



Asia-Pacific
Economic Cooperation

APEC REGIONAL TRENDS ANALYSIS

August 2021 Update

Vaccine Access Drives Recovery

By Rhea C. Hernando

KEY MESSAGES

- APEC GDP growth rebounded strongly to 6.1 percent in Q1 2021 from a contraction of 2.0 percent in Q1 2020, reflecting increases in government spending and fixed investments as well as base effects, while trade performance and personal consumption expenditure also improved.
- Brighter growth prospects are seen in the near term, with APEC expected to expand by 6.4 percent in 2021 and 4.9 percent in 2022, higher than the forecast in the May 2021 edition of the APEC Regional Trends Analysis (ARTA).
- However, the resurgence in infections due to the spread of the more contagious Delta variant is threatening the economic recovery, with some economies re-imposing movement restrictions. Persistent uncertainty due to COVID-19 and its variants amid unequal access to vaccines combined with varying magnitudes of fiscal and monetary support is expected to translate into diverging economic growth across APEC.
- Multilateral cooperation is needed to strengthen economic recovery. There has never been a more important time than now for multilateral cooperation to play a role in facilitating the free flow of vaccine components, as well as related supplies and equipment along the supply chain to ramp up vaccine production and deployment. This would have a significant ripple effect on vaccine affordability, availability and access, especially for low- and middle-income economies.
- The goal is to ensure equitable vaccine access to protect as many people as possible, as soon as possible. When people feel safe, they are more confident to go out, work, and spend accumulated savings while firms could resume investment activity, supporting a gradual but uninterrupted economic reopening toward a firmer recovery.

Unequal vaccine access leads to diverging growth

The near-term economic outlook sees APEC expanding year-on-year by 6.4 percent for 2021 and 4.9 percent in 2022, higher than the May 2021 ARTA projections.¹ However, the upgraded forecast masks a divergence in the growth trajectories of APEC economies, driven by the disparity in vaccine access and stimulus support packages.

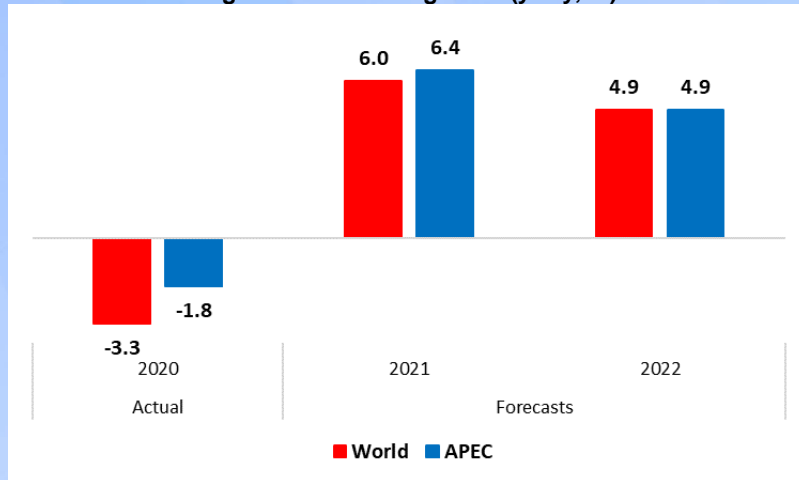
Economies with faster vaccination rollouts coupled with sustained fiscal support measures are generally expected to recover faster and stronger.² Accumulated savings in the past quarters, in part due to cash transfers and wide-ranging subsidies to households, are expected to be drawn down as economies reopen in tandem with vaccine rollout, re-energising private consumption. However, for

¹ In May 2021, projections for APEC point to GDP growing 6.3 percent in 2021 and 4.4 percent in 2022. See APEC, "APEC Regional Trends Analysis – Bolstering Supply Chains, Rebuilding Global Trade; Making Recovery Inclusive" (Singapore: APEC, 2021), <https://www.apec.org/Publications/2021/05/APEC-Regional-Trends-Analysis---May-2021>

² International Monetary Fund (IMF), "World Economic Outlook Update: Fault Lines Widen in the Global Recovery," July 2021, <https://www.imf.org/en/Publications/WEO/Issues/2021/07/27/world-economic-outlook-update-july-2021>

economies that continue to grapple with vaccine access and narrowing fiscal space, recovery is expected to be slower, marred by continuing uncertainty and start–stop economic reopening.

