Pacific Economic Cooperation Council

STATE OF THE REGION

2016 - 2017

ABOUT THE PACIFIC ECONOMIC COOPERATION COUNCIL

The Pacific Economic Cooperation Council (PECC) is a non-profit, policy-oriented, regional organization dedicated to the promotion of a stable and prosperous Asia-Pacific. Founded in 1980, PECC brings together thought-leaders from business, civil society, academic institutions, and government in a non-official capacity. Together, PECC members anticipate problems and challenges facing the region, and through objective and rigorous analysis, formulate practical solutions. The Council serves as an independent forum to discuss cooperation and policy coordination to promote economic growth and development in the Asia-Pacific. PECC is one of the three official observers of the APEC process.

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MESSAGE FROM THE CO-CHAIRS OF PECC

On behalf of the members of the Pacific Economic Cooperation Council (PECC), it is our pleasure to present our eleventh annual report of the State of the Region.

This year we have chosen to focus on services trade, which merits special attention given that the services sector contributes around 67 percent of the region's GDP and employs about 65 percent of workers in the Asia-Pacific. While the overall regional economic performance is mediocre judging from the relatively slow growth in GDP and the historically slow trade growth, the services sector presents itself as one of bright spots for the Asia-Pacific with potential for further growth and opportunities. In Chapter 2, Dr. Sherry Stephenson outlines the rationale behind our collective efforts to push for services sector reforms. Tariffs, quotas and other trade barriers for goods have been greatly reduced over the years; however, we now need to shift our attention more to obstacles that contribute to behind-the-border barriers to trade and importantly, services trade.

Chapter 3 contains the results of our annual survey of the Asia-Pacific policy community. Views on the global economic outlook largely remain negative. However, the survey identifies key sectors that could drive growth in the future, and these are, in order of importance: digital trade including e-commerce and the Internet-based economy; information and communications; education; financial and insurance activities; and health. These are, not surprisingly, all services in nature. The results also indicate that while the policy community sees significant potential benefits from liberalization of the services sector, policy reforms required may be hampered by the lack of competitiveness of local firms.

For several years, progress on regional economic integration – in the form of Bogor Goals or the Free Trade Area of the Asia-Pacific (FTAAP) - has been the top issue for APEC Leaders to discuss at their annual meeting. This year was no exception. What was interesting to note however, was the importance attached to structural reforms and the anti-globalization sentiments. These are discussed further in Chapter 3. Of deep concern is the relatively pessimistic assessment of the political environment for freer trade in the region, especially among the region's more advanced economies. While the net assessment remained positive, it challenges all of the policy community to better articulate the importance of free trade and globalization to the prosperity and stability of the entire Asia-Pacific community.

With the advent of digital technologies and sophistication of Internet-based tools for information sharing and financial transactions, it has become easier to set up and participate in international commerce, for both small and big players. Regardless of whether in urban or rural areas, as long as basic infrastructure is in place, it has become possible to start businesses with very little or no cost upfront. Pushing ahead in structural reforms in the services sector, addressing behind-the-border issues, and facilitating vocational and higher education in new skills are needed to empower individuals and companies to be able to harness these opportunities. We are seeing APEC's work on regional trade integration being complemented by work to address gaps in connectivity, sustainability issues, and the digital economy. While there are undoubtedly challenges ahead, the future of the Asia-Pacific is one of potential – but the emphasis should be on quality and distribution of growth rather than just the pace.

We thank Mr. Eduardo Pedrosa for coordinating this year's report and for providing the chapters on the macroeconomic outlook and the survey results. We are also deeply appreciative of chapters contributed by Dr. Sherry Stephenson that features the importance of services trade liberalization and to Dr. Chen Bo for his work on the regional integration index.

DON CAMPBELL
Co-Chair

TANG GUOQIANG
Co-Chair

EXPLANATION OF TERMS USED IN THE REPORT

ADB	Asian Development Bank
ADBI	Asian Development Bank Institute
AP	Asia-Pacific
APEC	Asia-Pacific Economic Cooperation
ASCF	APEC Services Cooperation Framework
ASEAN	Association of Southeast Asian Nations
CAGR	Compound Annual Growth Rate
CGE	Computable General Equilibrium
CPI	Consumer Price Index
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAAP	Free Trade Area of the Asia-Pacific
G20	Group of Twenty (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom, United States, and the European Union)
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
GFC	Global Financial Crisis
GII	Global Innovation Index
GNI	Gross National Income
ICT	Information and Communications Technology
IMF	International Monetary Fund
ISIC	International Standard Industry Classification
LFPR	Labor Force Participation Rate
MFN	Most Favored Nation
MNC	Multinational Corporation
MSME	Micro, Small and Medium Enterprises
NA	North America
NAFTA	North American Free Trade Agreement
NEA	Northeast Asia
NIE	Newly Industrializing Economy
OBOR	One Belt One Road
OCE	Oceania
OECD	Organisation for Economic Co-operation and Development
PA	Pacific Alliance
PECC	Pacific Economic Cooperation Council
PNG	Papua New Guinea
PSA	Pacific South America
PSU	(APEC) Policy Support Unit
RCEP	Regional Comprehensive Economic Partnership
RTA	Regional Trade Agreement
R&D	Research and Development
SA	South America
SDG	Sustainable Development Goals
SEA	Southeast Asia
SME	Small and Medium Enterprises
STRI	Services Trade Restrictiveness Index
TiSA	Trade in Services Agreement
TFP	Total Factor Productivity
TPP	Trans-Pacific Partnership
TTIP	Trans-Atlantic Trade and Investment Partnership
UNCTAD	United Nations Conference on Trade and Development
US	United States
WEO	World Economic Outlook
WTO	World Trade Organization

EXECUTIVE SUMMARY

The Asia-Pacific is forecast to grow by 3.4 percent in 2016, much the same rate as in 2015 and this is expected to continue into 2017. Growth for both advanced and emerging economies in the region is significantly lower than during the pre-crisis years. Of bigger concern is that these mediocre growth numbers have been attained through substantial support from stimulus packages that cannot be sustained over the longer term. Questions remain as to how the region's economies would fare once these extraordinary measures are phased out and as monetary policies normalize. In addition, there are added uncertainties emanating from the consequences of the Brexit referendum, as well as the overall public resentment towards globalization and free trade.

While 51 percent of respondents had positive views on the political environment for freer trade in the region while 25 percent had negative views or a net favorability of 26 percent, there were sharp differences depending on where the respondents came from. Respondents from North America were the most pessimistic with 43 percent having positive views and 33 percent negative while by far the most optimistic were respondents from Pacific South America, 71 percent were positive and only 15 percent negative. An overall favorability rating of 26 percent, while still positive, would give pause to any decision-maker on the ability to move forward on an ambitious agenda. Much more needs to be done to make the case for freer trade if any of the ongoing and putative initiatives are going to succeed.

In a survey of over 700 policy experts from business, government and the non-government sectors, the top five risks to growth were:

- Slowdown in the Chinese economy;
- Continued slowdown in world trade growth;
- Failure to implement structural reforms;
- Lack of political leadership; and
- Slowdown in the US economy.

While a great milestone has been achieved early this year with the historic signing of the Trans-Pacific Partnership (TPP), it remains to be seen how long we may need to wait for this to be ratified by the US or if ever. Nevertheless, the ongoing work by APEC on FTAAP needs to continue, according to the survey. Over 70 percent of respondents agreed that 'APEC should focus its work on trade policy to achieving the FTAAP.' Respondents also felt positive towards FTAAP with 71 percent saying it would have positive impact on their respective economies.

All of the above uncertainties raise the very real question of where growth will come from. As this report highlights in Chapters 2 and 3 in particular, services sector will clearly be the key engine of growth for the Asia-Pacific economies. This is reflected in the list of top 5 key sectors for future growth as seen by the survey respondents:

- Digital trade, e-commerce and the internet economy;
- Information and communications;
- Education;
- Financial and insurance activities; and
- Health.

Further, there was a convergence of views among both emerging and advanced economies that the liberalization of services trade was beneficial to their economies in terms of improving the overall quality of services delivery, for creation of jobs, and for lowering prices for the consumers. Chapter 2 contributed by Dr. Sherry Stephenson outlines the main reasons as to why services are of critical importance to the region and its economies. With the 'servicification' in the manufacturing and agriculture sectors, along with the growing proportion of services in consumption and investment, efficient services enhance the competitiveness of the entire economy. This can be measured in terms of services' contribution to GDP growth as well as its share in exports. The services sector also employs the largest number of workers in both emerging and advanced economies of the region compared to manufacturing or agriculture and mining sectors. Additionally, services are key to innovation and productivity increases, helped by the fast-paced developments in the digital technologies and the Internet-based tools.

