



**Asia-Pacific
Economic Cooperation**

APEC REGIONAL TRENDS ANALYSIS

August 2022 Update

Future-proofing APEC amid challenges and uncertainties

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KEY MESSAGES

- The APEC region is expected to significantly moderate in the near term, with GDP growth slowing to 2.5 percent in 2022 and 2.6 percent in 2023 following a 5.9 percent rebound in 2021. These projections reflect the sharp downgrades in economic growth for all member economies, particularly China and the US, while Russia is expected to contract in the short-term.
- Already reeling from a pandemic that is marked with virus mutations, the world is also dealing with soaring inflation, a protracted war in Ukraine and heightened uncertainty. The economic slowdown is already apparent in APEC, which grew at a slower pace of 3.7 percent in Q1 2022 after expanding by 6.2 percent in Q1 2021 and 4.3 percent in Q4 2021. Trade activity in APEC also weakened, with lower growth in the value and volume of merchandise trade.
- Moving in the same upward trajectory as the rest of the world, average APEC inflation increased to 5.4 percent for the period January-June 2022, more than twice the average in January-June 2021 at 2.4 percent and higher than the 2021 full year average of 3.0 percent. In response, the majority of APEC economies tightened their monetary policy settings to rein in inflation.
- The manifold of difficulties that the world is facing underscores the importance of preparedness: preparing for the next pandemic or crisis and preparing for a future that is inevitably highly digitalised and greatly exposed to the harmful effects of climate change.
- In the immediate term, economies must be prepared to manage any crisis and cushion its adverse impact, particularly on the most vulnerable. Ramping up vaccination uptakes remains vital to guard against a resurgence in infections amid virus mutations. Bringing down inflation needs to be prioritised since it translates to higher costs of living and tends to increase poverty. Fiscal policy has to be well-targeted to extend support to the most vulnerable while keeping debt within manageable levels by improving revenue generation and reducing government spending.
- In the medium to long term, APEC economies need to work cohesively and consistently toward a sustainability and inclusivity agenda that future-proofs economies in the region. This means strengthening the region's connectivity; safeguarding the environment and mitigating the harmful effects of climate change; addressing the digital divide with updated rules as well as upgraded digital infrastructure and skills; and ensuring women's full and equal economic participation and political representation by implementing mutually-reinforcing policies that significantly improve women's access to employment, credit and leadership positions.
- APEC has already taken the initial steps by launching initiatives that fortify the region's resilience against pandemics, crises and uncertainties, cognisant that individual members have different economic conditions and development priorities. The key is to cooperate to translate commitments into actions, and actions into tangible benefits for people in the region.

APEC to post significantly lower economic growth in the near term

The strong rebound to a 5.9 percent GDP growth in 2021 after contracting in 2020 proved short-lived as the APEC region is expected to significantly slow to 2.5 percent in 2022 and 2.6 percent in 2023 (Figure 1). These projections are lower than those for the global economy and the rest of the world.

The sharp downgrades in economic growth for China and the US together with an expected contraction in Russia weighed on the region's prospects even as other member economies also saw downward revisions in growth.

Consumer spending in the US is weakening amid higher inflation and interest rates. In China, a lower-than-expected growth could materialize amid a resurgence in infections and subsequent area lockdowns that have derailed business operations and disrupted global supply chains, while issues in the property sector linger. Moreover, Russia is anticipated to contract in the near-term due to the ramifications of the conflict in Ukraine. These three economies account for 68 percent of the APEC region's GDP.