Figure 1. Real GDP growth (y-o-y, %)

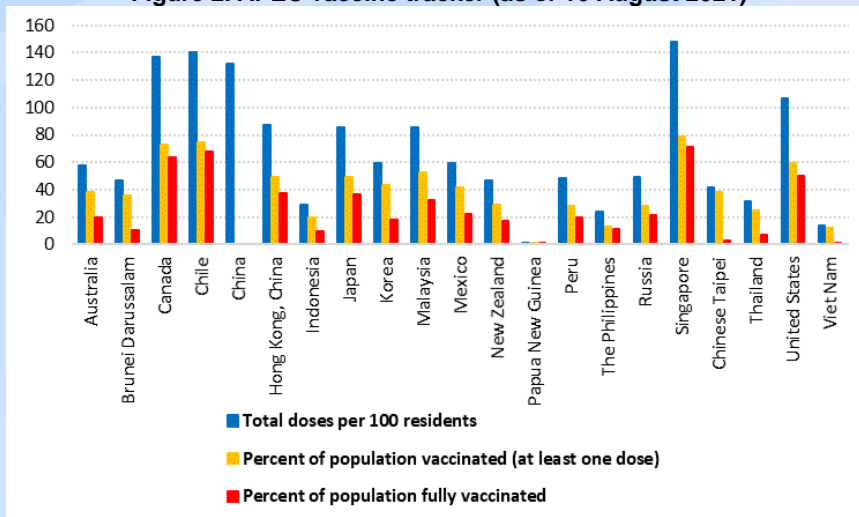


Source: International Monetary Fund (IMF) World Economic Outlook, July 2021 Update; member-economy sources; APEC Policy Support Unit (PSU) staff calculations.

The emergence of the more transmissible Delta variant has given rise to a resurgence in COVID-19 infections globally; the main difference from previous waves is that, with vaccines, hospitalisations have been reduced to manageable levels while death tolls are also lower.³ This highlights the importance of getting the population vaccinated, as many as possible, as soon as possible.

Latest available information shows marked differences in vaccination coverage across APEC economies, from a high of 148 doses per 100 residents to a low of only 1 dose per 100 residents. This has resulted in wide variation in the percentage of fully vaccinated people across economies, from as low as 0.2 percent to as high as 72 percent of the population. Great disparities in vaccine availability and coverage will impact on the pace and strength of economic recovery, with potential lasting economic and social repercussions for those left behind.

Figure 2. APEC vaccine tracker (as of 16 August 2021)



Note: Missing bars denote unavailability of data.
 Source: *Financial Times* COVID-19 vaccine tracker (accessed on 16 August 2021), using data compiled from the Our World in Data project at the University of Oxford, the World Health Organization and member-economy sources.

³ Fardad Haghpanah, Gary Lin, Simon A. Levin and Eili Klein, “Analysis of the Potential Impact of Durability, Timing, and Transmission Blocking of COVID-19 Vaccine on Morbidity and Mortality,” *EClinicalMedicine* 35, no. 100863 (2021), [https://www.thelancet.com/journals/eclinm/article/PIIS2589-5370\(21\)00143-7/fulltext](https://www.thelancet.com/journals/eclinm/article/PIIS2589-5370(21)00143-7/fulltext)

Globally, around 4.7 billion doses have been administered at a pace of 36.7 million doses daily, with 23.5 percent of the population fully vaccinated as of mid-August 2021. However, only 1.2 percent of people from low-income economies have received at least one dose of the COVID-19 vaccine.⁴

