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Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/econis-archiv/>

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**Asia-Pacific
Economic Cooperation**

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

APEC REGIONAL TRENDS ANALYSIS

Trade, Policy, and the Pursuit of Inclusion

APEC Policy Support Unit

May 2018

Prepared by:
Asia-Pacific Economic Cooperation Policy Support Unit
Asia-Pacific Economic Cooperation Secretariat
35 Heng Mui Keng Terrace
Singapore 119616
Tel: (65) 6891-9600 | Fax: (65) 6891-9690
Email: psugroup@apec.org Website: www.apec.org

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KEY ABBREVIATIONS

CBOE	Chicago Board Options Exchange
CETA	European Union-Canada Comprehensive Economic and Trade Agreement
CGE	Computable general equilibrium
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
FDI	foreign direct investment
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GFCF	gross fixed capital formation
ICT	information and communications technology
ILO	International Labour Organization
IMF	International Monetary Fund
MSME	micro, small and medium enterprise
NAFTA	North American Free Trade Agreement
NEER	nominal effective exchange rate
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PSU	Policy Support Unit (APEC)
SME	small- and medium-sized enterprise
STEM	science, technology, engineering and math
UNCTAD	United Nations Conference on Trade and Development
VIX	CBOE Volatility Index
WTO	World Trade Organization

KEY MESSAGES

I. Trade, Policy, and the Pursuit of Inclusion

- In 2017, APEC Leaders reiterated their commitment to the pursuit of inclusion by endorsing the APEC Action Agenda on Advancing Economic, Financial and Social Inclusion. With the aim of achieving a more inclusive APEC region by 2030, economies are tasked to implement policies that contribute to inclusive growth.
- Supporters of protectionist policies often cite inclusion as one of their policy objectives, pointing out that protecting industries will help save or create jobs. However, data show that at the macroeconomic level, there is no negative relationship between imports and employment. Pursuing protectionism in the name of inclusion only benefits workers in the protected sector to the detriment of workers in the wider economy.
- Decades of policy research and development work have identified several policy areas that can contribute to inclusion. These include ensuring access to human capital development, improving access to economic opportunities, enacting social inclusion policies, and promoting economic growth through trade and regional cooperation.
- While most policies that directly address inclusion fall under behind-the-border issues, trade policies and agreements have done their share to promote inclusion. Recent trade agreements have covered aspects such as labour standards, environmental protection, gender, indigenous groups, and micro, small and medium enterprises (MSMEs).
- Within APEC, several initiatives have been implemented to pursue inclusion. The Policy Partnership on Women and the Economy works on improving women's access to opportunities, while the Boracay Action Agenda aims to promote internationalisation of MSMEs. Access to human capital development is being pursued under the Human Resources Development Working Group and the Health Working Group. Additionally, the Economic Committee's Renewed APEC Agenda for Structural Reform calls for more actions to promote deeper participation by all segments of society as well as the implementation of sustainable social policies in the pursuit of inclusive growth.

II. Growth Surges but Uncertainty Persists

- Growth in gross domestic product (GDP) in the APEC region surged to 4.1 percent in 2017, from 3.4 percent in 2016. The region is seeing a broad-based economic recovery, with steady contribution from consumption combined with a significant turnaround in trade, benefiting primarily from the continued strengthening in global economic activity.

- The value of merchandise exports in the APEC region grew by 10.2 percent in 2017 after contracting 3.9 percent in 2016. Merchandise imports also turned positive. The volume of merchandise exports and imports grew at 4.9 percent and 7.8 percent in 2017, respectively. Meanwhile, trade in commercial services grew more than 5 percent in 2017.
- The ongoing global economic upswing and higher commodity prices saw higher average inflation in the APEC region at 2.4 percent in 2017, from 2.1 percent in 2016. Monetary developments in the region have largely reflected the general stance of maintaining a balance between supporting economic growth on the one hand and managing inflation pressures on the other.
- Preliminary data from the United Nations Conference on Trade and Development (UNCTAD) reveal that global inflows of foreign direct investment (FDI) dropped by 16.3 percent in 2017 to USD 1.52 trillion, from USD 1.81 trillion in 2016. The lower global FDI has been attributed largely to a 40 percent slump in equity investments coupled with a 32 percent decline in announced greenfield investments.
- According to data on G20 trade and investment measures for the period mid-May to mid-October 2017,ⁱ the number of trade-restrictive measures outweighed trade-facilitating measures while investment-friendly measures outnumbered investment-restrictive measures. The trend in trade-restrictive measures could have negative repercussions on global trade activity, with consequences for producers and consumers alike.
- Following strong GDP growth in 2017, the APEC region is expected to continue along the path of relatively high growth in 2018 at 4.1 percent before consolidating to 4.0 percent in 2019. Short-term risks are broadly balanced as a stronger-than-expected pick-up in global economic activity in the next two years could counter policy uncertainty. In the medium term, risks are tilted to the downside, and are crucially dependent on outcomes in monetary, fiscal and trade policies.
- Buoyant economic conditions create an important opportunity for economies to implement structural reforms. APEC is well equipped with strategies and roadmaps to achieve meaningful reforms that can promote trade and investment and sustainable and inclusive growth. Examples include the APEC Connectivity Blueprint 2015–2025; the Renewed APEC Agenda for Structural Reform; and the APEC Framework on Human Resources Development in the Digital Age.
- Policy commitments and agreements are a good start in making trade and economic growth more sustainable and inclusive. However, the pursuit of an inclusive and sustainable APEC community does not end with pronouncements; implementation is key. Governments and societies need to continue pursuing commitments through effective and efficient implementation, and ensure that efforts are sustainable and progress is tracked.

ⁱ The 18th Monitoring Report on G20 Trade Measures released by the World Trade Organization (WTO) and the 18th Report on G20 Investment Measures released by UNCTAD and the Organisation for Economic Co-operation and Development (OECD), both dated 9 November 2017.

1 TRADE, POLICY, AND THE PURSUIT OF INCLUSION¹

1.1 INTRODUCTION

The benefits of globalisation and international trade are clear, well documented and widely acknowledged; its costs relatively less so. While there is little doubt that globalisation in the late twentieth century has led to unprecedented improvements in income, living standards and connectivity, there is still an ongoing debate about its impact on income inequality and social equity.

In their 2016 declaration, APEC Leaders called for more honesty and clarity on the costs of globalisation as well as policies and actions to address them and ensure that benefits of globalisation are felt more broadly.² In 2017, APEC Leaders strengthened their commitment to inclusion by endorsing the APEC Action Agenda on Advancing Economic, Financial and Social Inclusion, with the aim of achieving a more inclusive APEC community by 2030.³

The *APEC Regional Trends Analysis* series, in its two previous issues published in 2017, discussed some of the costs of globalisation in terms of employment⁴ and income distribution.⁵ This issue – a forward-looking and hopefully more optimistic one – focuses on what can be, and what has been done to address these costs and make trade, globalisation and the economy more inclusive.

1.2 PROTECTIONISM IS NOT INCLUSIVE

Many policies with inclusion and social equity as their stated intent have been shown to not work, covering the gamut from command-and-control⁶ to trickle-down.⁷ For this discussion however, we focus on a trade-related policy that is often called to action in the name of inclusion: protectionism.

¹ Prepared by Emmanuel A. San Andres, Andre Wirjo and Satvinderjit Kaur Singh, APEC Policy Support Unit (PSU).

² APEC Leaders, '2016 Leaders' Declaration', *APEC*, 20 November 2016, https://www.apec.org/Meeting-Papers/Leaders-Declarations/2016/2016_aelm [accessed 4 May 2018]

³ APEC Leaders, 'Annex A: APEC Action Agenda on Advancing Economic, Financial and Social Inclusion in the APEC Region', *APEC: Leaders' Declarations*, 11 November 2017, https://www.apec.org/Meeting-Papers/Leaders-Declarations/2017/2017_aelm/Annex-A [accessed 4 May 2018]

⁴ APEC PSU, *APEC Regional Trends Analysis – Globalisation: The Good, The Bad, and the Role of Policy* (Singapore: APEC, May 2017).

⁵ APEC PSU, *APEC Regional Trends Analysis – Declining Labour Share and the Challenge of Inclusion* (Singapore: APEC, November 2017).

⁶ P. Hanson, *The Rise and Fall of the Soviet Economy* (London: Routledge, 2003).

⁷ M. Akinci, 'Inequality and Economic Growth: Trickle-down Effect Revisited', *Development Policy Review* 36, no. S1 (2018): O1–24; M. Bertrand and A. Morse, 'Trickle-down Consumption', *Review of Economics and Statistics* 98, no. 5 (2016): 863–79; J. Stiglitz, 'Inequality and Economic Growth', *The Political Quarterly* 86, no. S1 (2015): 134–55.

The intuition of protectionism is straightforward: if trade liberalisation has had negative impacts on some workers, then protectionism should reverse those impacts and help the affected workers. It is undeniable that globalisation and trade liberalisation could have negative impacts on some workers. Differences in export competitiveness and increased competition from imports could lead to the contraction of some sectors and firms, resulting in job losses.⁸ Estimates from our May 2017 issue indicate that low- and middle-skill workers in high-income economies and low-skill workers in low-income economies are negatively affected by export growth.⁹ Trade and globalisation could also result in offshoring of jobs¹⁰ and job polarisation in the domestic labour market.¹¹

However, the converse of the above intuition is similarly straightforward: if trade liberalisation has contributed to economic growth, job creation and lower consumer prices – as repeatedly shown in various studies¹² – then protectionism would result in lower growth, job losses and rising prices. One cannot argue the former and deny the latter, and empirical evidence shows this to be the case.

Figure 1.1 shows the correlation between real imports (in 2005 USD) and number of people employed using data from more than 170 economies over more than two decades. The trend is clear: the data do not show that more imports lead to job losses at the economy level. In fact, the trend line in Figure 1.1 implies a positive elasticity between imports and jobs, i.e. growth in imports is positively linked with growth in jobs. This is because imports do not necessarily crowd out local production; rather, they are an important input to and enabler of domestic output.

Trade protectionism, and the retaliation it attracts, ultimately hurts workers in the imposing economy. Computable general equilibrium (CGE) estimates of the impact of protectionist policies show that while workers in the protected industries benefit from higher tariffs due to a resurgence of domestic production, workers in the wider economy suffer from job losses and reduction in real wages, not to mention lower economic growth.¹³

Of course, nothing of the above is new. Economic theory has always predicted, and evidence has confirmed, that while international trade could negatively affect sectors and firms that compete with imports, its impact on overall economic growth and jobs creation is positive. Hence, implementing protectionist policies in the name of inclusion exchanges limited gains for widespread losses.

⁸ International Monetary Fund (IMF), World Bank and World Trade Organization (WTO), *Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment* (policy paper, Washington, DC: IMF, 2017); A. Harrison, J. McLaren and M. McMillan, ‘Recent Perspectives on Trade and Inequality’, *Annual Review of Economics* 3 (2011): 261–89.

⁹ APEC PSU, *Globalisation: The Good, The Bad, and the Role of Policy*.

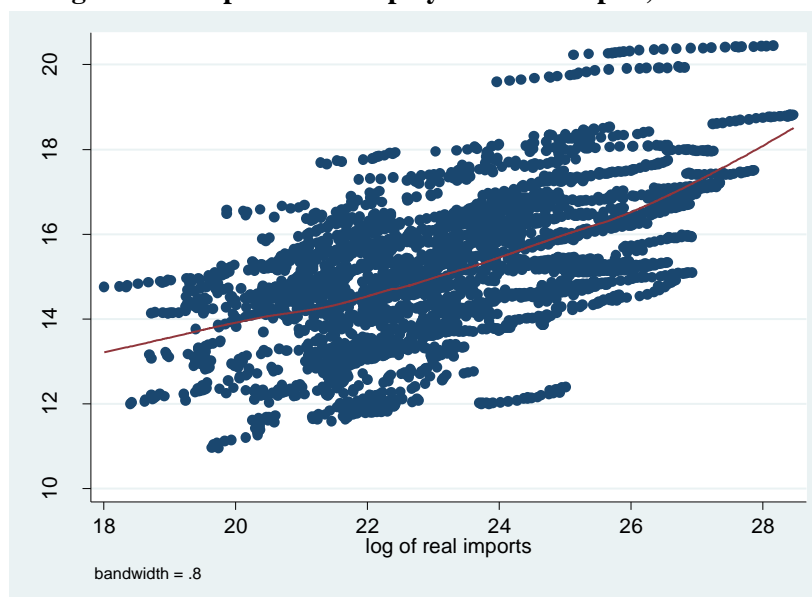
¹⁰ L. Levine, *Unemployment through Layoffs and Offshore Outsourcing* (Washington, DC: Congressional Research Service, 2010).

¹¹ D.H. Autor and D. Dorn, ‘The Growth of Low-skill Service Jobs and the Polarization of the US Labor Market’, *The American Economic Review* 103, no. 5 (2013): 1553–97; J. Lake and D.L. Millimet, ‘Good Jobs, Bad Jobs: What’s Trade Got To Do with It?’ (IZA discussion paper no. 9814, Bonn: IZA, 2016).

¹² S. Edwards, ‘Openness, Productivity and Growth: What Do We Really Know?’ *The Economic Journal* 108, no. 477 (1998): 383–98; J.A. Frankel and D. Romer, ‘Does Trade Cause Growth?’ *American Economic Review* 89, no. 3 (1999): 379–99; R. Wacziarg and K.H. Welch, ‘Trade Liberalization and Growth: New Evidence’, *World Bank Economic Review* 22, no. 2 (2008): 187–231; World Bank and WTO, *The Role of Trade in Ending Poverty* (Geneva: WTO, 2015), 19–25.

¹³ D. Ciuriak and J. Xiao, ‘Protectionism and Retaliation’ (working paper, Toronto: C.D. Howe Institute, 2017).

Figure 1.1. Imports and employment scatterplot, 1991–2016



Note: Data cover more than 170 economies over 1991–2016 ($n = 3,140$). Trend line is generated using nonparametric locally weighted scatterplot smoothing.

Source: World Bank, World Development Indicators; Directorate-General of Budget, Accounting and Statistics of Chinese Taipei; APEC PSU calculations.

1.3 WHAT CONTRIBUTES TO INCLUSION

If protectionism does not contribute to inclusive economic growth, then what does? Inclusion entails that all people have the capability and opportunity to contribute to and benefit from economic growth. However, many factors not related to individual effort or ability – such as race or ethnicity, place of birth, or parental income – have a significant impact on a person’s ability to develop capabilities, and the set of opportunities that are available.¹⁴ Inclusion, then, is about addressing the privileges or deprivations caused by circumstances of birth and ensuring that all individuals have an equal opportunity to develop themselves and contribute to the economy based on effort and ability.