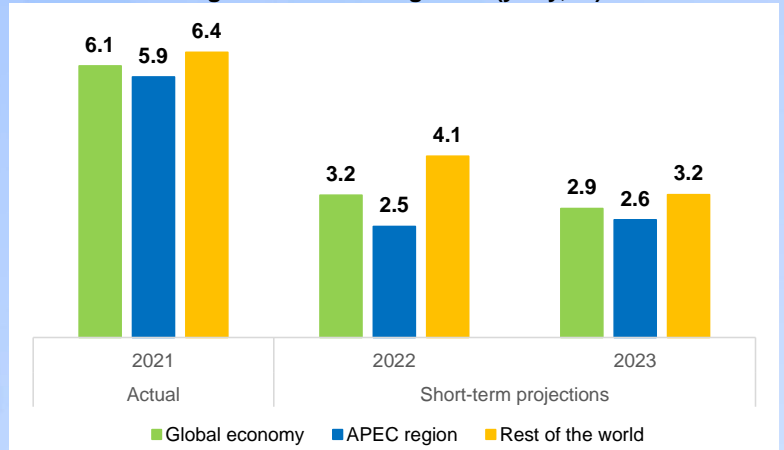
Already reeling from a virus that continues to mutate and drain resources, the world faced heightened uncertainty and new surprises of crisis proportions, especially soaring inflation and a protracted war in Ukraine that has exacerbated supply conditions, contributing to a faster increase in the prices of food and energy.

The food price index edged up by 23 percent in June 2022 compared to a year ago, with notable increases in vegetable oils, cereals and dairy (Figure 2). The same period also saw a surge in energy prices, with the Brent and West Texas Intermediate (WTI) crude oil rising by more than 60 percent to USD 120.1 per barrel and USD 114.6 per barrel, respectively. At its peak, the price of natural gas in Europe soared by almost 600 percent while South African coal prices more than doubled in March 2022, staying elevated since then (Figure 3).

The sustained upward trend in global commodity prices is reflected in APEC's average inflation, which increased to 5.4 percent for the period January-June 2022, more than twice the average in January-June 2021 at 2.4 percent and higher than the 2021 average of 3.0 percent (Figure 4).

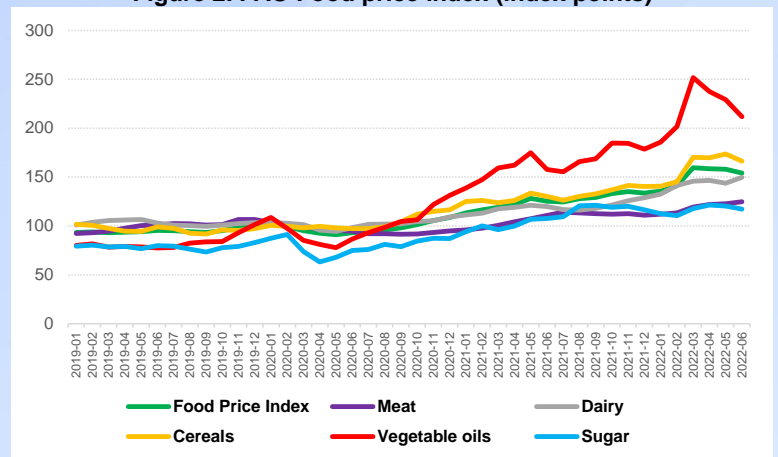
Inflation is not only higher but also becoming broad-based. In response, the majority of central banks in APEC that use interest rates as their

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



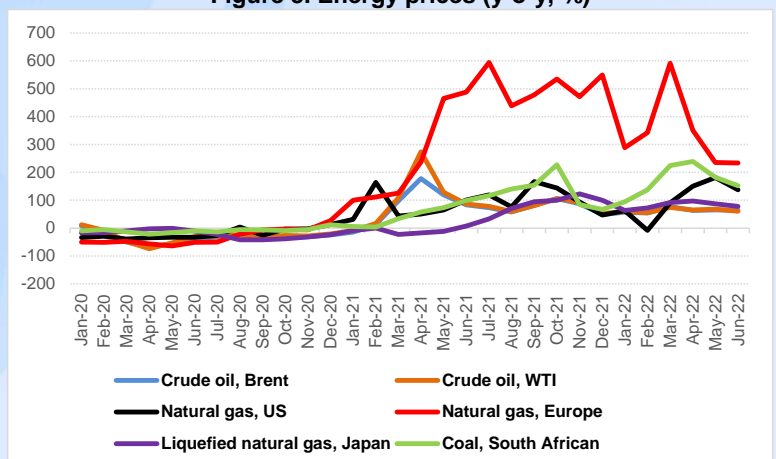
Source: International Monetary Fund (IMF) World Economic Outlook (April 2022) and Update (July 2022); Member economy sources; APEC Policy Support Unit (PSU) staff calculations.