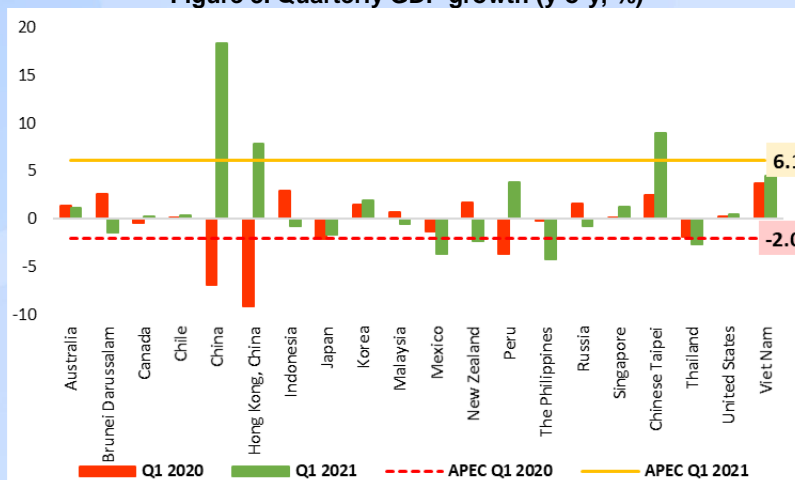
According to Gavi, the vaccine alliance co-leading COVAX,⁵ around 40 percent of the global COVID-19 vaccine supply has been purchased by high-income economies, with these economies achieving at least 50 percent vaccination coverage, while COVAX has bought 17 percent of global vaccines, benefiting some 137 low- and middle-income economies.⁶

This conspicuous inequality in vaccine coverage has prompted the Task Force on COVID-19 Vaccines, Therapeutics and Diagnostics for developing economies established by the International Monetary Fund (IMF), the World Bank Group, the World Health Organization (WHO) and the World Trade Organization (WTO) to issue an appeal to economies with advanced COVID-19 vaccination programmes to release at the earliest possible time any excess contracted vaccine doses and options to COVAX and other facilities for distribution to low- and middle-income economies. Estimates by the task force as of end-July 2021 reveal that less than 5 percent of vaccine doses for low-income economies have been delivered. In aggregate, less than 20 percent of vaccines are scheduled for delivery to low- and middle-income economies, whether through COVAX, other facilities or vaccine-sharing agreements, which is far less than the target of at least 40 percent vaccination coverage.⁷

GDP and merchandise trade accelerate in Q1 2021

Real GDP growth for the APEC region accelerated to 6.1 percent in Q1 2021 from a contraction of 2.0 percent in Q1 2020, putting the region on track to achieve growth expectations for the year. While base effects contributed to the strong rebound, growth was propelled by higher government spending and fixed investments even as household consumption also improved considerably.

Figure 3. Quarterly GDP growth (y-o-y, %)



Note: Quarterly data on GDP growth are not available for Papua New Guinea.
Source: Member-economy sources; APEC PSU staff calculations.

Trade activity in APEC also reverted to positive territory, with the volume of merchandise trade expanding by 9.0 percent for exports and 7.2 percent for imports in Q1 2021 compared to the year-ago level. The same comparable period saw the value of merchandise exports growing at a higher rate of 16.8 percent, while merchandise imports was at 16.2 percent. The turnaround in trade was brought

⁴ See COVID-19 Vaccinations from Our World in Data, <https://ourworldindata.org/covid-vaccinations>

⁵ COVAX is a global collaboration aimed at accelerating the development and manufacture of COVID-19 vaccines, and ensuring fair and equitable vaccine access for every economy in the world.

⁶ See Gavi, "New Vaccination Figures Underscore Urgency To Reach the Most Vulnerable," 22 July 2021, <https://www.gavi.org/vaccineswork/new-vaccination-figures-underscore-urgency-reach-most-vulnerable>

⁷ See IMF, "Joint Statement of the Multilateral Leaders Task Force on COVID-19 Vaccines, Therapeutics, and Diagnostics for Developing Countries following its Second Meeting: New Global Database to Enhance Transparency and Improve Delivery of COVID-19 Tools," press release 21/241, 30 July 2021, <https://www.imf.org/en/News/Articles/2021/07/30/pr21241-joint-statement-task-force-covid-19-vaccines-therapeutics-diag-dev-countries-2nd-meeting>

about largely by the expansion in sectors related to COVID-19, particularly pharmaceuticals as well as office and communications equipment. The agrifood, apparel, metals and minerals sectors also helped boost trade.