Decades of economic research have identified several key policy areas that can help equalise opportunities and ensure that the benefits of economic growth are more broad-based and socially equitable. These areas include access to human capital development, access to opportunities, social inclusion policies, and trade and regional integration.

¹⁴ M. Corak, ‘Income Inequality, Equality of Opportunity, and Intergenerational Mobility’, *Journal of Economic Perspectives* 27, no. 3 (2013): 79–102; J.E. Roemer, *Equality of Opportunity* (Cambridge, MA: Harvard University Press, 1998); T. Smeeding, R. Erikson and M. Jäntti, *Persistence, Privilege, and Parenting: The Comparative Study of Intergenerational Mobility* (New York: Russell Sage Foundation, 2011); R.G. Wilkinson, ‘Income Distribution and Life Expectancy’, *British Medical Journal* 304 (1992): 165–8.

1.3.1 Access to human capital development

Human capital development equips people with the capabilities to contribute to the economy. Workers need skills, training and good health in order to contribute to the production of goods and services, which in turn earns them their fair share of wages and income.

Education and skills development imparts life skills, increases the likelihood of an individual participating in the labour market, and enables them to make meaningful contributions to the economy. Barro and Lee estimate that one additional year of schooling increases output per worker between 5 and 12 percent, while Jamison et al. demonstrate that schooling has a strong and positive impact on economic growth.¹⁵

Skills development has become all the more important considering the structural unemployment and skills mismatch that many economies are experiencing due to forces such as globalisation and technological change.¹⁶ For instance, while digitisation has led to the creation of roles such as data scientists, app developers and social influencers, many of which would probably be unheard of until a decade ago, it has also led to job losses as some tasks can now be more easily automated. McKinsey estimates that approximately 50 percent of existing work activities can technically be automated using currently demonstrated technologies; and up to 375 million workers may need to switch occupational categories by 2030.¹⁷ Nedelkoska and Quintini note that about 14 percent of jobs in the economies of the Organisation for Economic Co-operation and Development (OECD) participating in the Survey of Adult Skills are highly automatable (i.e. having a probability of automation over 70 percent), which is equivalent to over 66 million people.¹⁸ Re-skilling people who have lost their job would be imperative to enable them to find another job and have a stake in the new economy. Even for those employed, it is crucial to explore ways to provide lifelong learning opportunities so that they remain relevant as technology continues to evolve.

Access to healthcare is also essential in ensuring a person's capacity to contribute to the economy. Healthy individuals have greater ability to learn more skills and use them to their advantage. They are arguably more productive as well since they would be less likely to miss work days. Consequently, a healthier workforce is better able to contribute to economic growth. Indeed, Bloom and Canning find that labour productivity increases by about 2.8 percent when the adult survival rate increases by 1 percentage point.¹⁹ Alsan et

¹⁵ R. Barro and J.W. Lee, 'A New Data Set of Educational Attainment in the World, 1950–2010' (NBER working paper no. 15902, Cambridge, MA: NBER, 2010); E.A. Jamison, D.T. Jamison and E.A. Hanushek, 'The Effects of Education Quality on Income Growth and Mortality Decline' (NBER working paper no. 12652, Cambridge, MA: NBER, 2006).

¹⁶ A.O. Krueger, E.A. San Andres and T.L. Hredzak, *2017 APEC Economic Policy Report – Structural Reform and Human Capital Development* (Singapore: APEC, 2017); IMF, 'The Globalization of Labor', in *World Economic Outlook, April 2007: Spillovers and Cycles in the World Economy* (Washington, DC: IMF, 2007), Chapter 5.

¹⁷ McKinsey Global Institute, 'Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation' (McKinsey Global Institute, 2017).

¹⁸ The Survey of Adult Skills comes under the Organisation for Economic Co-operation and Development (OECD) Programme for the International Assessment of Adult Competencies (PIAAC). See: L. Nedelkoska and G. Quintini, *Automation, Skills Use and Training* (Paris: OECD, 2018).

¹⁹ D.E. Bloom and D. Canning, 'Health and Economic Growth: Reconciling the Micro and Macro Evidence' (CDDRL working paper no. 42, Palo Alto, CA: Center on Democracy, Development, and the Rule of Law, Stanford Institute on International Studies, 2005).

al., through an analysis of the growth rates of economies categorised by initial income and life expectancy for the period 1960–2000, find that at each level of income, there is a propensity for economies with higher levels of life expectancy to have better economic growth.²⁰ Weil shows that eradicating health gaps between economies could improve labour productivity and reduce productivity inequality between economies.²¹

1.3.2 Access to opportunities

Economic growth is needed to expand opportunities for employment and entrepreneurial activity; hence, inclusive growth cannot happen without economic growth. However, economic growth, while necessary, is not enough to ensure inclusive growth. Human capital development improves people's capabilities to contribute to economic growth, but this does not ensure access to opportunities.

Infrastructure development is critical in providing more segments of the population with access to economic opportunities. Roads and ports, for example, facilitate mobility of goods, services and labour. Telecommunications, including information technology (IT) services, enable firms and entrepreneurs to communicate and coordinate their actions. In many economies, disparity in access to crucial infrastructure between urban and rural areas is an important reason why people in rural areas have been unable to deepen their participation in the economy compared to their urban counterparts.

Linkages between inclusive growth and infrastructure have been established in the literature. Calderón and Servén find that a one standard deviation improvement in the index of infrastructure stocks and quality would raise growth by 2.9 and 0.68 percentage points, respectively.²² Fan et al. find that 3.2 individuals were lifted out of poverty in China for every CNY 10,000 invested in rural infrastructure.²³ An OECD analysis shows that geographic targeting of transport infrastructure may make investments more pro-poor.²⁴

Financial sector development bolsters economic growth in many ways, including through mobilising savings, facilitating risk management and promoting product exchange. By broadening access to financial services for various segments of the society – including small- and medium-sized enterprises (SMEs) and the poor – financial sector development can also play a direct role in inclusive growth. Honohan finds that a 10 percentage point increase in the ratio of private credit to gross domestic product (GDP) could lead to a 2.5 to 3.0 percentage point reduction in poverty incidence.²⁵ Likewise, Zhuang et al. note that well-designed and targeted microfinance and SME credit programmes can be effective in

²⁰ M. Alsan et al., 'The Consequences of Population Health for Economic Performance', in *Health, Economic Development and Household Poverty*, ed. S. Mills, L. Gibson and A. Mills (Oxford: Routledge, 2007), 21–39.

²¹ D. Weil, 'Accounting for the Effect of Health on Economic Growth' (NBER working paper no. 11455, Cambridge, MA: NBER, 2005).

²² C. Calderón and L. Servén, 'The Effects of Infrastructure Development on Growth and Income Distribution' (World Bank Policy Research working paper no. 3400, Washington, DC: World Bank, 2004).

²³ S. Fan, L. Zhang and X. Zhang, 'Growth, Inequality, and Poverty in Rural China: The Role of Public Investments' (Washington, DC: IFPRI, 2002).

²⁴ OECD, *Promoting Pro-Poor Growth: Infrastructure* (Paris: OECD, 2007).

²⁵ P. Honohan, 'Financial Development, Growth, and Poverty: How Close are the Links?' (World Bank Policy Research working paper no. 3203, Washington, DC: World Bank, 2004).

providing SMEs and vulnerable groups with wider access to financing.²⁶ They further mention the need to complement these programmes with activities such as training and capacity building, and facilitation of access to markets and technologies.

1.3.3 Social inclusion policies

Workers and their households have been among those hardest hit by the changing economic landscape. Many papers have documented the decline of labour share in GDP,²⁷ which is a broad indicator of income distribution in an economy. Even more concerning is the observation that wage movements have decoupled from movements in labour productivity,²⁸ indicating that a key element of economic equity – that workers are paid in alignment with what they contribute – is weakening.

Supportive labour market policies could help reverse this trend. These policies include the right to bargain, acceptable minimum and living wages, and safe working conditions.²⁹ Indeed, a report by the OECD notes that variables such as union density, minimum wage legislation and severance pay have potential implications for labour compensation and hence income share in GDP.³⁰ For example, a fall in union density has been associated with weaker bargaining power of workers and, consequently, lower share of labour compensation.

Furthermore, labour policies could also be improved to minimise discrimination and widen the opportunities for different segments of society such as women, youth and elderly workers. Areas where improvements could be made include instituting paid sick and family leave, supporting childcare, promoting pay equity, providing skills training, and promoting apprenticeships and internships.³¹ To ensure adherence to labour standards, policymakers could also increase monitoring and enforcement.

Social protection has commonly been associated with the provision of social assistance to segments of society with no other means of support to tide them over challenging times such as natural disasters. However, there is increasing evidence that social protection also has positive implications beyond its traditional role as a coping mechanism. For example, knowing that one could rely on social protection in times of need allows individuals to be less risk averse when deciding to invest in activities with potentially higher returns such as education. Besides assuring some basic protection should there be loss of income and other job-related benefits, social protection could encompass support during the job search

²⁶ J. Zhuang et al., 'Financial Sector Development, Economic Growth, and Poverty Reduction: A Literature Review' (ADB Economics working paper no. 173, Manila: ADB, 2009).

²⁷ IMF, 'Understanding the Downward Trend in Labour Income Shares', in *World Economic Outlook, April 2017: Gaining Momentum?* (Washington, DC: IMF, 2017), Chapter 3; OECD, 'Labour Losing to Capital: What Explains the Declining Labour Share?' in *OECD Employment Outlook 2012* (Paris: OECD, 2012), Chapter 3.

²⁸ C. Schwellnus, A. Kappeler and P.A. Pionnier, 'The Decoupling of Median Wages from Productivity in OECD Countries', *International Productivity Monitor* 32 (2017).

²⁹ J. Stiglitz et al., *Rewriting the Rules of the American Economy – An Agenda for Growth and Shared Prosperity* (New York: Roosevelt Institute, 2015).

³⁰ OECD, *The Labour Share in G20 Economies* (ILO and OECD, 2015).

³¹ Stiglitz et al., *Rewriting the Rules of the American Economy*; D.W. Schanzenbach and R. Nunn, eds, *The 51%: Driving Growth through Women's Economic Participation* (Washington, DC: The Brookings Institution, 2017); Oxfam, *Youth and Inequality: Time to Support Youth as Agents of Their Own Future* (briefing paper, Quebec: Oxfam-Québec, 2016).

process in the form of retraining programmes and matching services.³² On the inter-generational front, social protection could lead to less hesitation among vulnerable groups to invest in their children's education. Put simply, social protection leads to a more optimal decision-making process by reducing uncertainty and expanding time horizons. Even economies with more robust social protection systems could still cover gaps, particularly in view of trends such as the rise of 'newer' forms of employment in the digital economy (e.g. private-hire drivers, freelancers and other self-employed workers). In this regard, policymakers may wish to review existing systems and adapt them to the current circumstances.³³

Improvements in the above policy areas, particularly in costly social protection programmes, are dependent on whether economies are able to raise sufficient revenue to support the required expenditure. Economies may need to take a second look at some of their existing fiscal policies so as to facilitate more efficient use of resources and hence more equitable sharing of the benefits of growth. These can include implementing more progressive taxation, and minimising misclassification, restraining disguised employment and plugging other holes in the economy's current taxation policies.³⁴

1.3.4 Trade and regional integration

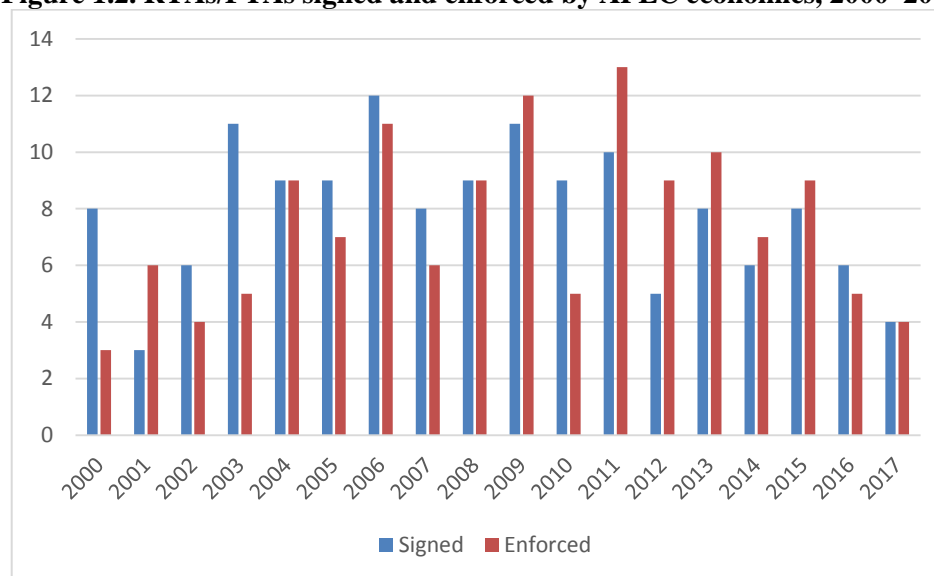
Although trade and regional integration are not sufficient conditions for inclusive growth, they have played an important role in enhancing global prosperity and stability. Access to markets beyond domestic ones allows participants to sell to a wider pool of buyers and, at the same time, access a wider variety of products at competitive prices. Foreign investment and remittances help to narrow the domestic savings–investment gap. Trade and regional integration also bring positive externalities and dynamic benefits through technology transfer and innovation, among others.³⁵ Therefore, economies should remain committed to promoting freer trade and deeper regional integration, while concurrently complementing these efforts with other policies. It is encouraging to note that despite the recent rhetoric against globalisation around the world, APEC economies are still engaged in efforts to open their markets – e.g. signing and enforcing eight free trade agreements in 2017 (Figure 1.2) – and introducing components and elements to broaden access to opportunities while minimising the negative impacts of trade liberalisation.

³² D.H. Brooks et al., 'Closing Development Gaps: Challenges and Policy Options' (ADB Economics working paper no. 209, Manila: ADB, 2010).

³³ International Labour Organization (ILO), 'Innovative Approaches for Ensuring Universal Social Protection for the Future of Work' (Global Commission on the Future of Work issue brief no. 12, Geneva: ILO, 2018).

³⁴ Stiglitz et al., *Rewriting the Rules of the American Economy*; ILO, 'Innovative Approaches for Ensuring Universal Social Protection for the Future of Work'.

³⁵ There is numerous literature on the benefits of trade. Some examples include: World Bank and WTO, *The Role of Trade in Ending Poverty*; Overseas Development Institute (ODI) et al., 'Trade and Pro-Poor Growth' (JLP-PPG briefing note no. 5, Paris: OECD, June 2010); R. Wacziarg and K.H. Welch, 'Trade Liberalization and Growth: New Evidence', *World Bank Economic Review* 22, no. 2 (2008): 187–231; Frankel and Romer, 'Does Trade Cause Growth?'