The policy community's views on what should be the top priorities for the APEC Leaders' discussions in Lima were:

- Progress towards the Bogor Goals and the Free Trade Area of the Asia-Pacific (FTAAP)
- The APEC Growth Strategy
- Structural reforms
- The emergence of anti-globalization and anti-trade sentiments
- Improvement in regional logistics and transport connectivity

The top two were also ranked highest last year but it is noteworthy to see structural reform coming in third after APEC adopted the Renewed APEC Agenda for Structural Reform (RAASR) in 2015, in which APEC economies are expected to set out their own individual action plans for implementing reforms by 2020. The emergence of anti-globalization and anti-trade sentiments ranked highest for respondents from North American and Oceania. As seen in charts in Chapter 3, we see that this issue ranked highest for the advanced economies whereas it ranked tenth for those from the emerging economies.

On the question of potential expansion of APEC membership those from Pacific South America were most enthusiastic with 73 percent agreeing to the idea while only 32 of Southeast Asians agreed. About a third of respondents had no opinion one way or another and it also ranked very low as a priority issue to be discussed by the Leaders in Lima.

Chapter 4 is the latest update to PECC's annual index of economic integration in the Asia-Pacific region. The composite index for 2013 shows that the level of integration – measured by intra-regional FDI flows, tourism, trade, and similarity of economies in terms of education expenditure, life expectancy, urban ratio, and others - has dropped to almost 2009 level. The latest ranking shows that Singapore and Hong Kong (China) are again at the top of the list in terms of the frequency and depth of interaction and integration with the rest of the economies in the Asia-Pacific. In contrast, China and the Philippines were least integrated in comparison to others. It should be noted that higher ranking does not denote superiority to a lower ranking; being at the lower end simply indicates that an economy is oriented more globally than regionally.

CHAPTER 01 THE MACROECONOMIC OUTLOOK

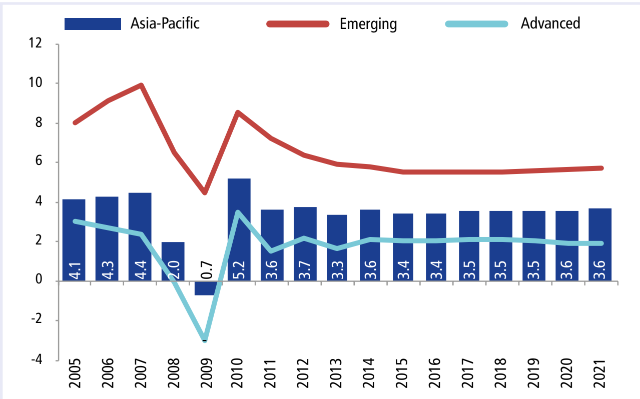
CONTRIBUTED BY MR. EDUARDO PEDROSA, SECRETARY GENERAL OF PECC / COORDINATOR OF STATE OF THE REGION

The Asia-Pacific is at an economic crossroads. After years of spectacular growth, first led by Japan, then the "newly industrializing economies (NIEs)[1]," and then China, the region's growth performance has slowed. This is normal. As economies develop and move closer to the technology frontier, and higher per capita income levels spread from their initial enclaves to the whole of the economy, the scope for very high growth rates lessens. However, it is difficult not to conclude that over the past several years, the region as a whole is underperforming its potential. Growth is steady but hardly robust in the United States, its largest economy, and China and Japan are both grappling with significant structural challenges. However, with political will, and through collaboration and cooperation in APEC, G20, and other processes, the region's outlook is quite positive. In this report, we will highlight services. Services – old and new – account for the largest share of the region's employment, and have the greatest scope for performance enhancing efficiency. First, however, this chapter will look at the broader regional economic context.

The Asia-Pacific economy is expected to grow at 3.4 percent in 2016 – the same rate as 2015 - and then at much the same rate in 2017. Two important positives for the region are the continued - if slow - recovery of the United States and China's ability to manage its slowdown to a new, more realistic equilibrium. However, 15 out of the 28 economies in the broadly defined region are expecting slower growth this year. Emerging economies in the region are expected to contribute around 2.2 percentage points to growth in the Asia-Pacific with advanced economies accounting for the balance of 1.2 percentage points.

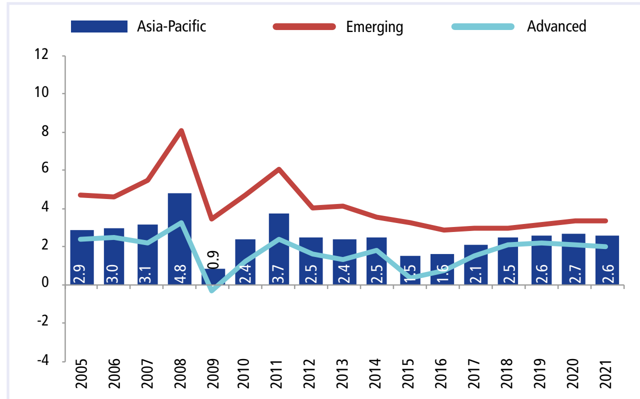
Of key concern is that these mediocre growth numbers come with substantial support from stimulus measures. As important as these measures are in their historical context, they are not sustainable over the long term, and need to be accompanied by meaningful structural reforms to rebalance economic growth. While there are valid concerns about the sequencing of reforms and their possible pro-cyclicality, the support from monetary easing gave, and continues to give, the veneer of a recovery rather than a robust turnaround. As monetary policy 'normalizes,' there are significant uncertainties on whether or not economies in the region have sufficient momentum on the private side or other tools on the public sector side. An additional source of anxiety for the region's growth comes from Brexit. Over the long-term, the likely impact of Brexit itself is relatively small – the UK is not a major trading partner for any of the region's economies. More important for the Asia-Pacific region is whether Europe can adjust and recover a healthy growth rate. Nonetheless, in the short-term, the referendum result, along with continued instability in Eastern Europe and the Middle East, and uncertainties about the election in the United States, added to anxiety into already nervous financial markets. For a region that has benefited greatly from globalization, the political backlash against freer trade and people movements is deeply troubling.

Figure 1.1: Asia-Pacific GDP Growth



Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

Figure 1.2: Asia-Pacific CPI Growth



Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

[1] Hong Kong (China), Korea, Singapore, and Chinese Taipei

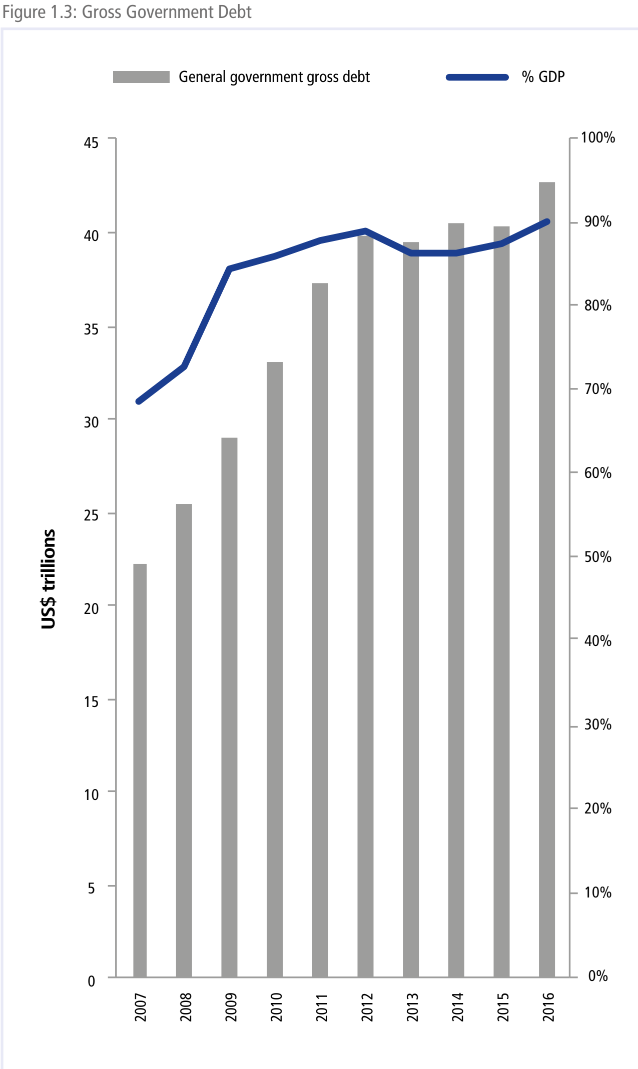
CONCERNS OVER DEFLATION

Prices in the region remain stable with CPI inflation expected at 1.6 percent in 2016 and 2.1 percent in 2017, with slightly higher rates expected for emerging economies at 2.9 percent in 2016 and 3.0 percent in 2017. The anticipated increase in prices in 2017 comes as a result of an expected pickup in prices in advanced economies from 0.8 percent in 2016 to 1.6 percent in 2017. This in turn comes from an expectation that prices in the US will pick up from 0.8 in 2016 to 1.5 percent in 2017. The broader concern remains deflationary pressures. In spite of some central banks' efforts, inflation remains low with Japan considering shifting from quantitative easing to implementing 'helicopter money' policies. The key difference between the two being that for the latter, the money would never have to be repaid.