Figure 4. Volume of merchandise trade (y-o-y, %)

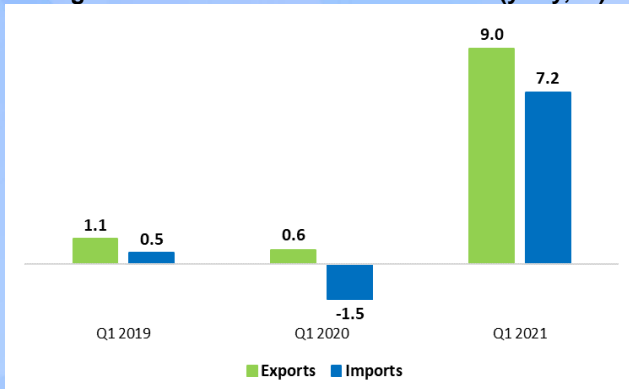
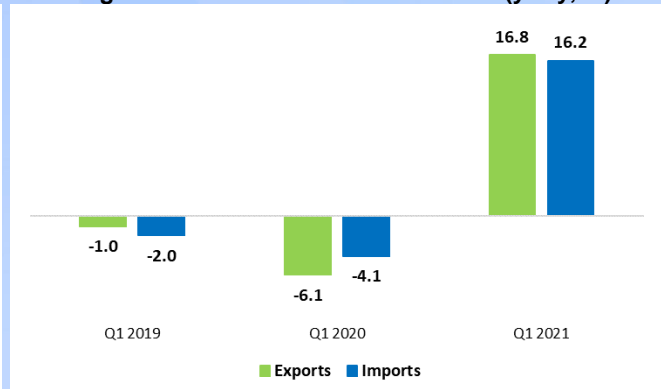


Figure 5. Value of merchandise trade (y-o-y, %)



Note: Quarterly data on merchandise trade are not available for Papua New Guinea.
Source: World Trade Organization (WTO); APEC PSU staff calculations.

The growth in the volume of APEC merchandise trade is in line with the WTO's forecast of an 8.0 percent expansion in the volume of world merchandise trade for 2021 following a decline of 5.2 percent in 2020. However, lingering effects from the pandemic could lead to a moderated growth of 4.0 percent in 2022.⁸ The IMF also projects higher growth for world trade volume at 9.7 percent in 2021 and 7.0 percent in 2022.⁹ In terms of merchandise trade value, APEC's growth is consistent with the forecast by the United Nations Conference on Trade and Development (UNCTAD) of a 16 percent expansion in the value of world merchandise trade for 2021.¹⁰

Meanwhile, APEC's trade in commercial services plunged deeper in Q1 2021 compared to Q1 2020, dragged down by sustained substantial losses in transport and travel as significant border controls remain in place more than a year into the pandemic. The fall in APEC's commercial services of 12 percent for exports and 15.2 percent for imports follows the decline in global services trade at 7.0 percent and 10 percent, respectively.¹¹

Figure 6. Commercial services (y-o-y, %)

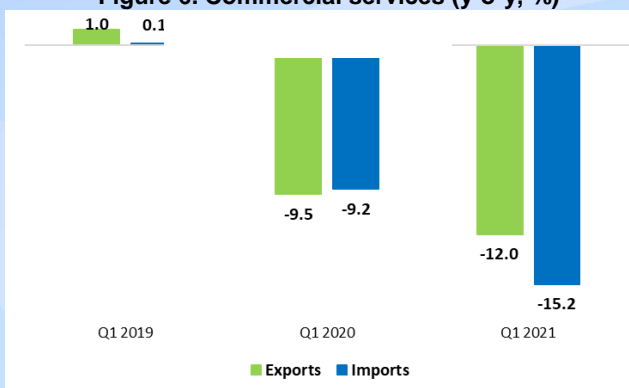
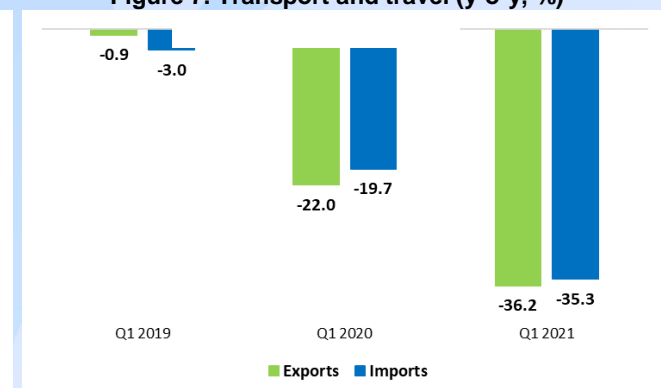


Figure 7. Transport and travel (y-o-y, %)



Note: Data on transport and travel services do not include Viet Nam due to unavailability of data.
Source: WTO and APEC PSU staff calculations.