Figure 1.2. RTAs/FTAs signed and enforced by APEC economies, 2000–2017

FTA = free trade agreement; RTA = regional trade agreements.

Source: Member-economy sources and official websites; APEC PSU staff tally.

1.4 ADDRESSING INCLUSION IN TRADE

While most of the policies that can make economic growth more inclusive are those behind the border, this does not mean that there is nothing trade policy can do to either broaden the benefits of globalisation or reduce its negative impacts.

Economies have administered domestic trade adjustment programmes aimed at retraining and supporting those adversely impacted by trade. Examples include the Trade Adjustment Assistance programme in the United States,³⁶ the Mexican labour retraining programme (PROBECAT),³⁷ and the Three Year 10 Million Programme in China to retrain retrenched workers.³⁸ These programmes have had varying impacts. The US Trade Adjustment Assistance programme was successful in providing assistance to over 1.9 million workers between 1975 and 2000. However, it has been criticised for not including secondary workers and not providing re-employment services, which meant that its benefits were only available to some workers and it lacked the capacity to permanently place beneficiaries in a better position than before.³⁹ PROBECAT resulted in higher employment and wages, but

³⁶ The Trade Adjustment Assistance programme was established in 1962 to provide income maintenance payments and reimbursements for training. The eligibility criteria for the programme was loosened in 1974 to have a greater coverage.

³⁷ In 1984 the Mexican government implemented PROBECAT (*Programa de Becas de Capacitacion para Trabajadores*), a short-term training programme which aims to increase the earnings and employment of the unemployed and displaced. Trainees receive a minimum wage during the training period which lasts one to six months, after which they are provided placements by local employment offices.

³⁸ The Three Year 10 Million Programme is a massive retraining initiative implemented in China since 1998. The training lasts three to six months and focuses on labour market requirements and practical skills, and is specifically designed to cater to different target groups.

³⁹ H.F. Rosen, 'Reforming Trade Adjustment Assistance: Keeping a 40-Year Promise' (paper presented at *Trade Policy in 2002*, Peterson Institute for International Economics, Washington, DC, 2002),

these were not sustainable in the longer term, suggesting a need for the training provisions to be redesigned for longer lasting impacts.⁴⁰

Recently, there have been greater efforts to address safety nets and inclusion in trade agreements. A variety of issues ranging from climate change to the role of indigenous people have been found in these agreements.

1.4.1 Labour standards

One of the first behind-the-border concerns to be tackled in trade agreements relates to the treatment of workers. Treating workers badly – through poor labour standards or unsafe working environments – can be a source of low-cost advantage. The North American Free Trade Agreement (NAFTA) was one of the first international trade agreements that included provisions to protect labour interests and ensure labour standards across trading economies.

Despite the view that stronger labour protection would reduce an economy's comparative advantage, Carrère et al. found no evidence of an adverse impact on trade.⁴¹ Instead, they mention two linkages in favour of labour provisions: (1) considering labour interests and protecting them would improve labour productivity, resulting in a positive impact on the firm's performance; and (2) consumers would prefer to purchase products produced under socially acceptable circumstances.

Following in NAFTA's footsteps, it became common practice for trade agreements to include labour provisions. The number of trade agreements adopting these provisions and pursuing them as hard law has increased recently. As of March 2017, 77 trade agreements, of which two-thirds were enforced after 2008, have labour provisions.⁴² The European Union-Canada Comprehensive Economic and Trade Agreement (CETA), whose negotiations were completed in 2014 and which is now in the provisional application stage, has a separate chapter on labour provisions. The chapter prevents the lowering of standards to boost trade. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is the most recent of the trade agreements that aim to increase labour standards in the region by implementing provisions that are legally binding. There has also been an increase in the ratification of international standards like International Labour Organization (ILO) standards. These trends in trade agreements show an increase in measures to improve the distribution of trade benefits.⁴³

<https://piie.com/commentary/speeches-papers/reforming-trade-adjustment-assistance-keeping-40-year-promise#15> [accessed 4 May 2018]

⁴⁰ J.L. Baker, *Evaluating the Impact of Development Projects on Poverty: A Handbook for Practitioners* (Washington, DC: World Bank, 2000).

⁴¹ C. Carrère, M. Olarreaga and D. Raess, 'Labour Clauses in Trade Agreements Promote Southern Exports to the North', *VOX, CEPR's Policy Portal*, 15 December 2017, <https://voxeu.org/article/labour-clauses-trade-agreements-promote-southern-exports-north> [accessed 4 May 2018]

⁴² S.B. Das, R. Sen and S. Srivastava, *Labour Provisions in Trade Agreements with Developing Economies: The Case of TPPA and ASEAN Member Countries* (Singapore: ISEAS, 2017).

⁴³ F.C. Ebert and A. Posthuma, *Labour Provisions in Trade Arrangements: Current Trends and Perspectives* (Geneva: International Institute for Labour Studies, 2011).

1.4.2 Environmental protection and sustainable development

Environmental protection and sustainable development are also issues of inclusion. People from poorer households are more likely to be involved in jobs that are directly affected by the environment – such as agriculture and mining – and are also less likely to have access to facilities that can help cope with weather disturbances, such as air-conditioning and insurance.⁴⁴ Moreover, climate change could threaten efforts at poverty reduction, food security, health, and social protection.⁴⁵

Similar to labour provisions, environmental and sustainable development provisions now play a more prominent role in trade agreements. In the past, the need to protect the environment amounted to a short mention in trade agreements, e.g. article XX of the General Agreement on Tariffs and Trade (GATT). However, recent trade agreements include whole chapters addressing this specific issue.⁴⁶ Environmental provisions ensure a level playing field while contributing toward the goal of sustainable development.⁴⁷ The OECD notes that all trade agreements involving its members have some form of an environmental provision.⁴⁸ Environmental concerns no longer play a trivial role in international trade policy as a large number of modern trade agreements cover them.

Environmental provisions are present in NAFTA; and more recently, they have been included in CETA, in not one but two comprehensive chapters covering trade and the environment, and trade and sustainable development. Both chapters aim to promote trade growth while keeping a check on environmental impacts and ensuring sustainability. While some trade agreements focus on maintaining high environmental protection or disallowing economies from lowering their environmental standards to improve their trade position, others, like the South American trade bloc MERCOSUR, strive to improve harmonisation by encouraging cooperation on environmental standards.⁴⁹ CPTPP is the first to make environmental standards legally enforceable; however, the agreement is still awaiting ratification and the application of this legal enforcement aspect will have to be seen.

1.4.3 Gender, minorities and MSMEs

Fostering gender equality in trade agreements is expected to provide autonomy and substantial benefits to women. Research on the impact of NAFTA's implementation in Mexico find women to be earning higher relative wages and being favoured in between- and within-industry shifts.⁵⁰ Much has changed in terms of gender provisions in trade agreements since NAFTA's labour agreement chapter, which merely sought to promote gender equality in the workplace. Recent trade agreements, such as the one between Chile and Uruguay and the amended Canada-Chile trade agreement, have dedicated specific

⁴⁴ B.S. Levy and J.A. Patz, 'Climate Change, Human Rights, and Social Justice', *Annals of Global Health* 81, no. 3 (2015): 310–22.

⁴⁵ S. Hallegatte et al., *Shock Waves: Managing the Impacts of Climate Change on Poverty* (Washington, DC: World Bank, 2016).

⁴⁶ D. Colyer, *Environmental Provisions in Trade Agreements* (Morgantown, WV: West Virginia University, 2004).

⁴⁷ OECD, *Environment and Regional Trade Agreements* (Paris: OECD, 2007).

⁴⁸ *Ibid.*

⁴⁹ *Ibid.*

⁵⁰ K. Higgins, *Gender and Free Trade Agreements: Best Practices and Policy Guidance* (Ottawa: The North-South Institute, 2013).

chapters to addressing gender equality issues; however, the provisions are not legally binding.⁵¹ The East African Community passed a bill in 2017 legally enforcing the incorporation of gender provisions into trade policies.⁵² While this is a first step toward ensuring equitable participation of men and women in regional trade, challenges still lie ahead with regard to implementing enforcement mechanisms for gender provisions.

The establishment of the International Inter-tribal Trade and Investment Organization in 2015 marked the beginning of international measures to promote greater involvement of indigenous groups and minorities in trade. The free trade agreement between New Zealand and Chinese Taipei includes provisions that seek to expand and facilitate trade, economic relations and cultural contact between indigenous peoples.⁵³ Meanwhile, Canada is pushing for the inclusion of a chapter addressing indigenous interests in NAFTA.⁵⁴

A number of trade agreements have also included provisions supporting internationalisation of micro, small and medium enterprises (MSMEs). One of the more recent ones to be signed was the Peru-Australia Free Trade Agreement, which has a chapter acknowledging the importance of facilitating and supporting the growth of MSMEs by improving access to finance and fostering the use of e-commerce. The CPTPP includes provisions that ensure access of information and procurement opportunities for MSMEs. Measures like these can enable small enterprises to develop links with regional global-value-chains and production networks, allowing them to receive their share of the benefits of globalisation.

1.4.4 APEC's work on inclusion

In pursuing its aim to foster cross-border trade and investment, APEC recognised the need to promote inclusive growth within its activities as early as the 1994 Bogor Declaration. The APEC 2015 theme of 'Building Inclusive Economies, Building a Better World' focused on improving participation across all members and communities by investing in human resource development and facilitating the internationalisation of MSMEs through the Boracay Action Agenda.⁵⁵

The Boracay Action Agenda was endorsed in 2015 with the main aim of placing MSMEs at the centre of global trade by simplifying and streamlining documentary requirements and customs regulations, expanding their opportunities through e-commerce and

⁵¹ United Nations Conference on Trade and Development (UNCTAD), 'The New Way of Addressing Gender Equality Issues in Trade Agreements: Is It a True Revolution?' (policy brief no. 53, Geneva: UNCTAD, October 2017); C. Kenny and M. O'Donnell, 'Using Trade Agreements to Support Women Workers', *Center for Global Development*, 6 February 2017, <https://www.cgdev.org/blog/using-trade-agreements-support-women-workers> [accessed 4 May 2018]

⁵² Eastern African Sub-regional Support Initiative for the Advancement of Women (EASSI), *East African Community (EAC) Gender Equality and Development Bill – An Abridged Version* (Kampala: EASSI, n.d.).

⁵³ New Zealand and Chinese Taipei, *Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation*, 10 July 2013, <https://www.nzcio.com/assets/ANZTEC/ANZTEC-Final-Text-10-July-2013-NZ.pdf> [accessed 4 May 2018].

⁵⁴ D. Ciuriak, 'Canada's Progressive Trade Agenda and the NAFTA Renegotiation', 19 October 2017, <http://dx.doi.org/10.2139/ssrn.3055948> [accessed 4 May 2018]

⁵⁵ APEC Ministers Responsible for Trade, 'Boracay Action Agenda to Globalize MSMEs', *APEC*, 24 May 2015, https://www.apec.org/Meeting-Papers/Sectoral-Ministerial-Meetings/Trade/2015_trade/2015_mrt_standalone.aspx [accessed 4 May 2018]

information and communications technology (ICT), strengthening their institutional support and more. Complementing this is the APEC SME Working Group's Strategic Plan for 2017–2020, which aims to push for the growth of MSMEs by promoting greater entrepreneurship and innovation, access to financing, development of inclusive business ecosystems, and integration into global value chains, among others. APEC has developed several initiatives in line with this, including an SME Innovation Center in Korea that provides hands-on consulting services to SMEs, and an APEC Start-Up Accelerator Initiative to connect technology-based start-ups with funding opportunities.

The Policy Partnership on Women and the Economy has been working to improve the economic opportunities of women in the region, establishing an APEC Women and the Economy Sub-fund in 2018 to support its objectives. Current initiatives include a programme that seeks to increase women's presence in educational courses and careers in the fields of science, technology, engineering and math (STEM) called the APEC Women in STEM Initiative. Another programme is the Women Entrepreneurship in APEC Initiative, which aims to support women entrepreneurs through capacity-building activities. In addition, the Women's Micro-Enterprise Trade Network Project seeks to connect indigenous women to global markets by assisting indigenous women-owned MSMEs to export their products to Canada.

The Human Resources Development Working Group initiates activities focused on education, labour and capacity building to provide better access to skills development and employment. Its Framework on Human Resources Development in the Digital Age, endorsed in 2017, aims to tackle skills mismatches and provide inclusive education and vocational training in the context of rapid technological change.

The Health Working Group aims to strengthen healthcare systems, improve access to health services, and encourage cooperation between health and the other sectors. The working group's Healthy Asia Pacific 2020 initiative identifies investment in human capital as a priority for economies.⁵⁶ In addition, the initiative supports universal health coverage through improved access to safe, affordable and sustainable primary healthcare.

The Economic Committee's Renewed APEC Agenda for Structural Reform, which will guide structural reform work in APEC until 2020, emphasises inclusion by identifying deeper participation by all segments of the society as one of its three pillars. Another pillar encourages economies to look into sustainable social policies that are well targeted, effective and non-discriminatory. In 2015, APEC Structural Reform Ministers mandated the Economic Committee to draft a Policy Framework on Structural Reform and Inclusive Growth.⁵⁷ Furthermore, the Economic Committee's 2017 APEC Economic Policy Report touches on trade adjustment issues, specifically structural reform and human capital development in light of the structural unemployment and skills mismatches caused by globalisation. The policy recommendations included improving access to education and training, enhancing social protection, and establishing employment centres coordinated through active labour market policies.

⁵⁶ APEC Health Working Group, 'The Healthy Asia Pacific 2020 Roadmap', 2014, http://www.apec.org/~media/Files/Groups/HWG/Healthy%20Asia%20Pacific%202020%20Roadmap_FINAL.PDF [accessed 4 May 2018].

⁵⁷ APEC Structural Reform Ministers, 'Statement' (released at the *Structural Reform Ministerial Meeting*, Cebu, Philippines, 7–8 September 2015), http://mddb.apec.org/Documents/2015/MM/SRMM/15_srmm_jms.pdf [accessed 4 May 2018].

Bringing together the various initiatives on inclusion is the APEC Action Agenda on Advancing Economic, Financial and Social Inclusion initiated by APEC Leaders in 2017.⁵⁸ In line with the Leaders' overarching goal of an inclusive APEC community by 2030, the Agenda draws on current work on inclusiveness and aims to develop new initiatives that will ensure relevance in an ever-changing global landscape.

1.5 CONCLUSION

Policy commitments and provisions in trade agreements are a good start in making trade and economic growth more inclusive. However, the pursuit of an inclusive community does not end with pronouncements. Inclusiveness is not a static objective; governments and societies need to continue pursuing it. While APEC has made achievements in promoting and mainstreaming inclusiveness in its agenda, the work does not end when a statement is endorsed. Key to achieving these objectives is consistent implementation and commitment, keeping in mind the following principles.