HISTORICALLY HIGH DEBT LEVELS

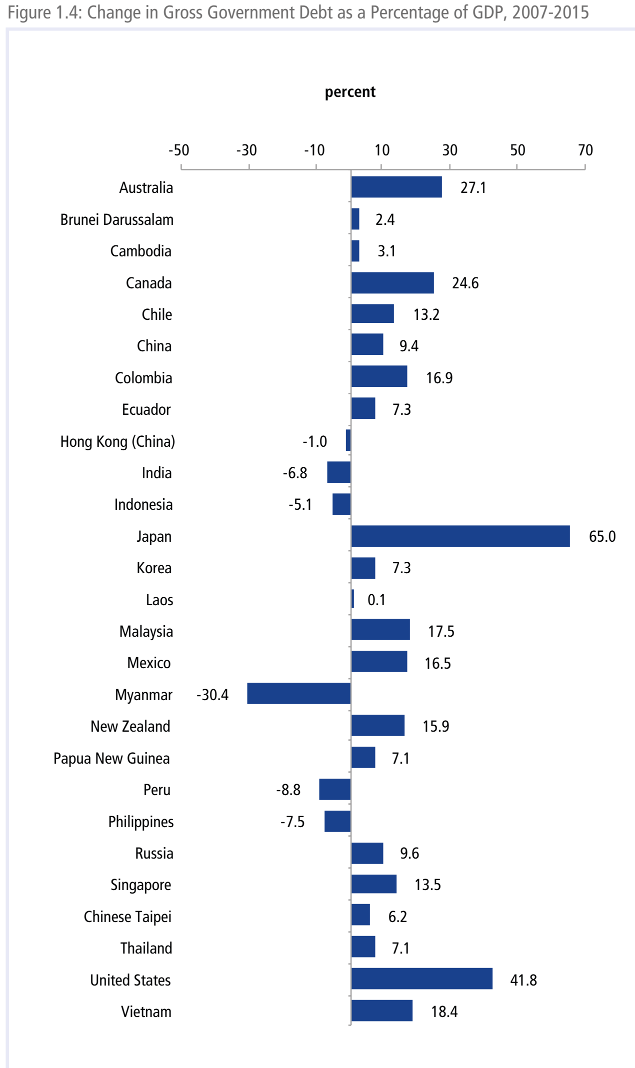
Since 2007, government debt has risen as a consequence of stimulus policies and lagging government revenues. In 2007, the total amount of gross government debt in the region was approximately US$22 trillion; it has since increased to US$42 trillion or around 90 percent of regional output. In its latest annual report, the Bank of International Settlements (BIS) warned, "Judged by standard benchmarks, the global economy is not doing as badly as the rhetoric sometimes suggests. Global growth continues to disappoint expectations but is in line with pre-crisis historical averages, and unemployment continues to decline. Less comforting is the longer-term context – a "risky trinity" of conditions: productivity growth that is unusually low, global debt levels that are historically high, and room for policy maneuver that is remarkably narrow."

Figure 1.3: Gross Government Debt



Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

Figure 1.4: Change in Gross Government Debt as a Percentage of GDP, 2007-2015



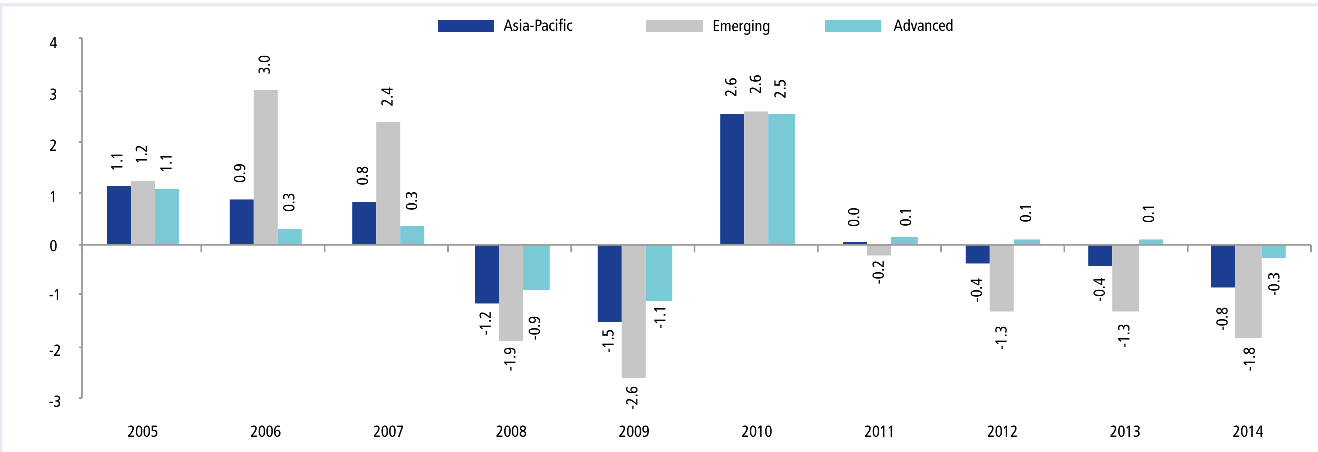
Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

PRODUCTIVITY GROWTH MISSING

Another critical and long-term concern for the region is the lack of productivity growth. As shown in Figure 1.5, the contribution of total factor productivity (TFP) to regional growth since 2010 has been negative. Simply put, the slow growth since the Global Financial Crisis has in turn caused a drop in productive use of resources, possibly related to a combination of market rigidities and stagnating innovation.

Slightly more alarming is the steepness of the decline in the contribution of TFP to growth in the region's emerging economies. This should ring the alarm bells and bring a greater sense of urgency to structural reforms such as labor market reforms and pro-competition regulations – especially in the services sector to improve the ability of the economy to harness technological improvements.

Figure 1.5: Contribution of Total Factor Productivity to Regional Growth



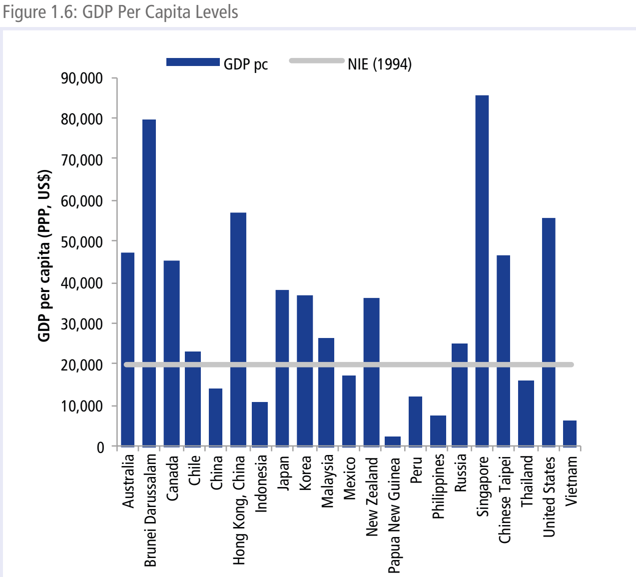
Source: Data from Conference Board, Total Economy Database, analysis by PECC International Secretariat

INCOME GROWTH

Even though growth in emerging economies continues to outpace that of advanced economies by a factor of two, the average GDP per capita in emerging economies in the region is still one fifth that of the region's advanced economies, even with the adjustment for differences in cost of living using purchasing power parities. Using current US$ rates the disparity is even greater with an average GDP per capita of US$5,000 in emerging economies and US$45,000 for advanced economies.