Trade performance in the short term continues to hinge on the containment of the pandemic. New waves of infections brought about by more contagious variants amid lagging vaccination rollouts in low- and middle-income economies could diminish fragile gains.

⁸ See WTO, "World Trade Primed for Strong but Uneven Recovery after COVID-19 Pandemic Shock," press release 876, 31 March 2021, https://www.wto.org/english/news_e/pres21_e/pr876_e.htm

⁹ See IMF, "World Economic Outlook Update, July 2021."

¹⁰ See United Nations Conference on Trade and Development (UNCTAD), "Global Trade Update," May 2021, https://unctad.org/system/files/official-document/ditcinf2021d2_en.pdf

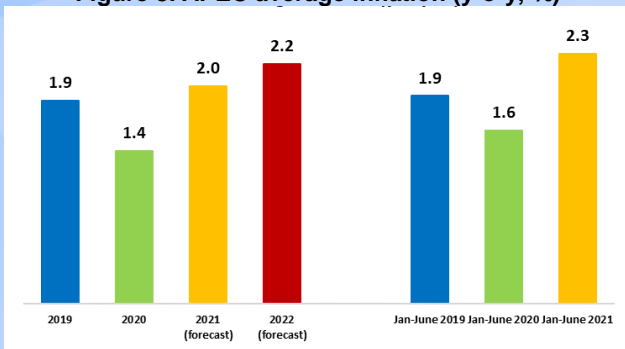
¹¹ See WTO, "First Quarter 2021 Trade in Services," 23 July 2021, https://www.wto.org/english/res_e/statis_e/daily_update_e/serv_latest.pdf

Pick-up in inflation requires vigilance

Average inflation in the APEC region increased to 2.3 percent during the period January–June 2021 compared to the 1.6 percent recorded in January–June 2020. While it is concerning that the inflation reading for the first half of 2021 is higher relative to the 2021 whole-year forecast of 2.0 percent, the prevailing view is that the increase is largely due to base effects, in which prices that had declined in the first half of 2020 gradually return to their pre-pandemic levels, with COVID-19-induced supply-side disruptions that resulted in shortages also contributing in part. For instance, the shift in consumption to work-from-home equipment and electronics led to a shortage in microchips, creating production bottlenecks in a wide range of items, including mobile phones, computers and automotive products. Lockdown measures also gave rise to supply chain disruptions relative to higher demand for food and grocery items as well as digital products. In addition, shipping and transport costs went up in tandem with associated storage and insurance costs, translating into a spike in prices.

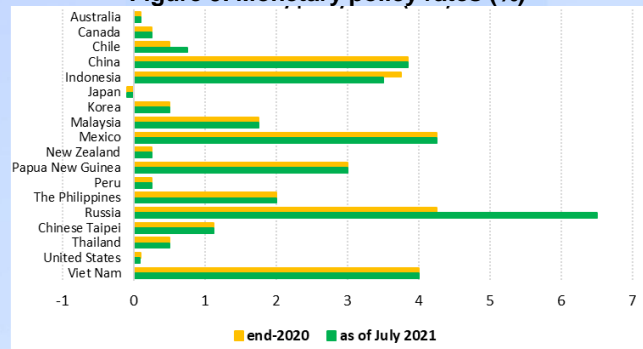
The view that current price pressures are likely temporary is supported by data on labour costs showing that wage growth remains contained while medium-term inflation expectations across economies remain well-anchored.

Figure 8. APEC average inflation (y-o-y, %)



Source: IMF World Economic Outlook, April 2021; member-economy sources.