Figure 2. FAO Food price index (index points)



Source: Food and Agriculture Organization of the United Nations (FAO)

Figure 3. Energy prices (y-o-y, %)



Source: World Bank Commodity Price Data; APEC PSU staff calculations.

main policy levers decided to increase their benchmark rates as of 29 July 2022 (Figure 5).

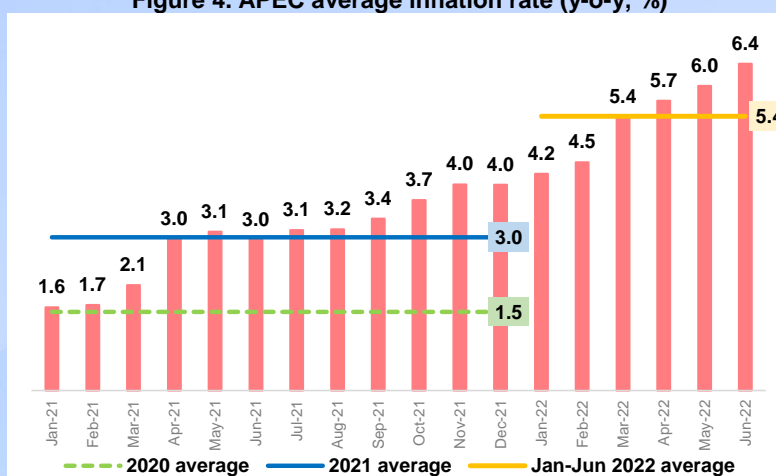
So far this year, the US Federal Open Market Committee has raised the target range for the federal funds rate four times, reaching 2 ¼ - 2 ½ percent as of its 27 July 2022 meeting from near zero at the start of the year. The US Fed will also continue to reduce its holdings of Treasury securities and agency debt and agency mortgage-backed securities to return to its inflation target of 2.0 percent.

In an off-cycle rate move, the Bangko Sentral ng Pilipinas increased its benchmark policy rate by 75 basis points to 3.25 percent on 14 July 2022 to dampen inflationary pressures.

Similarly, the Monetary Authority of Singapore deviated from its practice of monetary policy meetings every April and October to tighten anew its monetary policy settings on 14 July 2022.

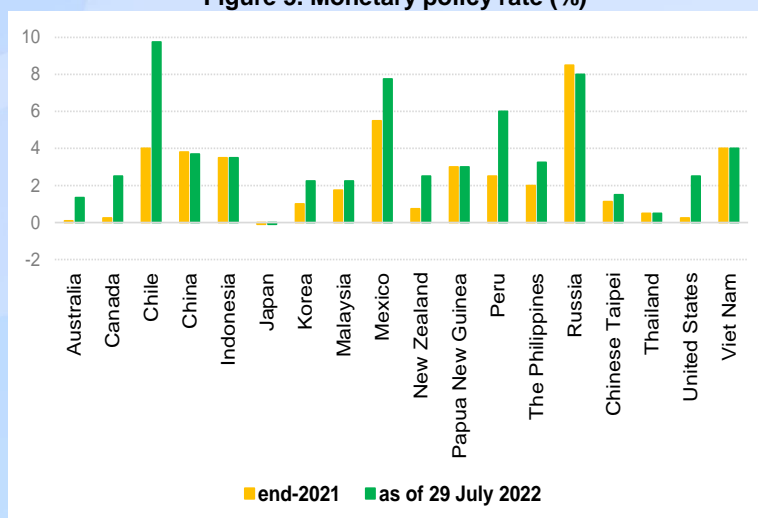
Global inflation is expected to remain elevated for the rest of 2022, tapering in 2023 as aggressive monetary tightening takes effect. Inflation could return to its pre-pandemic level by 2024; however, it could also maintain its momentum, resulting in higher-for-longer inflation. A prolonged war in Ukraine could give rise to another round of supply shocks and price increases, while workers could demand compensation to offset higher costs of living given an already tight labour market.¹

Figure 4. APEC average inflation rate (y-o-y, %)



Source: Member economy sources; APEC PSU staff calculations.