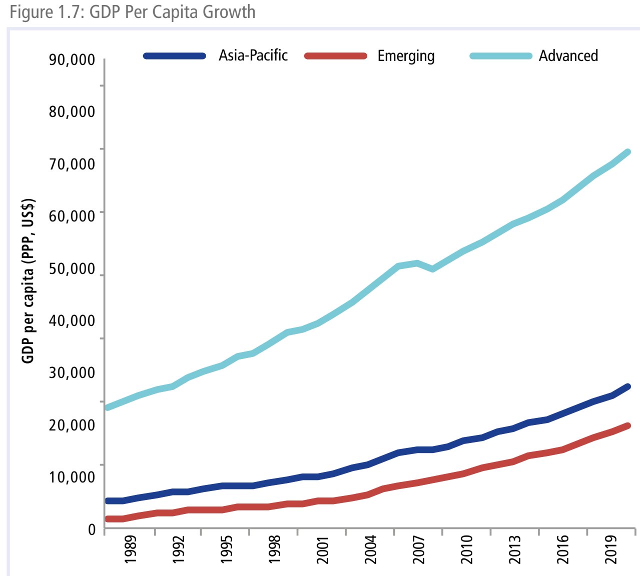
That said, the differential is closing. When APEC began in 1989, the gap was even larger. When APEC set the Bogor Goals in 1994, leaders agreed that "developing economies will strive to maintain high growth rates with the aim of attaining the level of prosperity now enjoyed by the newly industrializing economies." In 1994,

Figure 1.6: GDP Per Capita Levels



Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat
NIEs: Hong Kong (China), Korea, Singapore, and Chinese Taipei

Figure 1.7: GDP Per Capita Growth



Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

the average GDP per capita levels in the newly industrializing economies - Hong Kong (China), Korea, Singapore, and Chinese Taipei - was around US$20,000. By 2020, Chile, Malaysia, Mexico and Thailand are expected to also reach that level. This would leave China, Indonesia, Papua New Guinea, Peru, the Philippines and Vietnam still to catch up to that level.

The challenge for those economies is that the burst of growth in the region in the late 1990s and 2000s has dissipated and regional economies are undergoing profound structural shifts in response to changes that triggered and were wrought by the crisis as well as their own changing comparative advantage and technological transformations.

BOX 1.1 CHINA'S ECONOMY WILL REMAIN STABLE AND SOUND

Contributed by CNCPEC

China's gross domestic product expanded 6.7 percent year-on-year in the first half of 2016 to reach 34.06 trillion yuan (US$5.08 trillion). This indicates that the economic growth is still within a reasonable range, with its structure further optimized, transformation and upgrading accelerated, new growth drivers strengthened and people's livelihoods improved. The national economy has realized moderate but stable and sound growth, laying a solid foundation for achieving the full-year goal of 6.5 to 7 percent growth.

Amidst the fragile global recovery and gloomy trade climate, it has not been easy for China to achieve such stable growth. Despite the ongoing supply-side structural reform and intensified measures tackling "zombie companies," there is little sign of a sharp slowdown, which is testimony to the increased internal impetus of its economy.

Recently, the IMF has revised its forecast of China's economic growth for 2016 upwards by 0.1 percent to 6.6 percent.

Development highlights

Reform, innovation, adjustment and transformation have all contributed to the stable and sound performance of China's economy. Reform efforts to streamline administration, delegate power and improve government services have given a strong boost to mass entrepreneurship and innovation, and further boosted employment and unleashed development potential.

Some 40,000 new market entities are being created daily, including over 13,000 new enterprises. This is a marked increase compared to the previous two years and has given a strong boost to job creation. Employment also remained steady during the first half of 2016. According to statistics from the Ministry of Human Resources and Social Security, a total of 7.17 million jobs were created in urban areas, 71.7 percent of the full-year target. Meanwhile, the unemployment rate in major cities, by and large, remained at roughly 5.2 percent.

In addition, statistics from the National Bureau of Statistics (NBS) showed that per capita disposable income reached 11,886 yuan (US$1,779) in the first half of the year, a year-on-year increase of 6.5 percent after adjusting for inflation, 0.2 percentage points slower than the GDP growth.

The leading role of consumption and services is becoming more visible. In the first half of 2016, consumption contributed 73.4 percent to economic growth, up 13.2 percentage points year-on-year. New areas of consumption such as information and communication, smartphones and new energy vehicles are rapidly expanding. The five "happiness industries" of tourism, culture, sports, health, and old-age care are rapidly growing.

The service sector has grown into the biggest industry in the national economy, both in terms of its output and the number of jobs it created. In the first half of 2016, the service industry kept expanding at a relatively fast pace, making up 54.1 percent of GDP in the first half of the year, up 1.8 percentage points from the same period last year.

An innovation-driven economy is brimming with vitality. High-tech industries, high-end manufacturing, e-commerce and other new business forms are booming. Enterprises, sectors and regions that have made an early start in economic transformation and upgrading and that embrace faster growth of new industries have all taken on a sound momentum of growth. The hi-tech industrial and equipment manufacturing sectors respectively grew 10.2 and 8.1 percent—accounting for 12.1 and 32.6 percent of the total industrial value-added output—and the strategic emerging industries expanded 11.8 percent in the second quarter, 1.8 percentage points faster than in the first quarter. The rapid expansion of the strategic emerging industries came from investment growth. While investment in the manufacturing sector slowed down, in the service sector there was double-digit growth rate. That meets the demand of industrial transformation and upgrading, and accords with the trend of striding towards the middle and higher end of the industrial chain.

At the same time, industrial value-added output in central and western regions grew 7.3 and 7.2 percent respectively and outpaced eastern region by 0.9 and 0.8 percentage points.

Amidst the structural adjustment and transformation, central and west China have showed a strong late-starting advantage.

Figures show that achievements have been made in structural reform on the supply side, which is essential to China's economic transformation.

Cutting overcapacity: In the first half of the year, output of raw coal and crude steel decreased 9.7 percent and 1.1 percent, respectively.

Destocking: At the end of May, the finished goods inventory held by industrial enterprises above a designated size decreased by 1.1 percent. From March through June, residential housing for sale had been on decline for four consecutive months.

Deleveraging: At the end of May, the asset-liability ratio of industrial enterprises above a designated size stood at 56.8 percent, 0.5 percentage points lower than at the same time last year.

Reducing costs: From January to May, the cost per-hundred-yuan turnover of primary activities of industrial enterprises above a designated size was 0.22 yuan less than that of the same period last year.

Improving weak links: In the first half of the year, investment in water environment and public facility management, and information transmission software and information technology services rose 26.7 percent and 22.5 percent, 17.7 percentage points and 13.5 percentage points faster than the growth of total investment, respectively.

On the whole, the Chinese economy is better structured; its quality is improving and a stronger momentum is being gathered.

No hard landing to happen despite downward pressure

Given the complex and challenging international environment and the deep-seated domestic problems accumulated over the years, including a real estate bubble, industrial overcapacity, rising non-performing loans, local government debt and financial market risks, the foundation underpinning stable performance of the Chinese economy is yet to be strengthened. The driving effect of external demand on growth is waning, and uncertain factors like Brexit further destabilize the fragile international environment. Private and manufacturing investments are sluggish. Latent risks still exist in finance and other sectors. In some industries with serious overcapacity and regions with monotonous economic structures, there have been relatively more problems. Downward economic pressure remains, and the difficulties are not to be underestimated.

In the stage of transition, short-term fluctuations of economic growth are hardly avoidable, but the Chinese economy will not head for a 'hard landing,' with huge potential, high resilience and ample leeway. China's growth will not plunge, even without stimulus policies. The L-shaped economic growth, that is, declining from the two-digit growth rate to a moderate-to-high growth rate at around 7 percent, is to stay in the foreseeable future. This is the economic new normal for China with strong fundamentals such as a huge market, robust infrastructure construction, ongoing urbanization, an expanding middle class and the supply of over 7 million university graduates each year.

Policies ahead

The 13th Five-Year Plan (2016-20) released earlier this year, outlines China's development path for the next five years, with growth driven by innovative, coordinated, green, open, and shared development. Among the five principles, innovation is the most important to the process of the fourth industrial revolution.

The fundamentals of the Chinese economy have remained unchanged, and the macro policies will maintain continuity and stability. In the meantime, China will continue to innovate means of macro control, implement the proactive fiscal policy with greater intensity and efficiency, and carry out the prudent monetary policy in a flexible and appropriate fashion. China will practice well-targeted industrial policies, flexible micro policies, solid reform policies, and inclusive social policies.

China will steadfastly advance supply-side structural reform, concentrating on cutting overcapacity, reducing inventory, deleveraging, lowering costs and strengthening weak links, so that China's development could be less reliant on natural resources and be more driven by human resources and innovation. China will accelerate the development of the new economy and cultivate new growth drivers. China will also promote sharing economy for everyone to take part in and benefit from.