Figure 9. Monetary policy rates (%)



Note: The monetary policy frameworks in Brunei Darussalam and Hong Kong, China are based on a currency board system; while Singapore conducts monetary policy through a trade-weighted exchange rate, which is allowed to fluctuate within a policy band. Source: Member-economy sources.

Inflation is expected to revert to its pre-pandemic levels globally once prices factor in pandemic-related supply-side disruptions. For the APEC region, average inflation could increase anew to 2.2 percent in 2022. However, uncertainty remains high as the pandemic continues to disrupt supply chains, particularly affecting the prices of food, communications equipment and medical products.

There is a risk that the upward trend in inflation could persist as consumption activity strengthens following successive quarters of pent-up demand. Extreme weather conditions as well as disease outbreaks in key food exporting economies could give rise to harvest and production shortfalls, with demand possibly outpacing supply. Exchange rate pass-through to inflation in view of a relatively strong US dollar could also raise the prices of food and other imported goods.

These price pressures require continued monitoring and clear communication from monetary policy authorities to guide inflation expectations. Inflation risks amid a gradual return to normal spending activity were taken into account by Chile and Russia when they moved to raise their benchmark interest rates while the majority of APEC economies maintained their policy stance as of July 2021.

Multilateral cooperation to strengthen economic recovery

It is now apparent that for economic recovery to be on firmer footing, health must be safeguarded, which in turn necessitates access to vaccines to protect as many people as possible, as soon as possible.

Economies have implemented a wide range of measures to curb the spread of COVID-19, imposing restrictions and at the same time, providing wide-ranging support such as cash transfers and subsidies. These need to be accompanied by faster vaccination rollouts to prevent resurgent infections and virus mutations that could give rise to new, massive waves of the pandemic.

The global economy is currently experiencing another wave due to the more contagious Delta variant, while a sub-lineage called Delta Plus is emerging¹² even as initial laboratory experiments have found the Lambda variant to be highly infectious. Early studies have shown that, while the Delta viral loads were the same for the vaccinated and unvaccinated, they decreased faster among vaccinated people.¹³ Unfortunately, in the race between vaccines and variants, the ones lagging behind are the people living in low- and middle-income economies. The message is clear: domestic measures must be complemented by multilateral cooperation to ensure wider vaccine access and more affordable vaccines.

Vaccine production requires over 280 materials and components manufactured by suppliers in 19 locations across the world.¹⁴ The highest most-favoured nation (MFN) tariff rates in the APEC region are levied on disinfectants, medical consumables and equipment needed to produce, distribute, store and administer vaccines. Data in 2020 show that the average duty rate for alcohol solution (undenatured, containing by volume 80 percent or more ethyl alcohol) is 77.2 percent while other types of alcohol solutions also record high tariffs. In addition, the tariff rates for various freezing equipment range between 6.8 and 8.5 percent and for storage containers, 5.3–5.8 percent.¹⁵

There has never been a more important time than now for multilateral cooperation to play a role in facilitating the free flow of vaccine components, as well as related supplies and equipment along the supply chain to ramp up vaccine production and deployment. This would have a significant ripple effect on vaccine affordability, availability and access, especially for low- and middle-income economies.

APEC economies have taken a decisive step by formulating a regional response to the pandemic, centred on accelerating equitable access to safe, effective, quality-assured and affordable COVID-19 vaccines to overcome the health crisis. Beyond the pandemic, APEC leaders have agreed to chart a more resilient path that places innovation and digitalisation, together with trade and investment, front and centre in the pursuit of sustainable and balanced growth¹⁶.

This followed another significant move by the APEC Life Sciences Innovation Forum to accelerate regulatory convergence for life-saving medical products to protect people's health and safety,¹⁷ and the agreement by the APEC Ministers for Trade to ensure the rapid flow of vaccines and vaccine-related goods by eliminating trade restrictions and barriers to freight and logistics services, and adhering to a set of customs guidelines.¹⁸ In addition, APEC COVID-19 LIVE (Latest and Immediate Virtual Exchange) was recently launched to track the region's policy responses to COVID-19 and the recovery initiatives aimed at boosting preparedness and building back better economies.¹⁹