Figure 5. Monetary policy rate (%)



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.

¹ International Monetary Fund (IMF), "World Economic Outlook Update: Gloomy and More Uncertain" (Washington, D.C.: IMF, July 2022)

GDP and trade growth moderate in Q1 2022

The APEC region grew at a slower pace of 3.7 percent in Q1 2022 after expanding by 6.2 percent in Q1 2021 and 4.3 percent in Q4 2021 (Figure 6).

New variants of the COVID-19 virus continued to pose challenges even as economies are grappling with higher inflation, tightening financial conditions, rising debt and negative spillovers from the ongoing conflict in Ukraine.

Despite a more broad-based inflation, the value of merchandise trade in the APEC region decreased to 13.4 percent for exports and 16.6 percent for imports in Q1 2022, the lowest growth posted since trade regained its strength from the contractionary levels in 2020 (Figure 7).

Latest available data on merchandise trade volume also show lower growth for both exports and imports (Figure 8), adversely affected by prevailing disruptions and uncertainties.

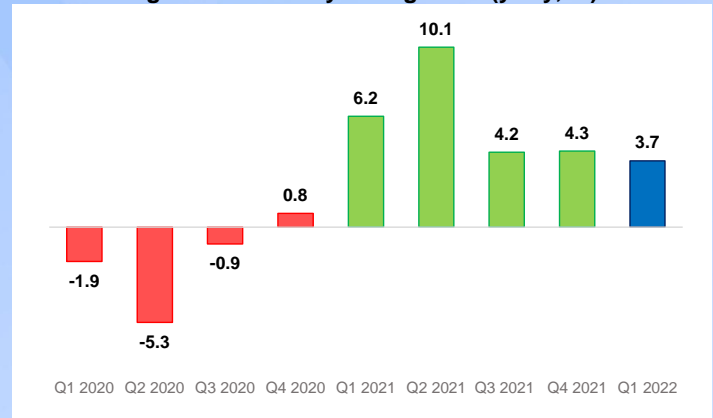
The lacklustre trade activity in APEC mirrors the performance of world merchandise trade, with lower growth in the value and volume of exports and imports during the same comparable periods.

The decelerating pace of growth in global merchandise trade value and volume is within expectations. In its July 2022 Global Trade Update, the United Nations Conference on Trade and Development (UNCTAD) expects trade to weaken for the rest of the year due to slowing global economic growth, the conflict in Ukraine, continuing challenges in global supply chains and rising uncertainty.² This is in line with the downgrade in the World Trade Organization's (WTO) forecast for growth in world merchandise trade volume to 3.0 percent in 2022 from 4.7 percent; with a slight pick up to 3.4 percent in 2023.³ The International Monetary Fund (IMF) also revised downward its short-term projections for world trade volume to a growth of 4.1 percent (from 5.0 percent) in 2022 and 3.2 percent (from 4.4 percent) in 2023.⁴

FDI strengthens in 2021

Inflows of foreign direct investment (FDI) to the APEC region went up by 62 percent to almost USD 1.1 trillion following an exceptional decline in 2020 and higher by 32 percent compared to the 2019 level. However, this was matched by almost the same level of FDI outflows (Figure 9).

Figure 6. 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.