Targeting and focusing of efforts. Economies need to ensure that implemented policies are well targeted, address critical challenges, and reach those who need help the most. Targeting can help minimise waste and leakages, expanding the effectiveness of limited budgets and resources. Economies may also wish to be more open in exploring innovative delivery mechanisms, including working together with various stakeholders such as the private sector or non-governmental organisations.

Complementarity and comprehensiveness of policies. Policies work in concert with one another. In implementing policies, it is critical that economies ensure that they complement each other instead of negating one another. Furthermore, economies need to look at tackling issues holistically rather than in a piecemeal manner. For example, enhancing the digital competitiveness of MSMEs requires economies to invest in access to technology, skills development, and labour market information. While each of these components is important in its own way, none of them would be able to function effectively without the others. Economies may also wish to consider the idea of policy sequencing, while recognising that it is important to identify the right sequence first.

Monitoring and evaluation. While policies are well-intended and may be well targeted, their desired outcome may not be realised due to issues such as delivery mechanisms and resource availability. Responding to such issues requires economies to constantly monitor and evaluate the implementation of the policies; impact evaluation and monitoring need to be built into policies and not implemented as an afterthought. Without indicators to track progress, it would be challenging to determine where economies currently stand with regard to the policies and how they can be enhanced.

Accounting for local contexts. Economies vary from one another in many aspects. This means that while economies can agree on the broad policy areas where efforts may be concentrated on, there is no one-size-fits-all approach to inclusion. Therefore, policy success would be dependent on whether local contexts are appropriately taken into consideration by economies during policy development.

⁵⁸ APEC Leaders, 'Annex A: APEC Action Agenda on Advancing Economic, Financial and Social Inclusion in the APEC Region'.

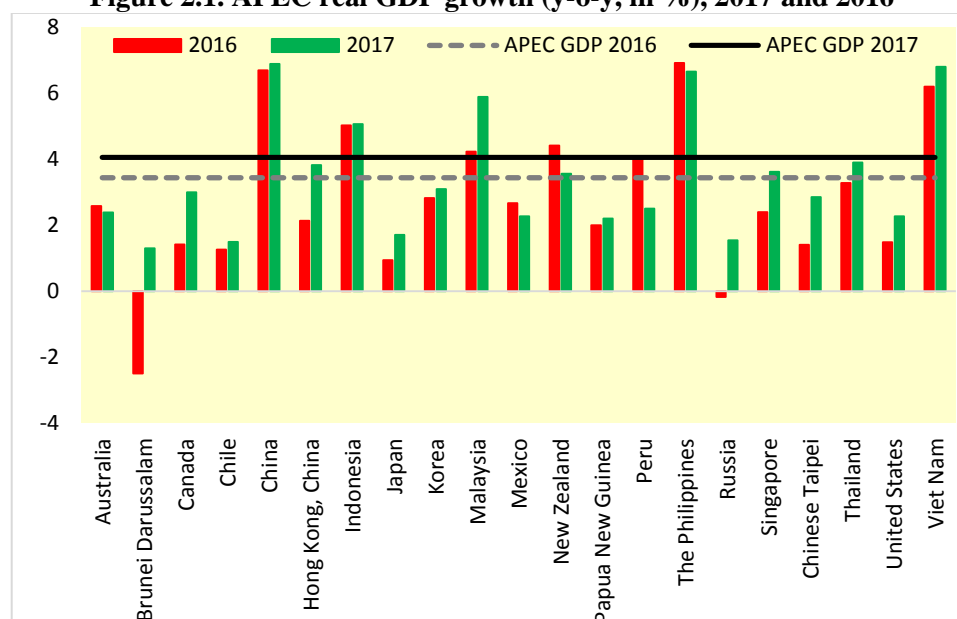
Sustainability. Policies promoting economic, financial and social inclusion will have limited impact if they cannot be sustained. Realities of budgets and resources will need to be taken into account in the planning and implementation of projects. Likewise, policies that promote economic growth and stability are essential in ensuring a steady stream of fiscal resources that can be used to promote inclusive growth.

2 GROWTH SURGES BUT UNCERTAINTY PERSISTS⁵⁹

2.1 APEC GDP GROWTH

A broad-based economic recovery is seen in the APEC region, with steady contribution from consumption combined with a significant turnaround in trade, benefiting primarily from the continued strengthening in global economic activity. In 2017, GDP growth in the APEC region surged to 4.1 percent, from 3.4 percent in 2016 (Figure 2.1), with notable economic turnaround observed in Brunei Darussalam and Russia.

Figure 2.1. APEC real GDP growth (y-o-y, in %), 2017 and 2016

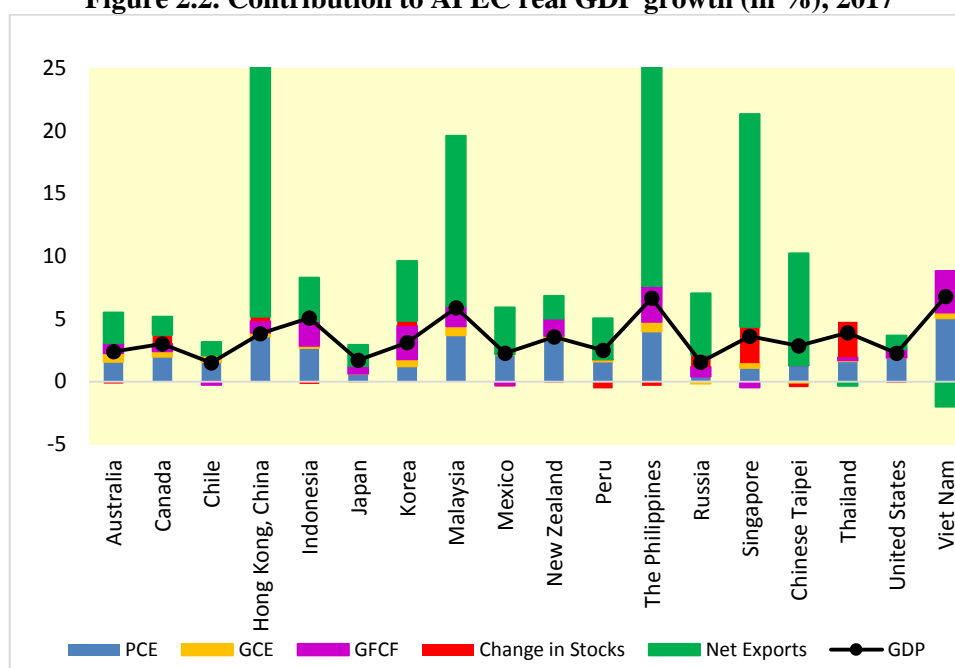


Sources: Member-economy sources; *The Economist*, Economic and Financial Indicators; IMF World Economic Outlook database (April 2018); and APEC PSU staff calculations.

While household consumption continues to be a consistent driver of growth in the region, trade provided a solid contribution to GDP growth in 2017 with net exports generally in positive territory (Figure 2.2). On the one hand, household spending was boosted by more upbeat consumer confidence in line with a firmer global economic recovery coupled with still-accommodative conditions as interest rates have either remained stable or gone up minimally. On the other hand, increased global demand, reflective of the economic momentum that started in mid-2016 and strengthened in 2017, translated into stronger trade activity globally and in the APEC region. In addition, gross fixed capital formation (GFCF) continued to contribute to GDP growth, along with government consumption.

On a semi-annual basis, APEC growth tracked a consistent upward trajectory from the 3.3 percent GDP expansion during the period January–June 2016 to 3.6 percent in the second half of the same year, increasing yet again to 4.0 percent and 4.1 percent in the first and second semesters of 2017, respectively (Figure 2.3).

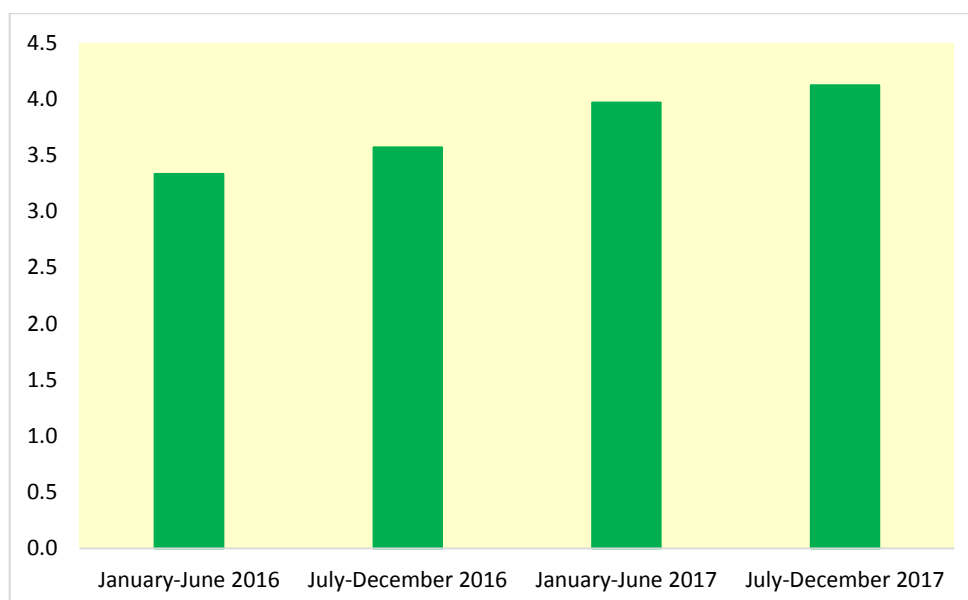
⁵⁹ Prepared by Rhea C. Hernando, APEC PSU.

Figure 2.2. Contribution to APEC real GDP growth (in %), 2017

PCE = private consumption expenditure; GCE = government consumption expenditure; GFCF = gross fixed capital formation.

Note: Data not available for China; Brunei Darussalam; and Papua New Guinea.

Source: Member-economy sources and APEC PSU staff calculations.

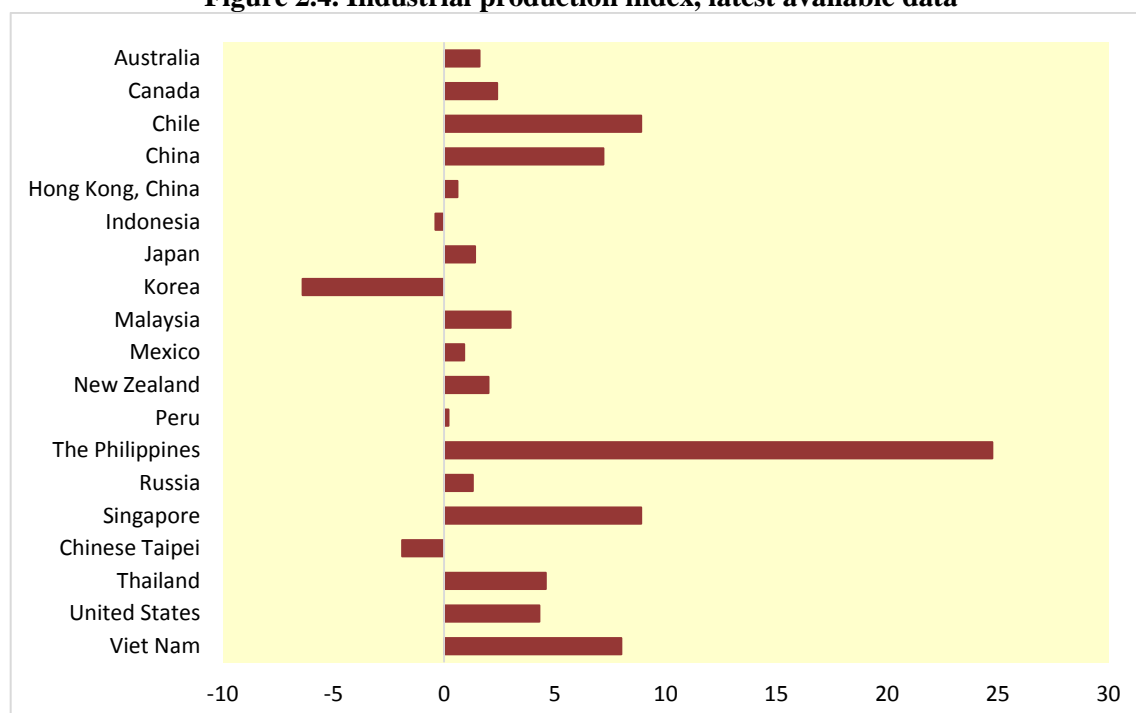
Figure 2.3. APEC real GDP growth (weighted average, y-o-y, in %), semi-annual, 2016–2017

Note: Semi-annual GDP growth is not available for Brunei Darussalam and Papua New Guinea.

Sources: Member-economy sources and APEC PSU staff calculations.

The strength shown by the APEC region in terms of economic growth is mirrored in the positive industrial production indices of its member economies (Figure 2.4), with the exception of Korea and Chinese Taipei. In the case of Korea, although its drop is traced to a fall in output with fewer working days in February 2018, its industrial production index reflects a five-year low, dragged down by a 7.2 percent decline in manufacturing output. In contrast, the relatively high index score posted by the Philippines in February 2018 is due to double-digit growth rates in 11 major sectors, among them printing, food manufacturing and electrical machinery.

Figure 2.4. Industrial production index, latest available data



Note: Data not available for Brunei Darussalam and Papua New Guinea. Data for February 2018 include: Chile; China; Japan; Korea; the Philippines; Russia; Singapore; Chinese Taipei; Thailand; United States; and Viet Nam. Data for January 2018 include: Canada; Indonesia; Malaysia; Mexico; and Peru. Data for Q4 2017 include: Australia; Hong Kong, China; and New Zealand.

Source: Member-economy sources; *The Economist*, Economic and Financial Indicators, accessed 10 April 2018.

The ongoing economic momentum paints a rosy picture of rising global growth that should positively impact on individual economies via the trade, investment and remittance channels, at least in the short term. However, concerns emanating from the financial markets sector, particularly the significant drops observed in stock markets worldwide in 2017 and in the early part of 2018, have provided cause to pause and reflect on the future path of growth. In particular, can financial conditions predict the path of economic growth? Box 2.1 discusses how financial indicators can be used as signals of future potential growth.