China will transform and upgrade the economy by opening up. China will open wider the service sector and general manufacturing sector, provide more investment opportunities to foreign businesses and foster a fairer, more transparent and predictable investment environment. All companies registered in China, Chinese-funded, foreign-funded, joint ventures or independently-owned, will be treated as equals. Their legitimate rights and interests will be protected, and they will have access to better public services.

Facing the current complexities and fluctuations in the international financial markets, China will adhere to a managed, floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The fundamentals of the Chinese economy determine that there is no basis for persistent depreciation of the RMB. China has the capacity to keep the RMB basically stable at an adaptive and equilibrium level.

WHERE IS GROWTH COMING FROM?

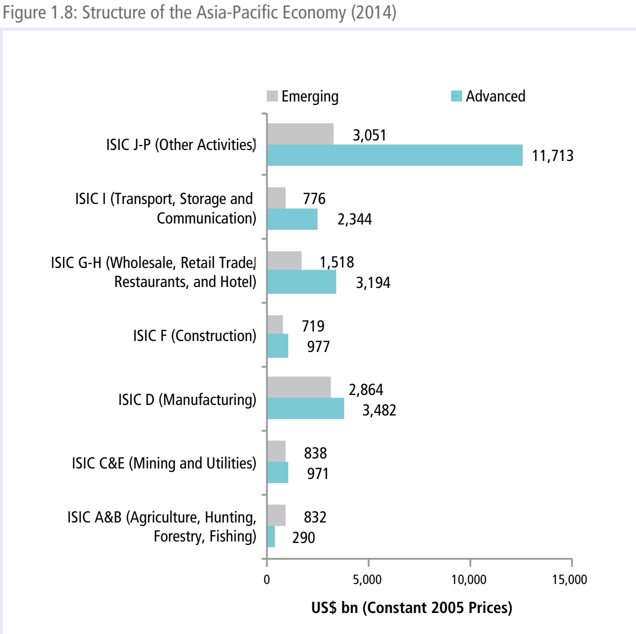
From 2010 to 2014, the Asia-Pacific economy has increased in size (in value-add terms) by close to US$4 trillion dollars or at annualized rate of 3 percent. By far the biggest source of growth has been the services sector (ISIC categories G-P) which contributed 63 percent or US$2.3 trillion of the growth in value-add to the region's total growth. This was followed by manufacturing (ISIC categories D and F) which contributed close to 28 percent of the region's total growth or US$1 trillion.

Breaking down the sources of growth further, while the contribution to growth in the services sector was roughly the same for advanced and emerging economies, manufacturing in emerging economies contributed far more to the region's growth than that of manufacturing in advanced economies. This is indicative of the continuing industrialization process in many emerging markets and the increased importance of the services sector for advanced economies. Moreover, in recent years, manufacturing in the region's emerging economies grew at an annualized rate of close to 7 percent while only 1 percent in the region's advanced economies. These numbers need to be put in their proper context. The size of the manufacturing sector in the region's emerging economies still lags behind that of the region's advanced economies, in value-add terms at US$2.9 trillion compared to US$3.5 trillion.

As some of the region's fast growing economies reach middle and high income levels, if they follow the path set by others, they will begin to shift from a focus on manufacturing towards more service sector activities. Even though China has not yet reached middle income level, the proportion of its service sector has been rapidly increasing, now accounting for 44 percent of all value-add activities, while manufacturing appears to have peaked at 35 percent. Given that in more mature economies like Korea services account for 60 percent of value-add in the economy, there is significant room for service sector growth in the region's emerging economies.

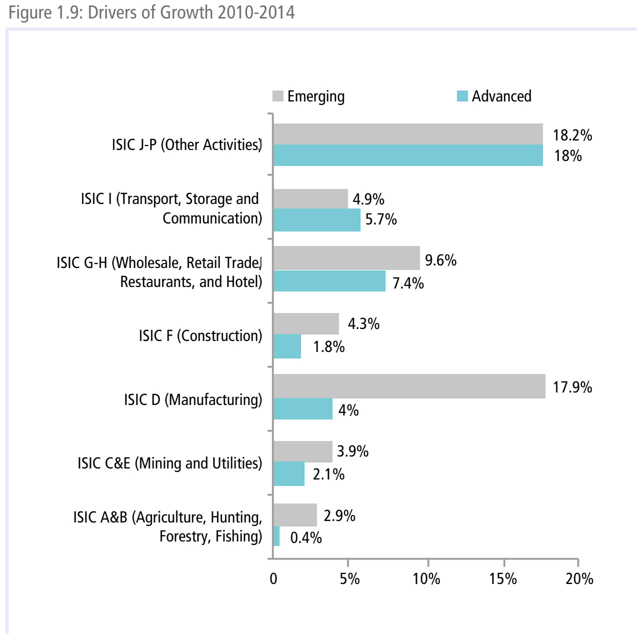
While looking at the regional economy this way helps appreciate how economies in the region are evolving, it fails to take into account the extent to which manufacturing is taking place in global value chains, many of which are operated by globally oriented multinational corporations. Research suggests that the bulk of value-add in global value chains remains in the home economy of the MNCs – for example, the components of the iconic Apple iPhone cost about US$230, while the finished phone retails for US$749. The difference is accounted for by research and development and marketing – in other words, the higher value-adding part of the production process, which is retained either in-house or close to the company's main headquarters.

Figure 1.8: Structure of the Asia-Pacific Economy (2014)



Source: UN Statistics, National Accounts Main Aggregates Database, GDP and its breakdown at constant 2005 prices in US Dollars

Figure 1.9: Drivers of Growth 2010-2014

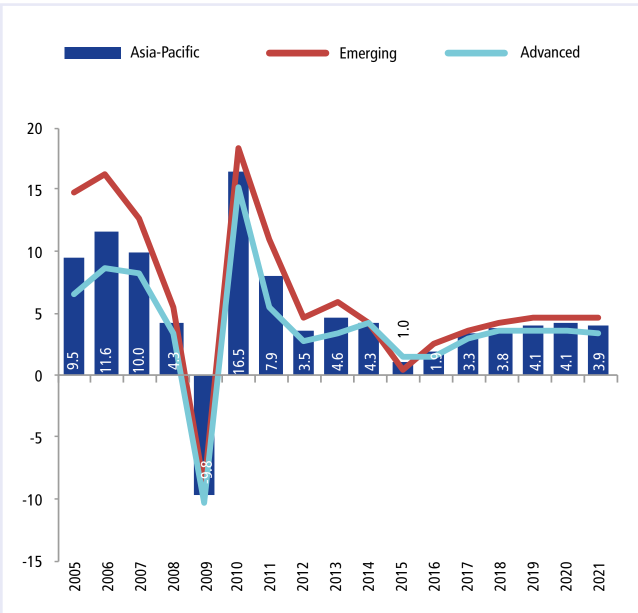


Source: UN Statistics, National Accounts Main Aggregates Database, GDP and its breakdown at constant 2005 prices in US Dollars

SLOWING TRADE GROWTH

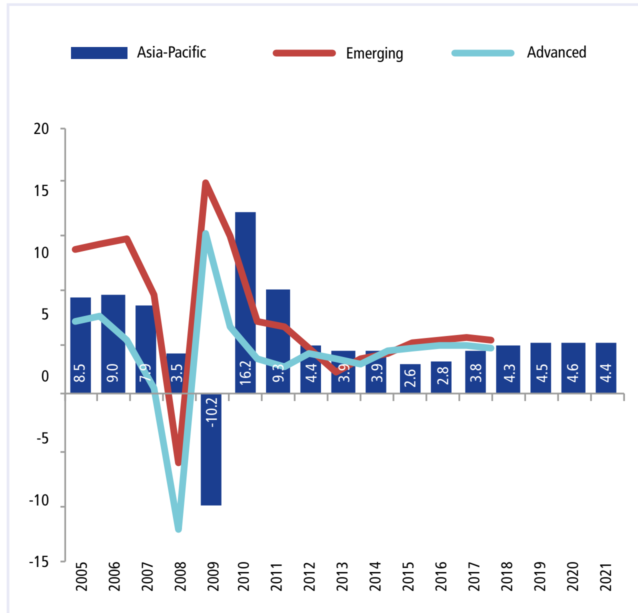
While the services sector accounts for by far the largest share of value-add in the domestic economy, the opposite is true in the external sector. The total value of the exports of goods in the Asia-Pacific region is above US$7 trillion while the value of the export of services was around US$2 trillion.