Figure 7. Growth in the value of merchandise trade (y-o-y, %)

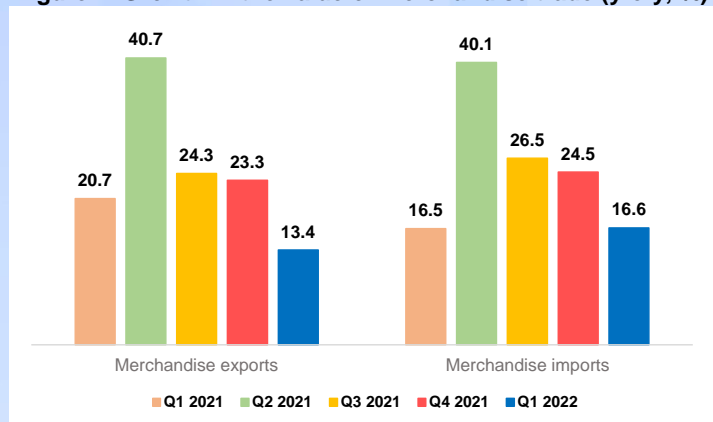
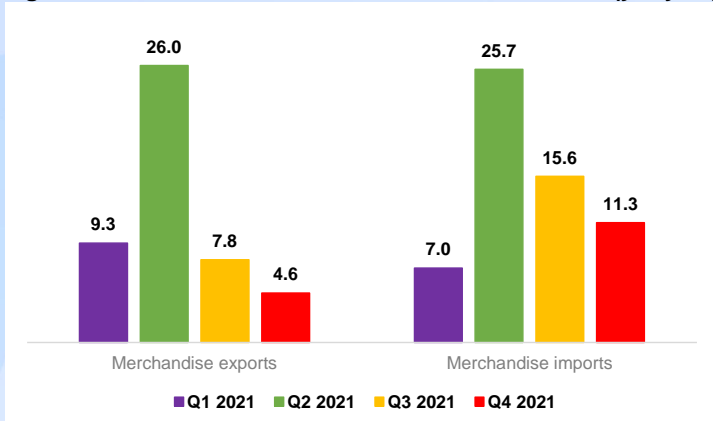


Figure 8. Growth in the volume of merchandise trade (y-o-y, %)



For Figures 7 and 8:

Note: Quarterly data on merchandise trade are not available for Papua New Guinea.

Source: World Trade Organization (WTO) for trade value and United Nations Conference on Trade and Development (UNCTAD) for trade volume; APEC PSU staff calculations.

² United Nations Conference on Trade and Development (UNCTAD), "Global Trade Update: Inflation and Rising Commodity Prices Drive Global Trade" (Geneva, Switzerland: UNCTAD, July 2022)

³ World Trade Organization (WTO), Press Release 902, 12 April 2022, https://www.wto.org/english/news_e/pres22_e/pr902_e.htm

⁴ IMF, "World Economic Outlook Update" (July 2022)

Similarly, the value of announced greenfield investments in the APEC region also increased in 2021 by 31 percent to USD 295.1 billion, representing 45 percent share of total (Figure 10). However, this is still 17 percent below the pre-pandemic 2019 level.

Greenfield projects play an integral role in an economy's growth and development because these investments help create new jobs and facilitate transfer of technology, expertise and skills.

Figure 9. APEC FDI (USD billion)

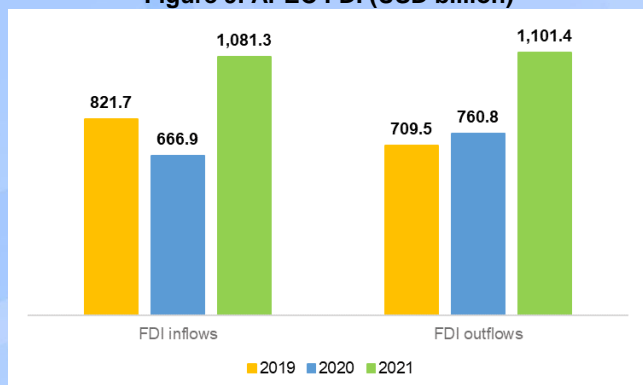
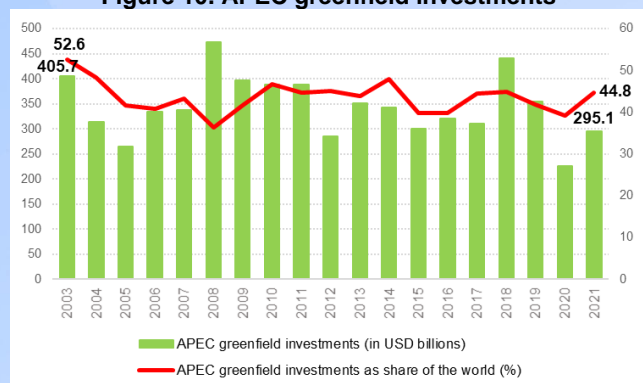