Addressing the ongoing health crisis, primarily through rapid vaccination rollouts even as appropriate health measures continue to be observed, remains paramount to strengthen economic recovery. When people feel safe, they are more confident to go out, work, and spend accumulated savings while firms

¹² See "South Korea on Alert for New Delta Plus COVID-19 Variant (Reuters)," CNA, 3 August 2021, <https://www.channelnewsasia.com/news/asia/south-korea-detects-2-cases-delta-plus-covid-19-virus-kdca-15367904>

¹³ See Nancy Lapid, "Delta Infections among Vaccinated Likely Contagious; Lambda Variant Shows Vaccine Resistance in Lab," *Reuters*, 3 August 2021, <https://www.reuters.com/business/healthcare-pharmaceuticals/delta-infections-among-vaccinated-likely-contagious-lambda-variant-shows-vaccine-2021-08-02/>

¹⁴ Rebecca Sta. Maria, "Urgent Multilateral Cooperation To Build Back Better," APEC blog, 23 July 2021, https://www.apec.org/Press/Blogs/2021/0723_IRL

¹⁵ Carlos Kuriyama, "Promoting Trade in Vaccines and Related Supplies and Equipment," Policy Brief No. 40, APEC, Singapore, May 2021, <https://www.apec.org/Publications/2021/05/Promoting-Trade-in-Vaccines-and-Related-Supplies-and-Equipment>

¹⁶ APEC, "APEC Economic Leaders' Statement: Overcoming COVID-19 and Accelerating Economic Recovery" (*APEC Informal Leaders' Retreat*, 16 July 2021), https://www.apec.org/Meeting-Papers/Leaders-Declarations/2021/2021_ILR

¹⁷ See APEC, "APEC Accelerates Regulatory Convergence for Life-Saving Medical Products and Innovation," news release, 22 June 2021, https://www.apec.org/Press/News-Releases/2021/0622_LSIF

¹⁸ See APEC, "Ministers Unite on COVID-19 Vaccine Steps and Rejuvenating the WTO," news release, 6 June 2021, https://www.apec.org/Press/News-Releases/2021/0606_MRT

¹⁹ See APEC, "COVID-19 Latest & Immediate Virtual Exchange," <https://www.apec.org/COVID-19>

could resume investment activity, supporting a gradual but uninterrupted economic reopening toward a stronger recovery.

Accommodative fiscal and monetary policies need to continue, albeit in a carefully calibrated manner, and be geared toward boosting health spending and supporting consumption and investment activity. Uncertainty abounds, particularly on the emergence of new variants amid unequal vaccine access. Other risks are lurking, including pandemic-generated stubborn inflation and unsustainable debt that could lead to the sudden tightening of financial conditions, halting the economic momentum.

Multilateral cooperation, in its simplest, most essential term, means coming together today to remove impediments to vaccine production and access. In APEC, the data as of 16 August 2021 show that there are 16 economies that have yet to reach the goal of 40 percent vaccination coverage, with five of these economies at below 40 doses per 100 residents. It has been said, including more recently during the APEC Informal Leaders' Retreat in July 2021 that, 'nobody is safe from this virus until everyone is safe'.²⁰ Equitable access to vaccines is not only a global health imperative or a pragmatic solution to economic and social fragilities, it is also a moral obligation to make sure that everyone from around the world is safe, healthy and productive.

Rhea C. Hernando is a Researcher at the APEC Policy Support Unit.

The views expressed are those of the author and do not represent the views of the APEC member economies.

This work is licensed under the Creative Commons Attribution-NonCommercial–ShareAlike 3.0 Singapore License.

The **APEC Policy Support Unit (PSU)** is the policy research and analysis arm for APEC. It supports APEC members and fora in improving the quality of their deliberations and decisions and promoting policies that support the achievement of APEC's goals by providing objective and high quality research, analytical capacity and policy support capability.

Address: 35 Heng Mui Keng Terrace, Singapore 119616

Website: www.apec.org/About-Us/Policy-Support-Unit

E-mail: psugroup@apec.org

APEC#221-SE-01.13

²⁰ See APEC, "Prime Minister Ardern Steers APEC Leaders Toward Course for Recovery," news release, 16 July 2021, https://www.apec.org/Press/News-Releases/2021/0716_IRL