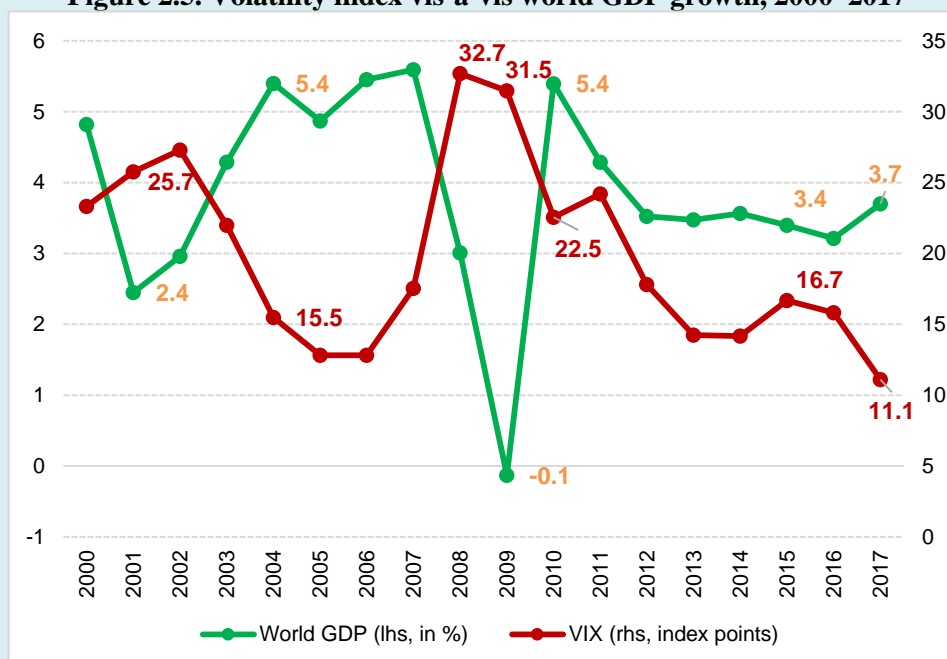
Box 2.1. Financial trends as indicators of future growth

Indicators of financial conditions could be used as a signalling mechanism to help determine the trajectory of future economic growth.⁶⁰ For example, growing indebtedness amid an environment of increasing interest rates signals potential risk since debt is vulnerable to changes in interest rates. If left unchecked, financial vulnerabilities could potentially affect the health and stability of the financial system. A shock to the financial system caused by financial vulnerabilities and market volatility could, in turn, adversely affect consumer and business confidence, weakening economic activity and slowing down growth. The 2008 global financial crisis is a reminder of how unfavourable financial shocks diminish economic growth, and this impact could be immediate, significant and persistent.

Volatility index

A look at the global volatility index (VIX)⁶¹ vis-à-vis world GDP shows that market expectations of near-term volatility or risk exert an influence on aggregate output (Figure 2.5).

Figure 2.5. Volatility index vis-à-vis world GDP growth, 2000–2017



Source: CBOE VIX Index; IMF World Economic Outlook database (October 2017 and January 2018) for world GDP growth.

During periods of financial stress, such as in 2001 when the VIX increased to 25.7 index points and further to 27.3 in 2002 due to the combined effect of a weakening in global financial markets and the terrorist attacks in the United States, world GDP growth was almost halved from 4.8 percent in 2000 to an average of 2.7 percent in 2001–2002. In 2008, when the collapse of Lehman Brothers precipitated the global financial crisis, the VIX peaked at 32.7 points; this was followed

⁶⁰ J. Hatzius et al. 'Financial Conditions Indexes: A Fresh Look after the Financial Crisis' (NBER working paper no. 16150, Cambridge, MA: NBER, 2010).

⁶¹ The Chicago Board Options Exchange (CBOE) Volatility Index® (VIX® Index®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, the VIX Index has been considered a key barometer of investor sentiment and market volatility.

by a 0.1 percent contraction of world GDP in 2009. The adverse economic impact of the global financial crisis would persist for eight years until the global cyclical economic recovery observed in mid-2016.

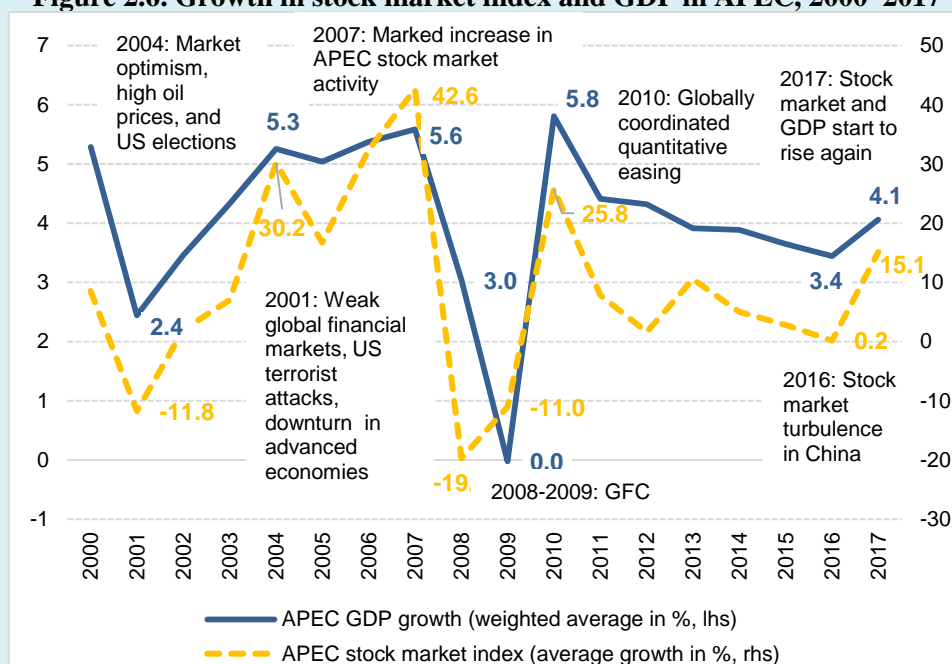
In contrast, periods of relative calm in financial markets characterised by low VIX levels – such as in 2004–2006 and 2013–2014 – were reflected in higher world GDP growth during the same period. Latest available data in 2017 show the VIX dropping to 11.1 index points from the year-ago level of 15.8, while world GDP growth has picked up to 3.7 percent from 3.2 percent in 2016.

Stock market index

Aside from the volatility index, other financial indicators which could be used as signals of the pace of future GDP growth are the stock market index, growth in the debt level, and credit growth. The stock market index reflects the general market mood, including investor sentiment, risk appetite and market volatility. Hence, movements in equity markets indicate if risks are tilted toward the downside or upside, at least in the short term. In the medium term, debt levels and credit growth could provide relevant indications about growth.

In the APEC region, when financial market conditions are benign and economic activity is upbeat, stock market indices across the region tend to average higher, while periods of financial volatility and the subsequent negative impact on economic growth are reflected in the downward movement of stock markets in the region (Figure 2.6).

Figure 2.6. Growth in stock market index and GDP in APEC, 2000–2017



GFC = Global financial crisis.

Note: APEC average growth in stock market index does not include Brunei Darussalam and Papua New Guinea.

Source: Member-economy sources for APEC average growth in stock market index; IMF and APEC PSU staff calculations for APEC weighted GDP growth.

Household credit

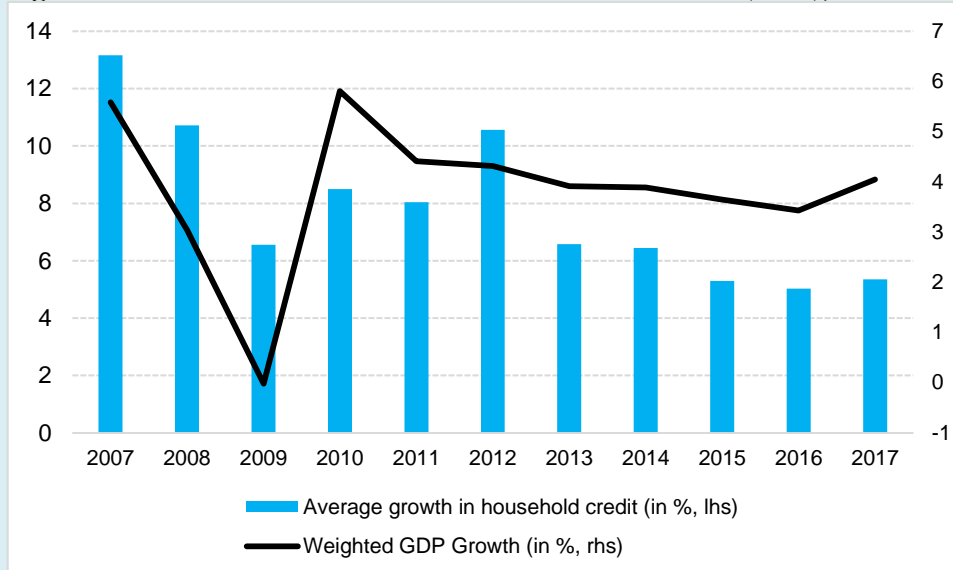
Likewise, the level of household loans could also be used to indicate growth prospects. A 2017 paper by Lombardi et al. shows that a 1 percentage point increase in the household-to-GDP ratio

reduces growth in the long run by 0.1 percent.⁶² As households smooth out their consumption, a high level of household debt in the current period could mean reduced consumption in the future, especially if increases in interest rates are anticipated. Lower consumption levels, in turn, could dampen economic activity and result in lower growth. This is particularly important among APEC economies since personal consumption spending has been the major driver of growth in the region, stepping up its contribution to GDP to keep economies buoyant amid the observed weakening in trade, particularly from 2012 to 2016.

Available data covering 15 out of the 21 APEC member economies reveal that growth in household loans have not recovered to its 2007 level of 13.2 percent, having declined drastically during the 2008 global financial crisis (Figure 2.7). Post-crisis, household loans expanded to 10.6 percent in 2012 before stabilising within the range of 5–6.5 percent in 2012–2017. As of 2017, growth in household credit has inched up to 5.3 percent from 5.0 percent a year ago.

As with the positive relationship between the stock market and GDP growth, higher growth in household credit corresponds to an expansion in GDP growth while mirror declines are also observed. During periods of relatively stable levels of household debt, such as in 2013–2016, GDP growth was also generally steady. As of latest data, in 2017, household credit went up as GDP growth increased.

Figure 2.7. Growth in household credit and GDP in APEC (in %), 2007–2017



Source: Central banks for average growth in household credit; and IMF and APEC PSU staff calculations for weighted GDP growth.

Trends in financial indicators provide a picture of prevailing risks to future economic growth. Specifically, in the APEC region, stock market activity tends to move in a broadly synchronised manner with GDP growth. The same is true for household credit growth and GDP growth.

It should be noted that financial conditions are not the only predictors of the future path of GDP growth. Idiosyncratic factors relating to political stability, peace and order conditions, extreme weather disturbances and natural disasters, as well as policy decisions could also impact on growth prospects.

⁶² M. Lombardi, M. Mohanty and I. Shim, 'The Real Effects of Household Debt in the Short and Long Run' (Bank for International Settlements working paper no. 607, Basel: BIS, 2017).

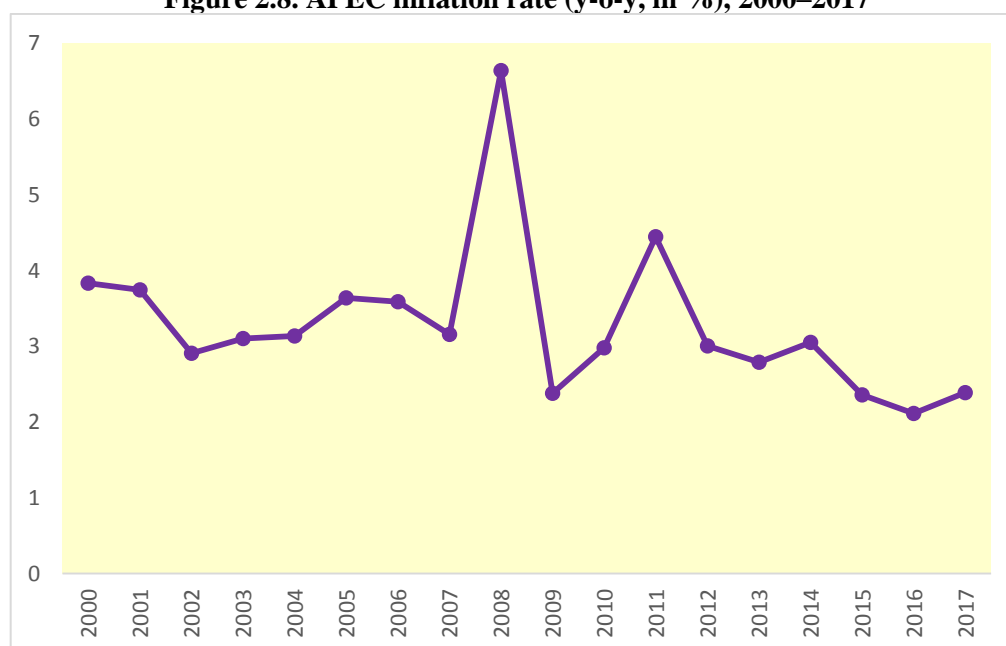
Another consideration is the dearth of historical data on the APEC region, which has given rise to gaps in the overall analysis. A longer data coverage would allow clearer trends and deeper examination of causes and effects. Nonetheless, available data suggest that financial conditions, represented by stock market activity and household credit growth, are relatively good predictors of future economic growth.

2.2 INFLATION AND MONETARY POLICY

Inflation trends in the APEC region have been largely benign post-2008 global financial crisis (Figure 2.8). The period 2000–2017 saw average inflation in APEC peaking at 6.6 percent in 2008 before tapering down to 2.1 percent in 2016 amid the plunge in commodity prices, particularly oil, and increasing slightly to 2.4 percent in 2017 with the pick-up in global economic activity.

The region saw a higher average inflation rate in 2017, with 13 out of 21 APEC economies posting increased inflation levels compared to 2016. The rise is notable in Mexico, with inflation breaching the economy’s 2017 target of 3 percent due to higher food and energy prices while the minimum wage was raised in December 2017.

Figure 2.8. APEC inflation rate (y-o-y, in %), 2000–2017



Source: Member-economy sources and IMF World Economic Outlook database (Oct 2017).