Figure 1.10: Asia-Pacific Export Growth



Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

Figure 1.11: Asia-Pacific Import Growth

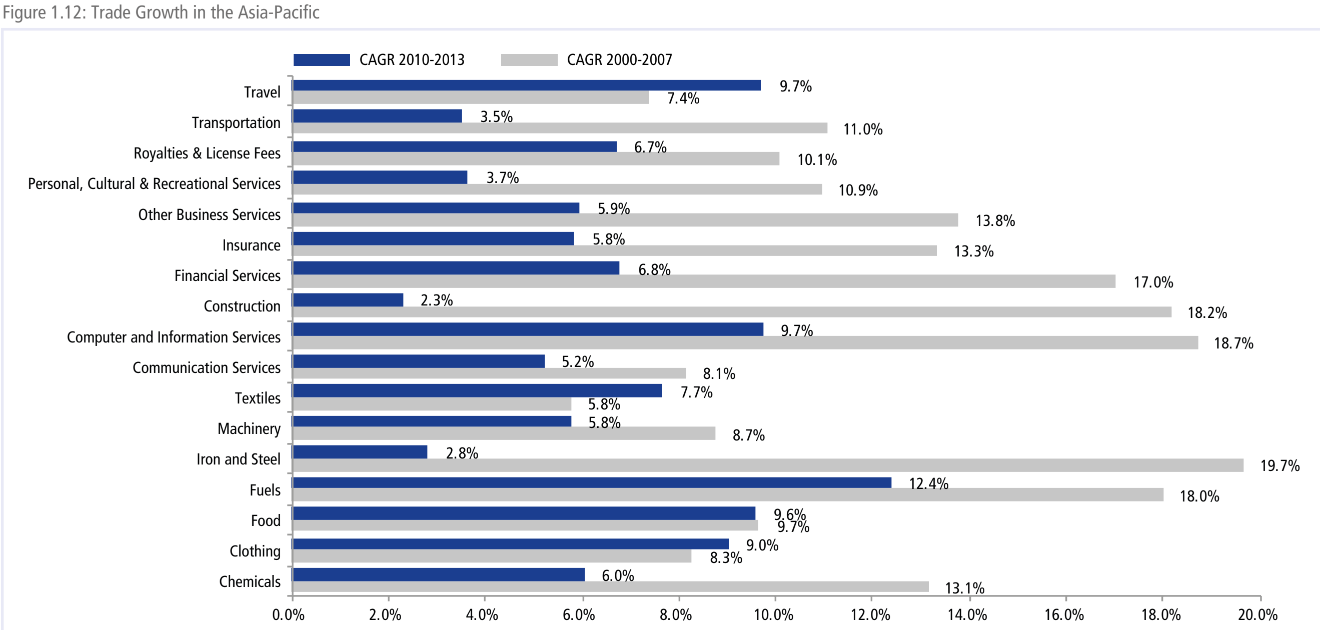


Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

Since the Global Financial Crisis, trade growth has remained slow with the exception of the rebound in 2010. Growth of exports of goods and services is expected to be 1.9 percent this year, a marked improvement over the 1.0 percent in 2015; imports fare better at 2.8 percent growth in 2016 and then 3.8 percent in 2017.

With the exception of exports of travels services, textiles and clothing, the annualized rate of growth across both goods and services has slowed considerably in the post-Global Financial Crisis period.

Figure 1.12: Trade Growth in the Asia-Pacific



Source: Date from World Trade Organization, Time Series on International Trade, analysis by PECC International Secretariat
CAGR: Compound Annual Growth Rate

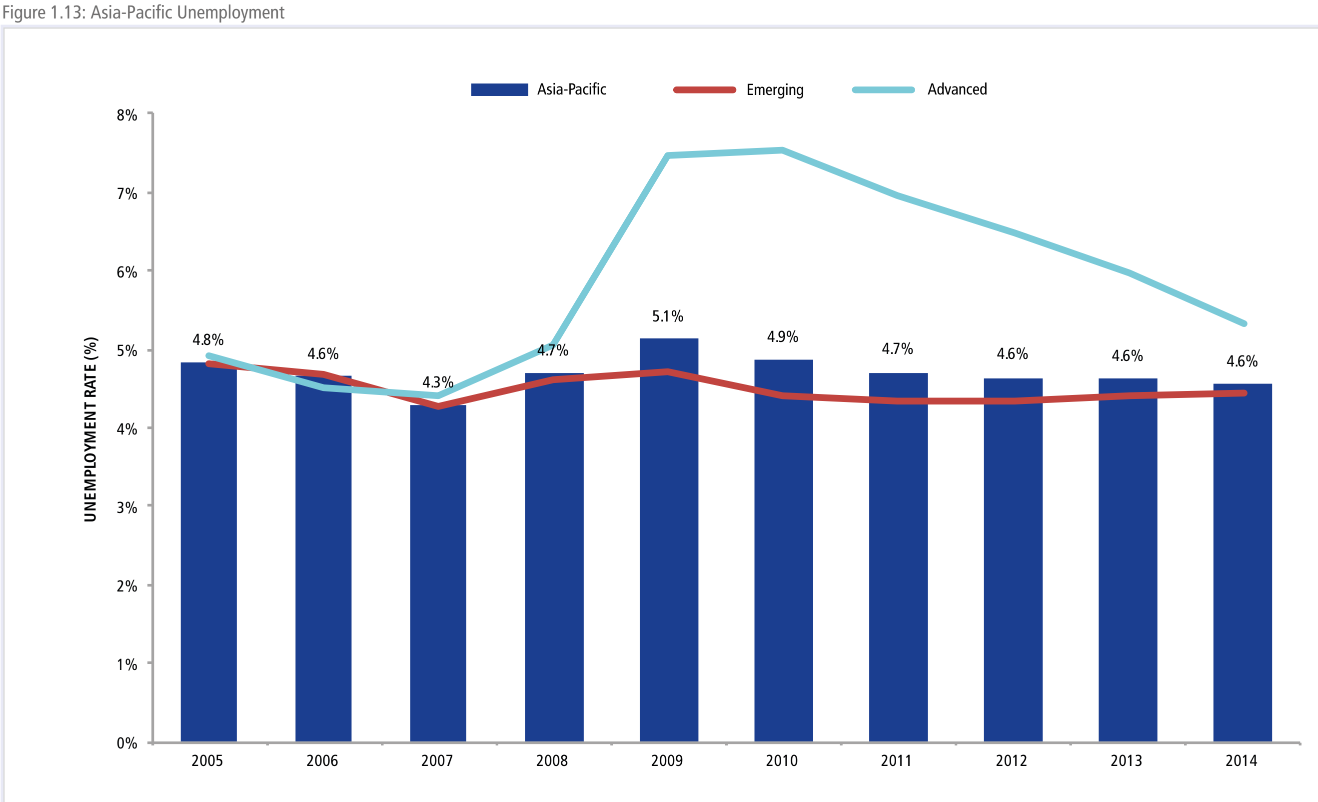
UNEMPLOYMENT LEVELS

The rate of unemployment in the Asia-Pacific region has been on a steady decline since it peaked during the Global Financial Crisis of 5.1 percent. However, there remains a differential between unemployment rates for advanced and emerging economies in the region of around 1 percentage point. Since 2009, the total number of unemployed people in the region has dropped from a high of 104 million to 97 million; this is in spite of the increase in the total working age population of close to 140 million. Put simply, the Asia-Pacific economy has been able to create around 150 million jobs since 2009.

However, there are some important caveats to this part of the story: the labor force participation rate; rates of underemployment and real wage growth; and high rates of informal labor. Since 2006, the labor force participation rate (LFPR) in a number of regional economies has fallen. The LFPR has become an issue of some contention in the United States; analysis from the White House Council of Economic Advisers suggests that half of the decline was due to aging with the balance due to cyclical and structural factors. While unemployment rates are seemingly low in a number of economies, the nature of labor markets and employment varies considerably. For example, in many economies, especially emerging economies, there are very high levels of informal employment. It is estimated that the percentage of those in informal employment ranges from around 32 percent in China to as much as 84 percent in India.

While GDP per capita levels in the region have been steadily increasing, the average increase in real monthly wages shows a very different story. In some economies average real wages have actually fallen while in others the increase in wages reflects the broader economic growth story.