Figure 10. APEC greenfield investments



For Figures 9 and 10:

Source: UNCTAD World Investment Report (June 2022).

Future-proofing APEC amid an increasingly uncertain environment

The manifold of difficulties and uncertainties that the world is dealing with right now underscore the importance of preparedness: preparing for the next pandemic or crisis and preparing for a future that is inevitably highly digitalised and greatly exposed to the ill effects of climate change.

⁵ General government gross debt for the APEC region is estimated to have averaged 65 percent of GDP in 2020-2021, significantly higher than the 10-year pre-pandemic average of 49 percent of GDP. This level is expected to be sustained until the medium term (Source: IMF World Economic Outlook database and APEC PSU staff calculations).

⁶ APEC, "APEC Needs to Future-Proof the Region from Crises," News Release, 28 July 2022, <https://www.apec.org/press/news-releases/2022/apec-needs-to-future-proof-the-region-from-crises>

Things to prioritise in the immediate term

In the immediate term, economies must be prepared to manage any crisis and cushion its adverse impact, particularly on the most vulnerable. Ramping up vaccination uptakes remains essential to guard against a resurgence in infections, considering the emergence of new variants.

Since a sustained and broad-based increase in prices translates to higher costs of living and tends to increase poverty, the immediate focus should be on reining in inflation. Monetary authorities need to be ready to use available tools at their disposal to bring down inflation and communicate policy changes clearly to anchor inflation expectations.

Higher interest rates will dampen economic activity and result in lower economic growth, necessitating a fiscal response that effectively targets those most affected. However, substantial debt was incurred at the height of the pandemic to save lives and livelihoods, so fiscal authorities need to improve revenue generation efforts through efficient tax collection and reduce government spending to ensure enough space to help the vulnerable.⁵

Things to attain in the medium to long term

Parallel to high vaccination rates and proactive monetary and fiscal policies, economies must prepare for a future that is laden with uncertainties and opportunities for a more resilient, inclusive and sustainable growth.

APEC remains steadfast in its long-term goal of economic integration through the Free Trade Area of the Asia-Pacific (FTAAP). To advance the FTAAP agenda, the region is developing a multi-year plan centred on digitalisation, inclusive growth, sustainability, trade and investment, as well as a trade response to the pandemic.⁶

For example, APEC is taking steps to reconnect economies through the establishment of the Safe Passage Taskforce, specifically to coordinate members' efforts for a safe and seamless travel amid COVID-19. Complementing this is the agreement of the 21 member economies to work toward harmonising the various vaccination certificate systems existing in the region.⁷ These initiatives are expected to re-ignite travel and tourism, which is vital to the region's economic recovery.

APEC is also mindful of the rapid shift to digitalisation, hastened by the COVID-19 pandemic. Along with creating new jobs and improving productivity, technological

⁷ APEC, "APEC Ministers Responsible for Trade Statement of Chair: "Annex B - Voluntary Principles for the Interoperability of Vaccination Certificates in the APEC Region," 22 May 2022, <https://www.apec.org/meeting-papers/sectoral-ministerial-meetings/trade/apec-ministers-responsible-for-trade-statement-of-chair/annex-b---voluntary-principles-for-the-interoperability-of-vaccination-certificates-in-the-apec-region>

changes have revealed the digital divide between low-income and high-income economies, marked by the disparity in access to technologies as well as automation and digital skills.