Even with rising inflation, monetary policy rates⁶³ across the region have largely reflected the general stance of maintaining a balance between supporting economic growth on the

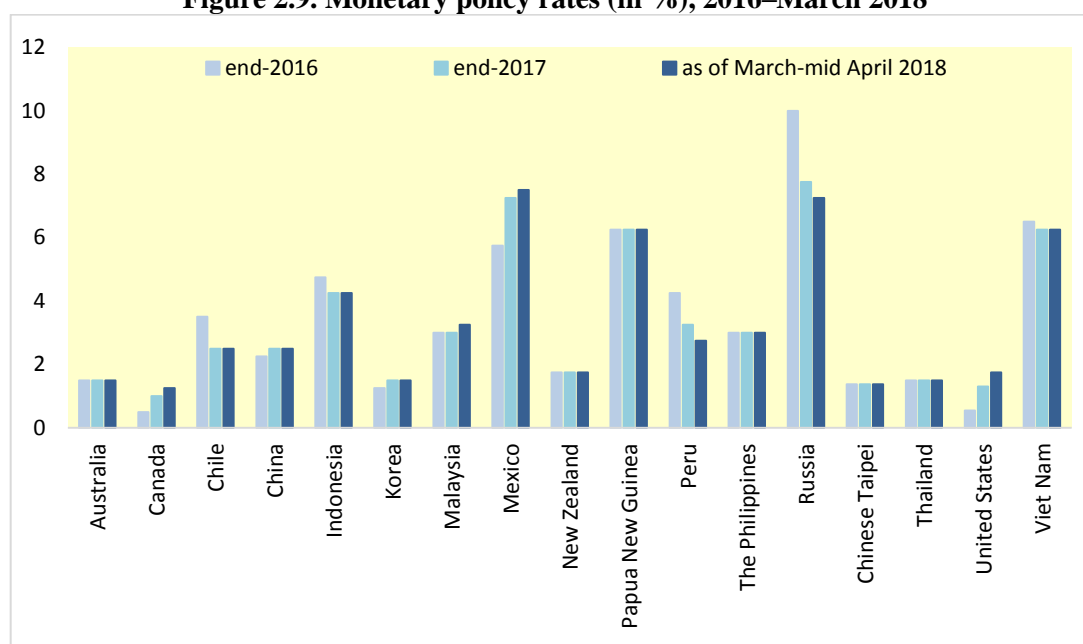
⁶³ Of the 21 APEC members, only 17 use interest rates as monetary policy instruments. Brunei Darussalam and Hong Kong, China maintain a currency board system; Japan uses a monetary base; and Singapore uses an exchange rate policy band.

one hand and managing inflation pressures on the other. Thus, in reaction to relatively low global commodity prices and slower economic activity in 2016, central banks opted to either reduce or keep interest rates steady in 2017 (Figure 2.9).

As of March-mid-April 2018, monetary policy developments have been fairly neutral, with the majority of central banks adopting a wait-and-see policy stance, mindful of interest rate signals from the US Federal Reserve as well as domestic inflation pressures. In fact, out of the 17 APEC economies who use policy rates as their benchmark monetary instrument, only four central banks changed their monetary policy stance as of the first quarter of 2018: two raised their benchmark rates while the other two moved to raise their respective policy rates. For the other economies that maintain either an exchange rate-related system or monetary base as their main monetary tool, only Singapore decided to raise slightly the slope of the Singapore dollar nominal effective exchange rate (S\$NEER) from the previous zero percent, taking into account macroeconomic uncertainties due to ongoing trade tensions. Japan, meanwhile, opted to continue with its quantitative and qualitative monetary easing programme, characterised by asset purchases and the application of a negative interest rate of 0.1 percent.

The mixed policy decisions suggest that monetary authorities are adopting a cautious policy stance, especially keeping a watchful eye on a build-up in inflation pressures emanating from the global and domestic environments, and ensuring adequate monetary policy space to respond to the next round of increase in US interest rates as part of the gradual tightening mechanism signalled by the US Federal Reserve in its policy statements.

As of March 2018, the US Federal Open Market Committee (FOMC) raised the target range for the federal funds rate from 1.25–1.5 percent to 1.5–1.75 percent. This is important to note since US monetary policy rates influence movements in global interest rates and overall economic activity, depending on the magnitude, direction and frequency of its interest rate changes. For example, higher US interest rates could expose economies with high foreign currency debts to significant currency mismatches and surges in debt payments. An increase in US interest rates could also trigger a similar move from other economies in order to close the interest rate differential and prevent large outflows of capital from their economies to the US. This simultaneous increase in interest rates across the world could dampen spending and investments and weaken global demand, possibly putting a brake to the ongoing global economic momentum.

Figure 2.9. Monetary policy rates (in %), 2016–March 2018

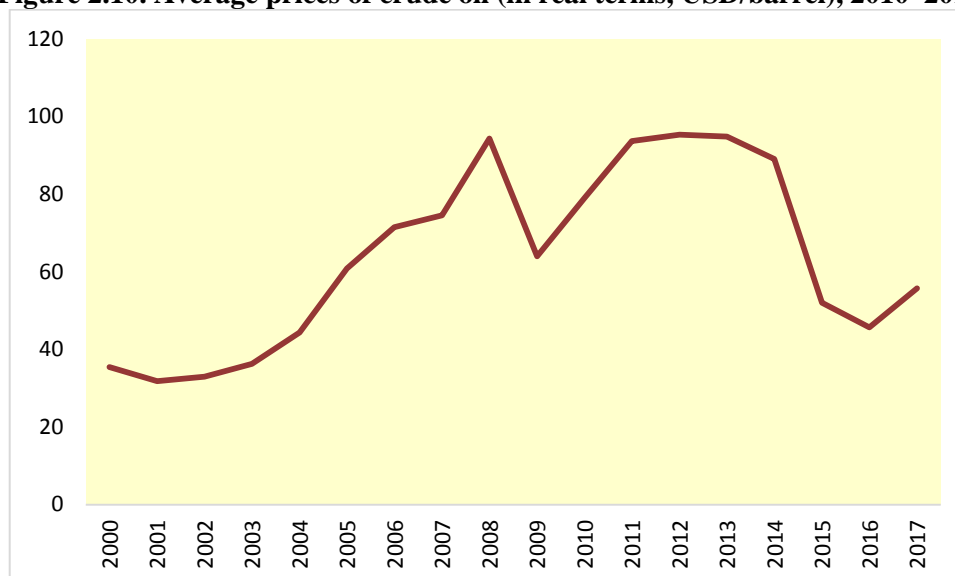
Note: The monetary policy framework in Brunei Darussalam is based on a currency board system, with the Brunei dollar anchored to the Singapore dollar at par. Hong Kong, China maintains a currency board system pegged against the US dollar. For Singapore, monetary policy is conducted through the trade-weighted exchange rate, which is allowed to fluctuate within a policy band. The operating targets for the S\$NEER are expressed in the level, slope and width of the policy band which determine the direction of monetary policy. Japan uses mainly quantitative asset purchases as its monetary policy tool.

Source: Member-economy (central bank) sources.

2.3 TRADE PERFORMANCE

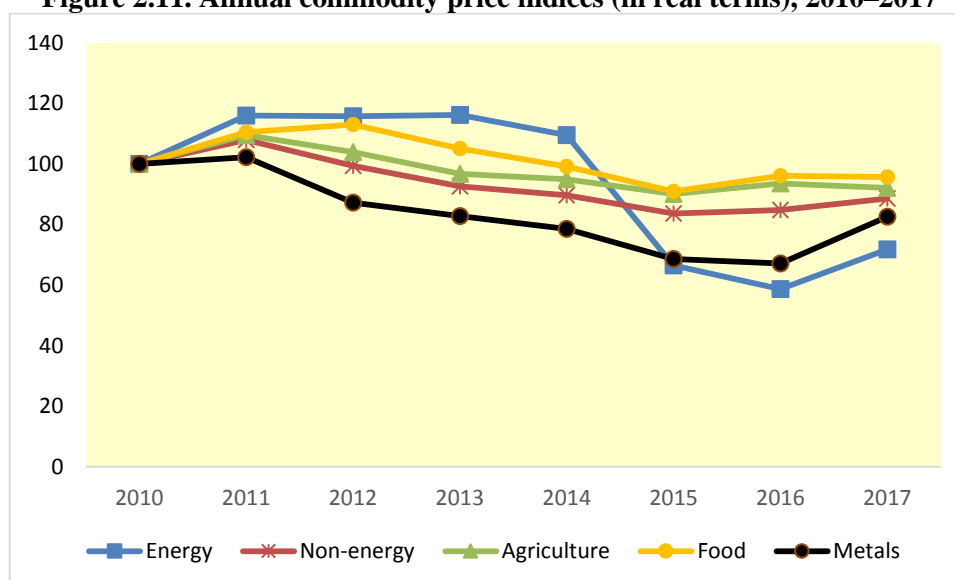
The solid recovery observed in international trade in 2017 was the result of a ripple effect emanating primarily from the global cyclical recovery. The strong global economic activity translated into increased global demand and consumption expenditures. In turn, the combination of higher consumption and moves to restrain production in order to address excess supply has helped raise prices of commodity exports, encouraging investments in trade and further propping up trade growth.

The Organization of the Petroleum Exporting Countries (OPEC) started to cut oil production in January 2017, targeting a reduction in supply of 1.8 million barrels per day up to end 2018. This decision has allowed average crude oil prices in 2017 to reach USD 55.74/barrel, a 22 percent rise from the 2016 level in real terms (Figure 2.10).

Figure 2.10. Average prices of crude oil (in real terms, USD/barrel), 2010–2017

Source: World Bank Commodity Markets.

Aside from oil, non-oil commodity products were also subjected to measures to curb supply such as reducing the working days for coal miners in an effort to lower production levels of metals, and setting a lower output target for other products. These moves have elevated prices of non-energy commodities, notably metals (Figure 2.11).

Figure 2.11. Annual commodity price indices (in real terms), 2010–2017

Source: World Bank Commodity Markets.

Measures to address the glut in supply amid higher demand across oil and non-oil commodities have reduced inventories, raising global prices and leading to higher growth, both in terms of trade values and volume.

In the APEC region, the value of merchandise exports expanded by 10.2 percent in 2017 after contracting 3.9 percent in 2016. Merchandise imports also grew at double-digit levels from negative territory during the same comparable period (Figure 2.12). Trade performance in the APEC region from 2016 to 2017 followed the same pattern as world growth, reflective of the 54 percent share of the APEC region in world trade (Table 2.1).

Merchandise trade volume also rose along with trade values, at 4.9 percent for merchandise exports, from 1.4 percent in 2016, while the same upward movement was also seen in the volume of merchandise imports (Figure 2.13).

Table 2.1. Value and growth in APEC merchandise trade (value in billion USD, growth in %), 2016–2017

	Value (in billion USD)			Growth (y-o-y, in %)	
	2015	2016	2017	2016	2017
Merchandise Exports					
World	15206000.0	14825000.0	16307000.0	-2.5	10.0
APEC	8305514.5	7977825.4	8788885.3	-3.9	10.2
Rest of the World (ROW)	6900485.5	6847174.6	7518114.7	-0.8	9.8
Merchandise Imports					
World	15355000.0	14973000.0	16651000.0	-2.5	11.2
APEC	8289859.5	7996639.7	8932336.7	-3.5	11.7
ROW	7065140.5	6976360.3	7718663.3	-1.3	10.6
APEC's share of the World (in %)					
Merchandise Exports	54.6	53.8	53.9		
Merchandise Imports	54.0	53.4	53.6		

Source: WTO.

Figure 2.12. Value of APEC trade (y-o-y, in %), 2016 and 2017

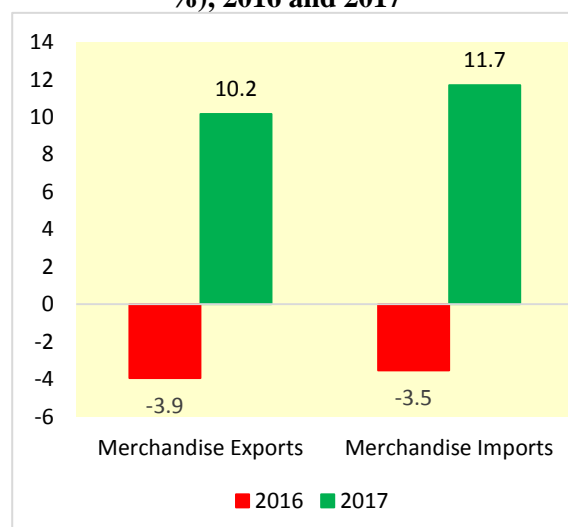
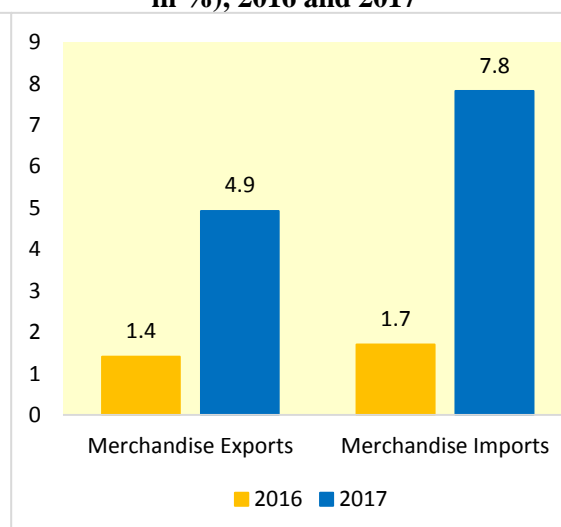


Figure 2.13. Volume of APEC trade (y-o-y, in %), 2016 and 2017



Note: The APEC average growth rate does not include Brunei Darussalam and Papua New Guinea due to data unavailability.

Sources: WTO for trade values; UNCTAD Statistics for trade volume; and APEC PSU staff calculations.

A closer look at the individual trade performance of APEC economies in 2017 shows a general reversal to growth in both merchandise exports and imports from a year ago, indicating renewed strength in trade across the region (Figures 2.14 and 2.15).