Figure 1.13: Asia-Pacific Unemployment



Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

BOX 1.2 US ECONOMY: STILL SEARCHING FOR MOMENTUM

Contributed by Dr. Charles E. Morrison, USAPC / President, East-West Center

The pace at which the Federal Reserve Bank is unwinding its extraordinary post-2008 role in supporting US economic growth has become an overall indicator of the health of the American economy. Although QE is now long ended, the Fed, after much delay, has so far only added a half percent to its Fed funds rate in December, 2015. In September 2016, amidst some debate, it delayed another modest rise out of concern over continued sluggishness of the economy. Federal Reserve Bank chair Jane Yellen provided an optimistic statement of the longer-term US economic prospects and anticipated a rate rise by the end of the year, but the Fed remains cautious, still looking for signs of a tightening in labor markets and significant inflationary pressures. Neither the growth rate nor inflation are at the levels the Fed and many analysts had anticipated last year. Without a real US fiscal policy, it is unclear whether the central bank will ever be in a position to completely separate itself from its economic stimulus role.

The economy's slow pace so far in 2016 (GDP was up little more than1 percent in the first half) may be partly related to the turbulent US presidential election. Over 60 percent of Americans cited the election as the biggest threat to the economy in an August survey, 5 times as many as terrorism, in second place. An election in which the incumbent cannot run normally raises anxieties over change, but this time, the Republican contender, Donald Trump, promises disruptive change: massive tax cuts and protectionist immigration and trade policies. A study by Moody's Analytics suggested that if his plans were fully put into effect, however unlikely, unemployment would rise by 3.5 million (to 7 percent) and the economy would be plunged into a two-year recession. Moreover, both candidates are highlighting the economic dangers they see associated with the other's policies. In this contentious atmosphere, it is not surprising that business and consumers may have hedged on major investments.

The mood should change post-election. Consumer spending has improved and is expected to rise in the final two quarters. Unemployment remains low, just below 5 percent, but there continue to be few signs of inflationary pressures in the labor market, perhaps because some new entrants are coming from the ranks of those who had statistically left the labor market. The "real unemployment rate" including those working part-time but preferring full-time work and those who had stopped looking for a job is estimated to be still nearly 10 percent. Housing is a relatively positive force, with purchases of new and existing properties on the rise. Manufacturing is expected to be strong, and overall, the economy could increase close to a 2.0 percent annual rate in 2017.

On the negative side, productivity growth remains low, suggesting limited corporate or government investments in physical or human infrastructure that could bring efficiency boosts. There remains debate as to whether the underlying rate of innovation in society has slowed. But there are sources of dynamism over the longer-term. For example, population growth rates in the United States, fueled by the younger age of immigrants, sets the United States apart from most of the larger advanced economies (Japan, Europe) as well as from China. In contrast to these, the US will continue to experience an absolute increase in the size of its labor force over the coming few decades, and in general population growth goes hand in hand with per capita economic growth.

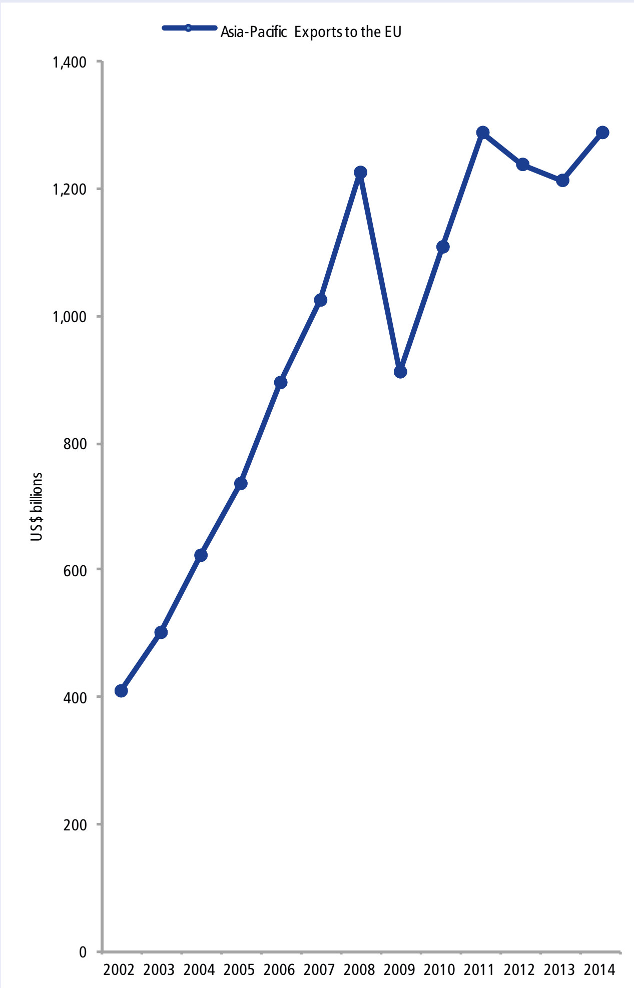
In this regard, the best news in 2016 was the announcement that the US Census Bureau's Current Population Surveys showed a significant boost in median household income, up 5.2 percent between 2014 and 2015, the biggest boost in many years. Moreover, this data suggests broad-based benefit from the recovery since the figure was up for all regions of the country and ethnicities. At the same time, the poverty rate dropped from 14.8 to 13.5 percent. The median income, however, is still below the 2007 level, and whether the sharp increase represents a trend or a statistical aberration is still a question.

IMPACT OF BREXIT ON THE ASIA-PACIFIC

The results of the UK referendum to leave the European Union had immediate and devastating effects on Europe and beyond. The decision introduces another element of volatility into an already extremely fragile global economy. Total exports from the Asia-Pacific to the EU stand at around US$1.2 trillion, or around 15 percent of the region's total exports. Even though growth in the EU has been subdued, exports to the EU have been steadily recovering to reach pre-Global Financial Crisis levels of over US$1.2 trillion.

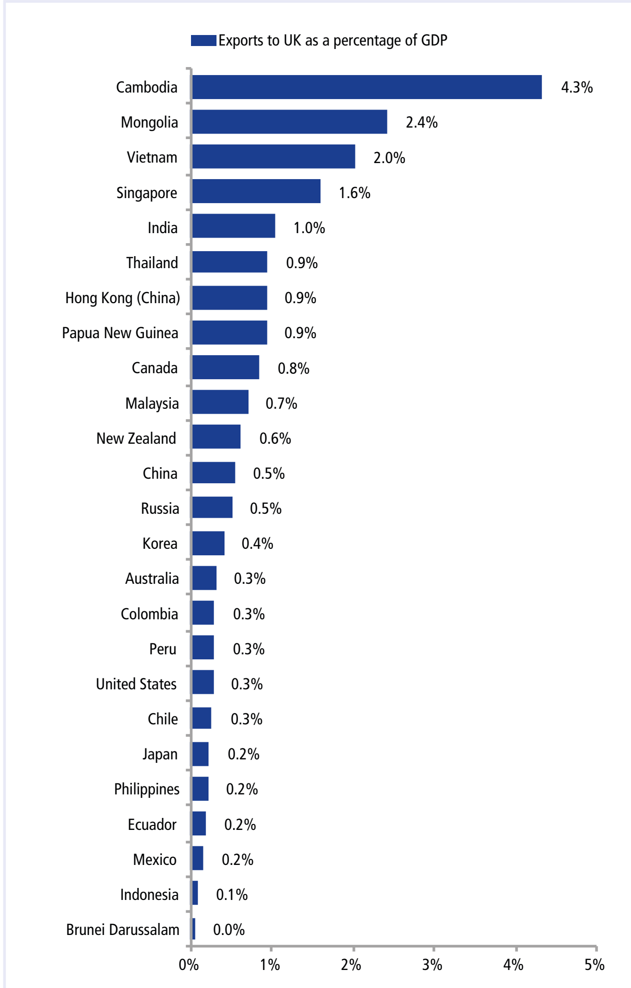
As shown in Figure 1.15, regional economies are not that heavily exposed to the UK in terms of exports/GDP ratio. While the priority for the UK will be negotiating the terms of its future relationship with the European Union, another problem that will impact the economies of the Asia-Pacific is the terms of the UK's relationship with the region's economies. Many of the terms that currently define the UK's relationship with other economies are those extended to the UK as a member of the EU; there is no guarantee that those terms would remain the same when - and if - the UK were to leave.

