded scope and broader pillars aimed at promoting:
 - More open, well-functioning, transparent and competitive markets
 - Labor market opportunities, training, and education
 - Sustained SME development and enhanced opportunities for women and vulnerable populations
 - Effective and fiscally sustainable social safety net programs
 - Better functioning and effectively regulated financial markets
 - Final review showed hundreds of individual projects undertaken with majority focusing on competitive market and labor market pillars

Renewed APEC Agenda on Structural Reform (RAASR)



- Announced in September 2015
- 3 pillars identified

More open, well-functioning, transparent and competitive markets

Deeper participation by all segments of society, including MSMEs, women, youth, older workers, and people with disabilities

Sustainable social policies that promote the other pillars, enhance economic resilience, and are well-targeted, effective and non-discriminatory

- Economies to develop individual action plans (IAPs) in 2016 indicating their structural reform priorities, objectives and policies through to 2020

Tracking the progress of RAASR: A perspective from ANSSR



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“While the effort applied to ANSSR is evident, **the progress made is more difficult to identify**, mainly as a **consequence of the formats of reporting**, which is a mix of project descriptions and of qualitative measures and quantitative measures”



“**Revise the reporting of commitments** in each project in each economy, by adding a focus on policy indicators where possible **using quantitative measures including a set of baseline measures against which to measure progress**”