Figure 2.14. Growth in the value of merchandise exports (y-o-y, in %), 2016 and 2017

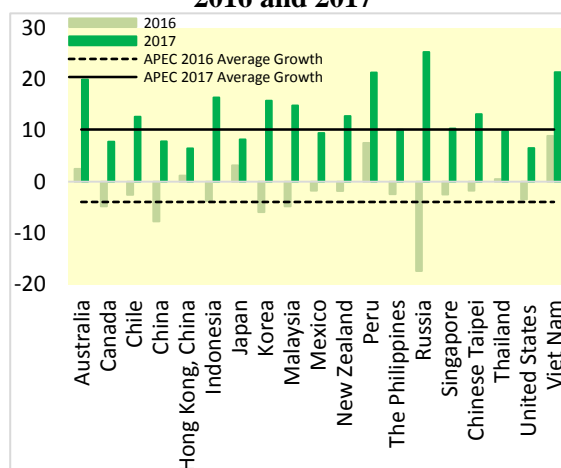
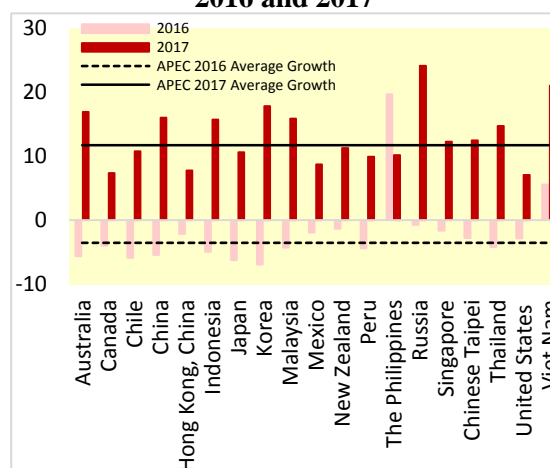


Figure 2.15. Growth in the value of merchandise imports (y-o-y, in %), 2016 and 2017

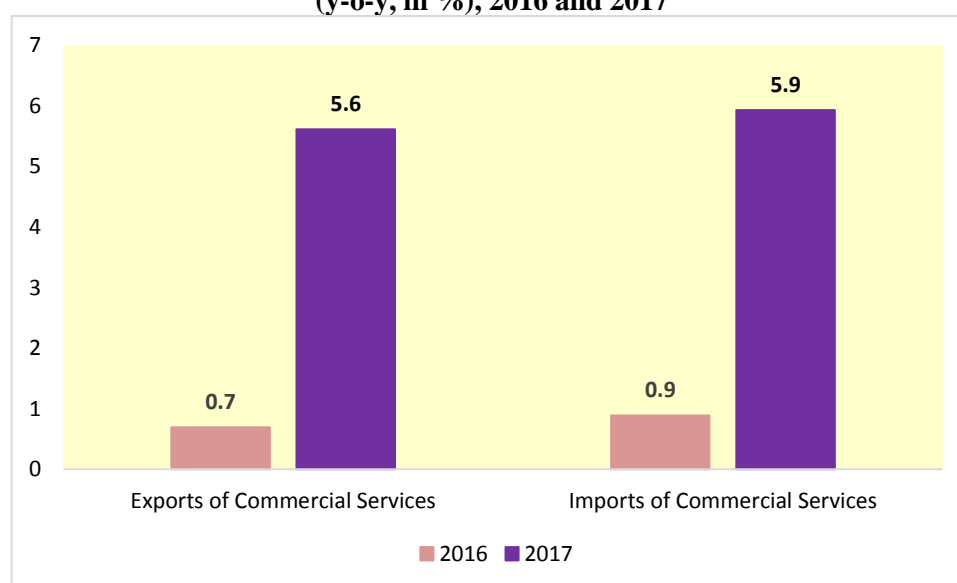


Note: Data not available for Brunei Darussalam and Papua New Guinea.

Source: WTO; Member-economy sources; and APEC PSU staff calculations.

Meanwhile, APEC trade in commercial services also exhibited a growth turnaround similar to merchandise trade (Figure 2.16). The value of the region's exports of commercial services was higher by 5.6 percent in 2017 compared to less than a 0.7 percent growth in the same period in 2016; while the value of imports of commercial services expanded by 5.9 percent from 0.9 percent in 2016.

Figure 2.16. Growth in the value of commercial services (y-o-y, in %), 2016 and 2017



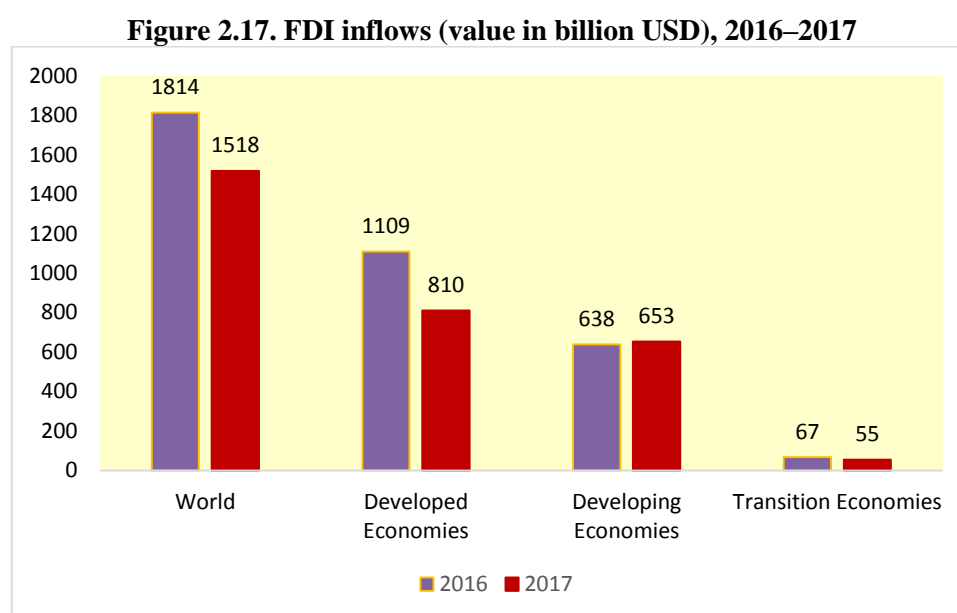
Note: Data not available for Brunei Darussalam and Papua New Guinea.

Source: WTO; and APEC PSU staff calculations.

The performance of trade in goods and commercial services in 2017 has added fuel to prevailing optimism of a continued recovery that will allow a more solid contribution of trade to overall growth, potentially leading to a positive cycle where higher growth stimulates demand for trade, and stronger trade activity generates increased revenues, employment as well as investments, resulting in a more sustainable and inclusive growth.

2.4 INVESTMENT TRENDS

As economic growth and trade record significant uptrends in 2017 from the levels in 2016, foreign direct investments (FDIs) declined. Preliminary data from the United Nations Conference on Trade and Development (UNCTAD) reveal that global inflows of FDI dropped by 16.3 percent in 2017 to USD 1.52 trillion, from USD 1.81 trillion in 2016.⁶⁴ The bulk of the decline is attributed to the 27 percent fall in FDI flows to developed economies even as inflows to developing economies increased slightly by 2.4 percent (Figure 2.17).



Note: UNCTAD classifies economies based on the major groupings of the United Nations Classification Office.⁶⁵

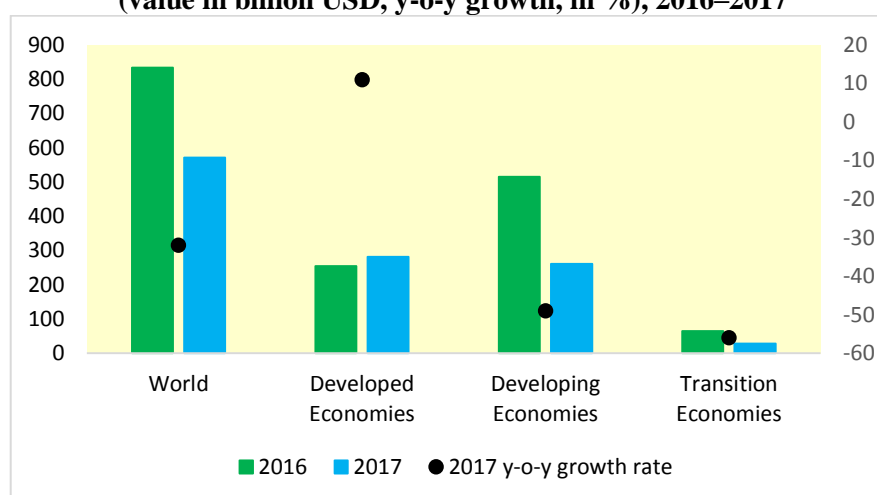
Source: UNCTAD, *Investment Trends Monitor*, no. 28 (January 2018).

⁶⁴ UNCTAD, *Investment Trends Monitor*, no. 28 (January 2018).

⁶⁵ Developed economies include the member economies of the OECD (other than Chile; Mexico; Republic of Korea; and Turkey), plus the new European Union member economies that are not OECD members (Bulgaria; Croatia; Cyprus; Lithuania; Malta; and Romania), plus Andorra; Bermuda; Liechtenstein, Monaco; and San Marino, plus the territories of Faeroe Islands; Gibraltar; Greenland; Guernsey; and Jersey. Transition economies include Southeast Europe; the Commonwealth of Independent States; and Georgia. Developing economies include, in general, all economies not specified above. For statistical purposes, data for China do not include those for Hong Kong, China; Macao Special Administrative Region; and Chinese Taipei.

A breakdown of FDI components points to a slump in equity investments of around 40 percent – due, in turn, to a 23 percent fall in the value of cross-border mergers and acquisitions – as the major factor behind the lower global FDI inflows. In addition, the value of announced greenfield investments also posted a marked decline, at 32 percent in 2017, from the 2016 aggregate (Figure 2.18). 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.

Figure 2.18. Value of announced greenfield investments
(value in billion USD, y-o-y growth, in %), 2016–2017



Source: UNCTAD, *Investment Trends Monitor*, no. 28 (January 2018).

Half of the top 10 FDI recipients for 2017 were APEC economies, slightly lower than the six APEC members which comprised the top hosts in 2016 (Figures 2.19 and 2.20). Taken together, FDI inflows to the top APEC hosts amounted to USD 658 billion in 2017, which is equivalent to 43 percent of global FDI that year.

Figure 2.19. Top 10 FDI host economies, 2016 (value in billion USD)

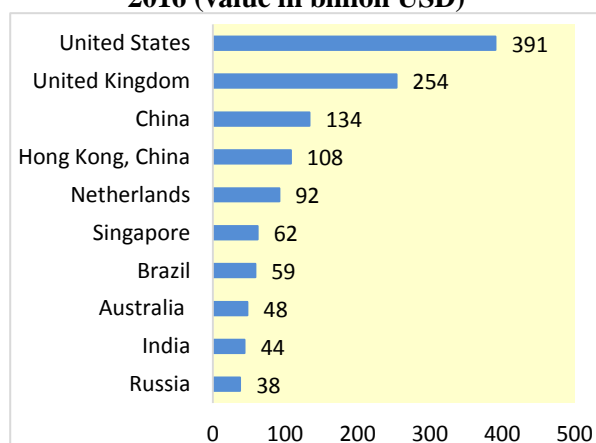
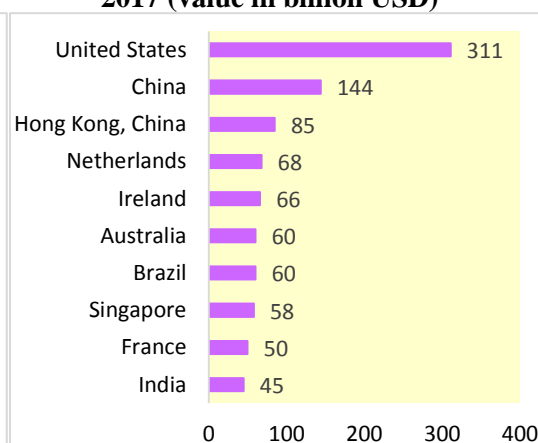


Figure 2.20. Top 10 FDI host economies, 2017 (value in billion USD)

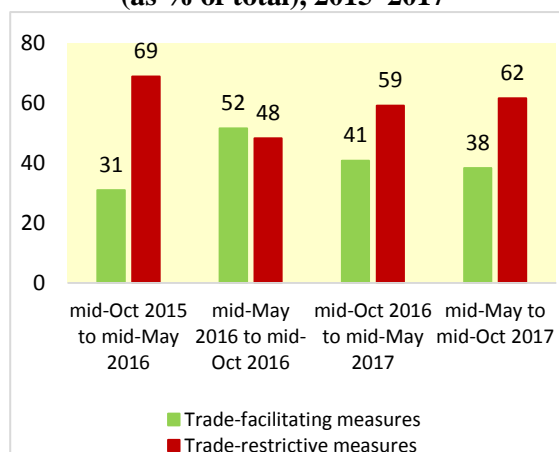


Source: UNCTAD, *Investment Trends Monitor*, no. 28 (January 2018).

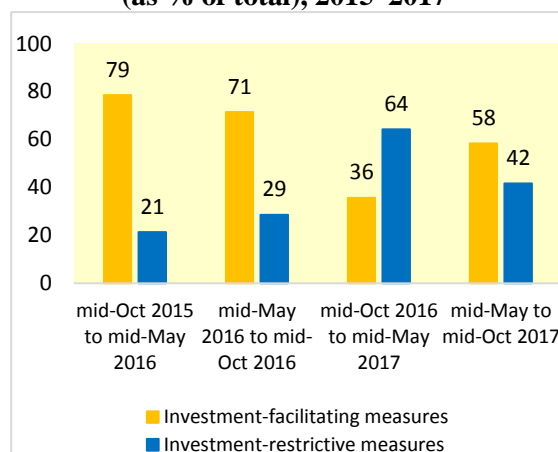
2.5 TRADE AND INVESTMENT MEASURES

According to the World Trade Organization (WTO) 18th Monitoring Report on G20 Trade Measures and the UNCTAD-OECD 18th Report on G20 Investment Measures dated 9 November 2017 and covering the period mid-May to mid-October 2017, the number of trade-restrictive measures outweighed the trade-facilitating measures while investment-friendly measures outnumbered investment-restrictive measures (Figures 2.21 and 2.22).

**Figure 2.21. Trade measures
(as % of total), 2015–2017**



**Figure 2.22. Investment measures
(as % of total), 2015–2017**



Note: Only 9 of the 21 APEC member economies belong to the G20, namely: Australia; Canada; China; Indonesia; Japan; Korea; Mexico; Russia; and the United States.

Source: WTO, *18th Monitoring Report on G20 Measures* (WTO, 9 November 2017); and UNCTAD and OECD, *18th Report on G20 Investment Measures* (UNCTAD and OECD, 9 November 2017).

Trade-restrictive measures during the recent reporting period were dominated by anti-dumping investigations (Table 2.2 for a summary; and Annex 1 for the specific measures⁶⁶) relating to issues of international price discrimination.⁶⁷ Countervailing investigations also formed part of measures that restricted trade during the covered period.⁶⁸ Also constraining trade activity were safeguard investigations⁶⁹ and the imposition of tariffs, quotas and additional requirements on either imports or exports.

Since 2015, trade-restrictive measures have been on the rise, dipping a little in 2016, but continuing to increase as of the two latest WTO monitoring reports. This trend could have

⁶⁶ Annex 1 of this report can be downloaded at: https://www.apec.org/-/media/Files/AboutUs/PolicySupportUnit/2018/Annex%201_Trade%20and%20Trade-Related%20Measures_%20May%20to%20October%202017.docx

⁶⁷ The WTO defines ‘dumping’ as a situation involving international price discrimination, wherein the price of a product is lower when sold in the importing economy compared to the price of the same product when sold in the exporting economy. Article VI of the 1994 General Agreement on Tariffs and Trade (GATT) elaborates on the basic principles that cover the governance of anti-dumping actions including the investigation, determination and imposition of anti-dumping duties.

⁶⁸ Parallel to anti-dumping duties are ‘countervailing measures’ in that they are meant to level the playing field between local and foreign producers of the same product in cases where the latter can afford to sell at a lower price because of government subsidies.