APEC as a regional cooperation forum is in a unique position to address these digital-related challenges by: 1) ensuring economic security; 2) developing and redeveloping skills; 3) updating labour laws and institutions; 4) cooperating across borders; and 5) operationalising APEC initiatives on future of work.⁸

There is also an ongoing discussion on the Bangkok Goals for the Bio-Circular-Green (BCG) Economy to implement a holistic approach to attain the region's sustainability goals of: 1) net zero greenhouse gas emissions; 2) sustainable trade and investment; 3) conservation of the environment and biodiversity; and 4) resource efficiency toward zero waste.⁹

The APEC region as a whole contributes 60 percent of global greenhouse gas emissions and 65 percent of carbon emissions. It is notable that APEC has taken steps to fight climate change by increasing its forest cover by 22.7 million hectares between 2008 to 2020; expanding the share of trade in environmental goods to 5.2 percent of merchandise trade (based on 2019 data); issuing USD 92.3 billion worth of bonds in 2020 to finance new or existing green projects; and being on track to double the share of renewables in their energy mix by 2030.¹⁰ But APEC could do more such as implementing green policies and evaluating its impacts or monitoring its actions vis-à-vis global decarbonisation targets.

It is equally worthwhile to understand that efforts to achieve sustainable, balanced, resilient and inclusive growth are futile without ensuring women's full and equal economic participation and political representation. The APEC Women and the Economy Dashboard 2021 highlights barriers to women's access to employment, credit and political leadership that have persisted for decades.

Only half of APEC economies mandate equal pay for women and men doing work of equal value, while only 13 economies allow women to work in the same industries as men. Moreover, less than half of APEC economies have laws that prohibit creditors' discrimination on the basis of gender and marital status. Women have also remained under-represented in political leadership roles: data in

2020 show that only 24 percent of seats in parliaments and only 19 percent of ministerial positions were held by women.¹¹ APEC members need to act now to advance women's empowerment, consistent with their commitment to the La Serena Roadmap for Women and Inclusive Growth (2019-2030).¹²

The APEC region, along with the global economy, is facing a myriad of challenges that require policy interventions and supportive initiatives. In the immediate term, flexible monetary policy and efficient fiscal policy are needed to rein in inflation and support those vulnerable to higher costs of living.

In the medium to long term, APEC economies need to work cohesively and consistently toward a sustainability and inclusivity agenda that future-proofs the region. This means strengthening the region's connectivity; protecting the environment and mitigating the harmful effects of climate change; addressing the digital divide with updated rules as well as upgraded digital infrastructure and skills; and increasing women's participation in the economy by implementing mutually-reinforcing policies that significantly improve women's access to employment, credit and leadership positions.

APEC has already taken the initial steps by launching initiatives that fortify the region's resilience against pandemics, crises and uncertainties, cognisant that individual members have different economic conditions and development priorities. The key is to cooperate to translate commitments into actions, and actions into tangible benefits for people in the region.

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¹¹ APEC, "The APEC Women and the Economy Dashboard 2021" (Singapore: APEC, September 2021), <https://www.apec.org/publications/2021/09/the-apec-women-and-the-economy-dashboard-2021>

¹² APEC, "The La Serena Roadmap for Women and Inclusive Growth (2019-2030)," 2019, https://www.apec.org/meeting-papers/annual-ministerial-meetings/2019/2019_amm/annex-a

⁸ APEC, "APEC Economic Policy Report 2021: Structural Reform and the Future of Work" (Singapore: APEC, November 2021), <https://www.apec.org/publications/2021/11/2021-apec-economic-policy-report>

⁹ Ministry of Foreign Affairs (Thailand), "Towards Balance in All Aspects: Driving Forward the BCG Concept at APEC SOM2," Press Release, 14 May 2022, <https://www.mfa.go.th/en/content/apecsom2-pr3-2?cate=5d5bcb4e15e39c306000683e> and APEC, "APEC Needs to Future-Proof the Region from Crises."

¹⁰ APEC, "APEC Regional Trends Analysis – APEC's Climate Change Challenge" (Singapore: APEC, November 2021),