⁶⁹ Safeguard measures effectively impose a temporary restriction on the import of a particular product in order to protect a specific domestic industry from an increase in imports of any product that is causing, or threatening to cause, serious injury to that industry.

negative repercussions on global trade activity, with consequences for producers and consumers alike.

Table 2.2. Trade and other trade-related measures among APEC G20 members, mid-May to mid-October 2017

	Number of Measures
Trade-restrictive measures	
Initiation of anti-dumping investigation	24
Initiation of countervailing investigation	8
Initiation of safeguard investigation	2
Increase/Imposition of import tariffs, export duties, and taxes	1
Imposition of export/import requirements/quotas/restrictions	2
Sub-total: Trade-restrictive measures	37
Trade-facilitating measures	
Termination of anti-dumping investigation/duties	8
Termination of countervailing investigation/duties	3
Reduction/elimination of export duties/import tariffs and taxes	12
Sub-total: Trade-facilitating measures	23
TOTAL: Trade and trade-related measures	60

Source: WTO, *18th Monitoring Report on G20 Measures* (WTO, 9 November 2017).

In contrast, there were more investment-facilitating measures during the same period compared to measures that restrict investments. (Table 2.3 for a summary; Annex 2 for the specific measures⁷⁰). The imposition of additional requirements and prohibitions against the entry of foreign investment outnumbered all other restrictive measures such as increasing or imposing taxes/fees/surcharges and introducing a ceiling on foreign ownership. Nevertheless, some economies have also implemented measures that aim to facilitate the entry of foreign investment, foremost of which was the issuance of guidelines that clarify or simplify existing rules and processes.

⁷⁰ Annex 2 of this report can be downloaded at https://www.apec.org/-/media/Files/AboutUs/PolicySupportUnit/2018/Annex%20Investment%20Measures_May%20to%20October%202017.docx

**Table 2.3. Investment measures among APEC G20 members,
mid-May to mid-October 2017**

	Number of measures
Facilitating the entry of foreign investment	
Increasing transparency in the investment environment	1
Clarifying and simplifying rules and processes	1
Increasing the threshold for foreign investments	2
Lifting investment restrictions and/or promoting foreign investment in certain sectors	3
Sub-total: Investment-facilitating measures	7
Restricting the entry of foreign investment	
Imposing additional requirements and prohibitions	3
Increasing/Imposing taxes/fees/surcharges	1
Introducing/Imposing foreign ownership ceiling/threshold	1
Sub-total: Investment-restrictive measures	5
TOTAL: Investment measures	12

Source: UNCTAD and OECD, *18th Report on G20 Investment Measures* (UNCTAD and OECD, 9 November 2017).

2.6 NEAR-TERM OUTLOOK, RISKS AND OPPORTUNITIES

Following strong GDP growth in 2017, the APEC region is expected to continue along the path of relatively high growth in 2018 at 4.1 percent before consolidating to 4.0 percent in 2019. The favourable near-term growth prospects for the region is in line with the 0.2 percentage point upgrade for world output growth by the IMF to 3.9 percent for 2018–2019 (Figure 2.23).⁷¹ The upward revision recognises the ongoing global momentum from the broadest synchronised growth upsurge since 2010, reflecting upside surprises in Europe and Asia as well as the positive economic impact of the US tax reform, which is estimated to add to US growth through 2020 by a cumulative 1.2 percent.

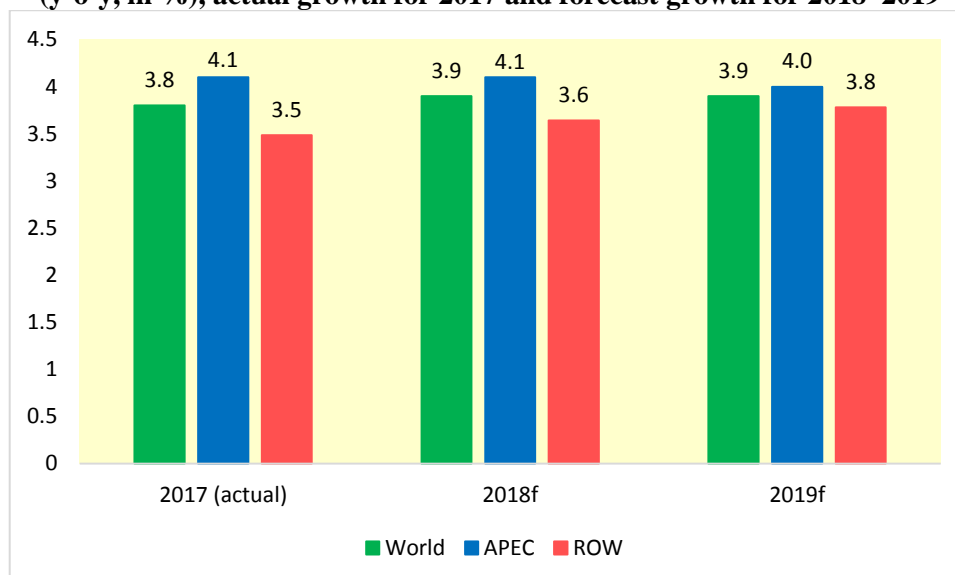
The APEC region is seen to continue to benefit from the positive feedback loop of increased strength in global economic activity that translates into higher demand and significant improvements in consumer and business confidence, further feeding into consumption, investment, and trade activity.

Risks in the near term remain broadly balanced. Downside risks could come from policy decisions triggering counter-measures across economies, affecting trade and investment flows. In particular, policy pronouncements that lean toward trade protectionism could slow down trade activity and subsequently diminish gains. Episodes of financial turbulence as seen in equity markets in the early quarter of 2018 coupled with a rising trend in interest rates could put a squeeze on current easy credit conditions, dampening confidence and spending. In addition, risks from non-economic factors such as geo-political tensions, terrorism, extreme changes in weather, and localised political noise cannot be discounted as these could adversely affect consumption and investment, thereby dimming growth prospects.

⁷¹ Based on a January 2018 update, and compared to GDP growth of 3.7 percent as of the October 2017. See: IMF, 'Brighter Prospects, Optimistic Markets, Challenges Ahead', *World Economic Outlook Update*, 22 January 2018.

The key upside potential for growth could come from a stronger-than-expected pickup in global growth, further boosting consumption in both domestic and global markets and translating to increased trade and investments as global demand intensifies. Forecasts for 2018–2019 by the WTO and the International Monetary Fund (IMF) place trade volume growth firmly above the 3.0 percent post-2008 global financial crisis average (Table 2.4).

Figure 2.23. Near-term real GDP growth: World, APEC and rest of the world (ROW) (y-o-y, in %), actual growth for 2017 and forecast growth for 2018–2019



f = forecast

Source: IMF World Economic Outlook database (April 2018) and APEC PSU staff calculations.

Table 2.4. Growth in world trade volume (y-o-y, in %), 2017–2019

	2017(actual)	2018f	2019f
WTO	4.7	4.4	4.0
IMF	4.9	5.1	4.7

f = forecast

Source: WTO and IMF.

Trade indicators for 2018 suggest sustained momentum, with robust results from export orders, container shipping and agricultural raw materials. The bright trade prospects implied in the two-year forecast horizon take into account a continued upswing in the global economy and implementation of appropriate and supportive monetary, fiscal and trade policies by economies.

In the medium term, risks continue to be tilted to the downside as uncertainty persists in monetary, fiscal and trade policies. Uncertainty in the magnitude and frequency of increases in US monetary policy rates and the subsequent policy responses of economies worldwide could impact on growth going forward. Higher long-term interest rates could translate into a global tightening of financial conditions, with adverse effects for vulnerable economies. Fiscal policy directions remain mixed in the APEC region. Some economies

have the capacity to implement fiscal stimulus measures to continue to support economic recovery, while other economies are starting to rebuild fiscal buffers, especially as commodity prices start to rise. Moreover, China's dynamics continue to be a factor in both APEC and global growth, taking into consideration the prevailing high credit growth amid the economy's shift toward a more consumption-driven economy.

It is prudent to be mindful about a possible build-up of financial vulnerabilities amid the current accommodative financial conditions and still-benign inflation rates. Financial market volatilities, large corrections in asset valuations and/or unexpected changes in interest rates could worsen debt levels and increase risk exposures. Adverse financial market conditions, including credit tightening, could quickly and significantly dampen consumer and investor confidence, affecting overall economic activity and global growth.

In terms of trade policy, protectionism and associated trade tensions could negatively affect both exporters and consumers, undermining current trade gains. In addition, the pace of trade liberalisation has slowed as economies re-assess the benefits and costs of globalisation; and this is anticipated to pull back trade growth, especially in the medium term. In the aggregate, a decline in trade revenues could mean a narrowing of fiscal space, reducing governments' capacity to implement trade adjustment programmes and to support their respective economies' growth requirements. At the household level, a weakening in trade could have consequences for employment and incomes.

Nevertheless, current conditions, marked by a broad-based economic upsurge and manageable financial settings, could be sustained with parallel efforts to implement structural reforms. Structural reforms that address a broad spectrum of sectors with a focus on improved connectivity and infrastructure could make the objective of sustained and inclusive growth more feasible. Well-considered structural reforms would aid trade and investments, and lead to a more resilient financial sector, the increased contribution of micro and small businesses to economic development, and improved access to human capital development and social protection programmes.

2.7 CONCLUSION

The APEC region is experiencing not only an upswing in economic activity but, more importantly, broad-based economic growth that has seen significant contributions not only from the largely consistent household spending but also from trade. The solid global economic recovery has boosted consumer and business confidence, increasing global demand, and resulting in renewed strength in consumption, trade and investments. There is prevailing optimism that current conditions will result in the so-called virtuous cycle of strong growth fuelling increased economic activity, redounding to improved employment levels and higher household incomes. Projections covering a two-year horizon support this optimism, as world output and trade growth are expected to sustain their strength in 2018–2019.

Risks to growth come mostly from policy uncertainty, including policy missteps. Monetary policies need to be transparent and appropriate in order to manage expectations on inflation and interest rates. Fiscal policies could vary across the APEC region: economies with fiscal space would be able to afford to implement accommodating measures to maintain growth, while economies with fiscal constraints might have to exert more effort to raise revenues

to support social initiatives. Ensuring that trade policy, including pronouncements and measures, remains supportive of the recovery in economic growth is crucial. Trade protectionism and related trade tensions could stifle trade activity and weaken growth, with negative consequences on consumption confidence, investment activity and eventually jobs and incomes.

Buoyant short-term economic conditions create an important opportunity for economies to fortify cushions against economic and financial shocks by implementing structural reforms, especially in addressing barriers to trade through different ways: improving connectivity and bridging infrastructure gaps; responding to challenges posed by the digital economy; and increasing participation of all segments of society in well-functioning, transparent and competitive markets.

APEC is equipped with strategies and roadmaps to achieve meaningful reforms that promote trade and investment, and lead to sustainable and inclusive growth. The APEC Connectivity Blueprint 2015–2025 aims to achieve a seamless and comprehensively connected and integrated Asia Pacific by taking agreed actions and meeting agreed targets by 2025, according to the three pillars of connectivity.⁷²

The first pillar, physical connectivity, focuses on improving the investment climate in APEC economies, by enhancing infrastructure financing through public–private partnerships and other means; adopting comprehensive assessment methods that considers key quality elements in evaluating infrastructure project proposals; and applying good practices and people-centred investment in planning and implementing infrastructure projects. The second pillar, institutional connectivity, is geared toward advancing trade facilitation, structural and regulatory reforms as well as transport and logistics facilitation. The third pillar is people-to-people connectivity, which is aimed at facilitating the movement of people across borders and the exchange of innovative ideas. As such, issues of business travel mobility, cross-border education, tourism facilitation, and skilled labour mobility are expected to be tackled under this pillar.

A continuing emphasis of APEC is the implementation of structural reforms. The initiative on structural reforms has changed in terms of priorities and intensity through the years. In 2004, APEC adopted the Leaders' Agenda to Implement Structural Reform, which focused on regulatory reform, competition policy, corporate governance, public sector governance, and economic and legal infrastructure. The initiative evolved to the APEC New Strategy for Structural Reform in 2010, essentially expanding and broadening the focus areas toward enabling more open, well-functioning, transparent and competitive markets; opening up labour market opportunities, training and education; working toward sustained SME development and enhanced opportunities for women and vulnerable populations; ensuring effective and fiscally sustainable social safety net programmes; and enhancing regulated financial markets. In 2015, the Renewed APEC Agenda for Structural Reform

⁷² The connectivity initiative was initiated by Indonesia and endorsed by APEC Leaders in 2013. In 2014, China advanced the creation and implementation of the APEC Connectivity Blueprint 2015–2025. The blueprint formed part of the 2014 Leaders' Declaration. See APEC Leaders, 'Annex D – APEC Connectivity Blueprint for 2015–2025', *APEC: Leaders' Declarations*, 11 November 2014, https://www.apec.org/Meeting-Papers/Leaders-Declarations/2014/2014_aelm/2014_aelm_annexd [accessed 4 May 2018]

was launched, with three pillars: 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; and sustainable social policies that promote the other pillars, enhance economic resilience, and are well targeted, effective and non-discriminatory. As of April 2018, all 21 APEC member economies have identified their individual action plans, including structural reform priorities, associated measures of progress, and expected impact.

It is also worth noting that APEC is cognisant of the changes and challenges brought by the new era of digitisation, technological advancement and automation. In particular, part of APEC's current efforts centre on developing policies and strategies that address and foster digitally driven trade and development. This means taking steps to enhance access to mobile networks and interconnectivity, with a focus on enabling infrastructure development and the modernisation of regulations and standards so that they are compatible with fast-changing data movement and security considerations. At the same time, reform measures are ongoing to support the delivery of education and skills training to better equip workers for employment in the digital economy. In the 2017 Leaders' Declaration, the APEC Framework on Human Resources Development in the Digital Age was endorsed, using APEC as a regional platform to discuss and cooperate on an appropriate set of policy directions and measures to support economies to prepare labour market participants for the challenges and opportunities in the world of work today and beyond. Along with these efforts, APEC remains committed to empowering small firms to tap new markets and business partners via technologies like smartphones, online search platforms, branding apps and payment systems.

By 2020, APEC will conduct a final review of its achievements and gaps against the commitments made under the Bogor Goals and the Renewed APEC Agenda for Structural Reform; and chart its way forward post-2020. To help determine its role after 2020, APEC has established an APEC Vision Group. The group is expected to conduct consultations with relevant stakeholders in order to come up with an APEC vision that would build on past achievements, address crucial gaps and explore new areas of cooperation to ensure a more effective and comprehensive response to challenges and issues across the APEC region. Policy responses and strategies, particularly the timing and sequencing of the implementation, would always depend on the level of development and readiness of APEC economies, but the focus remains on enhancing trade and investments toward sustainable and inclusive growth.

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