Figure 1.14: Asia-Pacific Exports to the European Union



Source: World Bank, World Integrated Trade Solution (WITS) analysis by PECC International Secretariat

Figure 1.15: Asia-Pacific Exports to the UK as a Percentage of GDP



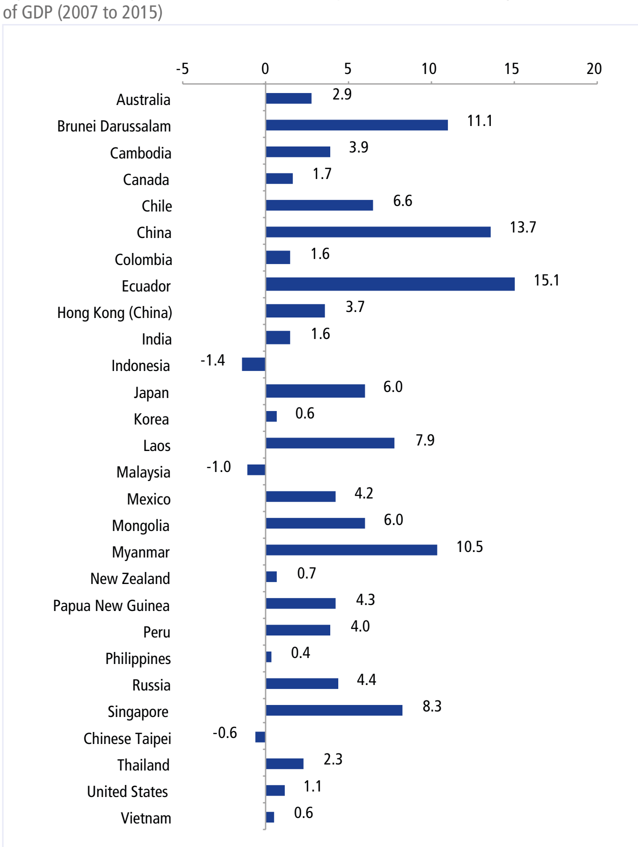
Source: World Bank, World Integrated Trade Solution (WITS) analysis by PECC International Secretariat

ENGINES FOR GROWTH

With reference to Figure 1.16, government expenditure as a percentage of GDP has increased for most regional economies since the Global Financial Crisis. Some economies took the opportunity to frontload domestic spending, but conversely, investment as a percentage of GDP has dropped for a number of economies in the region – especially advanced economies.

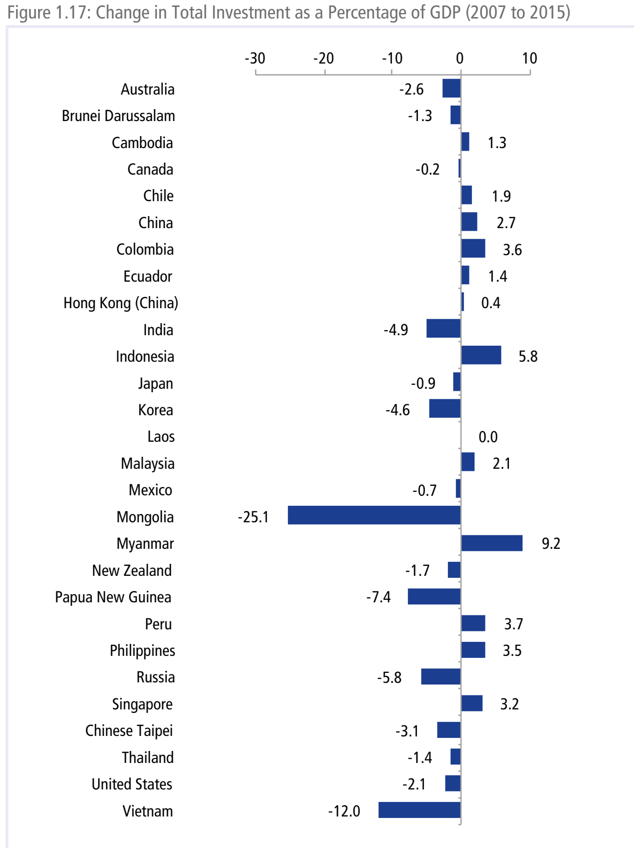
In 2007, investment accounted for 26 percent of total GDP in the region. By 2015, this had increased to 27.5 percent. Looking more closely however, much of that investment represented increased investment in the region's emerging economies, especially in China where investment increased from about 41 percent of GDP to a peak of 46.5 percent in 2013. Since then, investment growth in China has slowed down below the rate of GDP growth. These numbers are very large when considered in US$ terms, with investment in emerging Asia-Pacific economies totaling around US$6.8 trillion and for advanced economies US$5.9 trillion. As impressive as these numbers are, growth numbers in investment remains below trend for all advanced economies. On average, investment accounts for about 25 percent of total output, with investment relatively more important for emerging economies.

Figure 1.16: Change in General Government Expenditure as a Percentage of GDP (2007 to 2015)



Source: Data from IMF WEO April 2016 database, analysis by PECC International

Figure 1.17: Change in Total Investment as a Percentage of GDP (2007 to 2015)

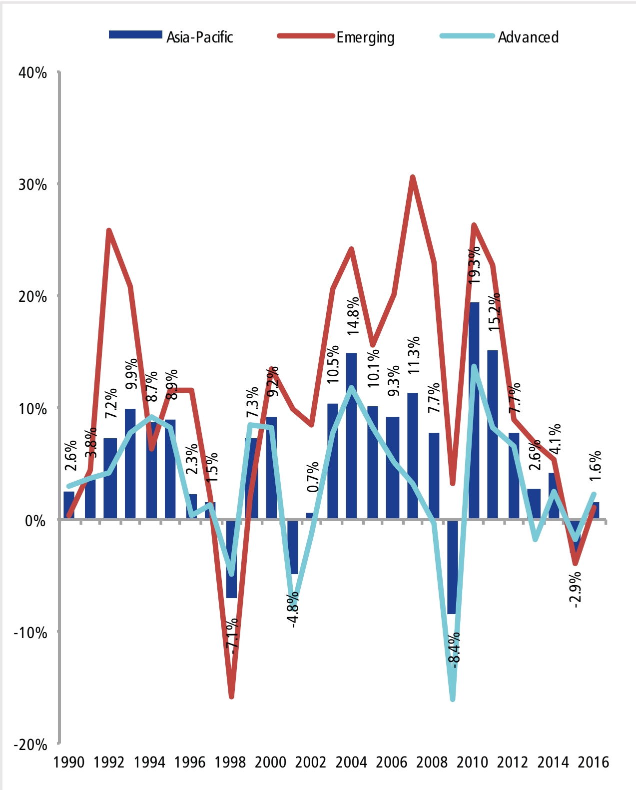


Source: Data from IMF WEO April 2016 database, analysis by PECC International

While investment is cyclical in nature, as shown in Figure 1.18, the downward trend over the past five years should be of concern to policy-makers, evidence of increased cautiousness in the business community since the Global Financial Crisis. The roots of this cautiousness could also be part of a self-fulfilling prophesy preventing the global economy from achieving a full recovery. The business community remains uncertain about the future trajectory of demand and therefore are holding back on investments, thus constraining growth.

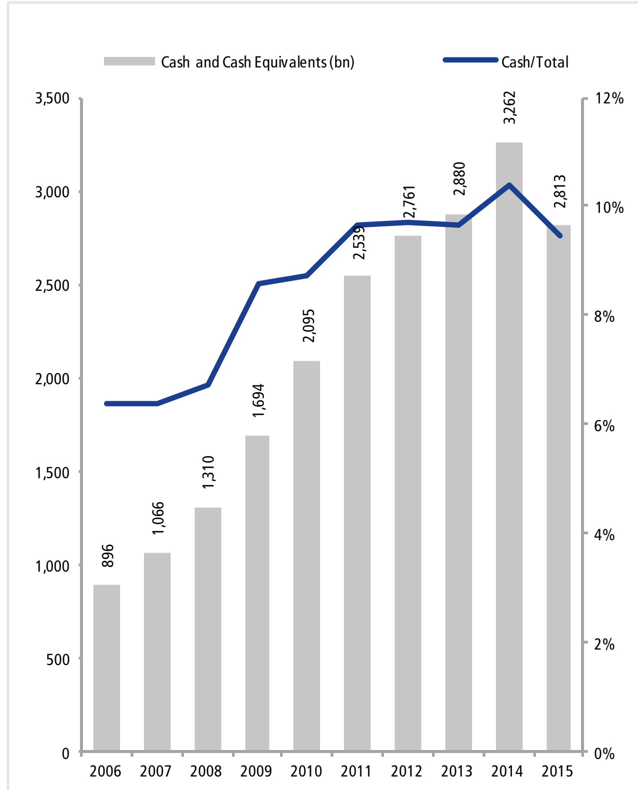
Figure 1.19 shows the amount of cash and cash equivalents held by 100 of the largest companies in the Asia-Pacific region. Since the Global Financial Crisis, the amount of cash as a percentage of total corporate assets had been steadily increasing from around 6.5 percent in 2007, up to 10 percent or around US$3 trillion in 2014. In 2012, then Bank of Canada governor Mark Carney described the phenomenon as 'dead money' saying that "their [the corporate sector's] job is to put money to work. If they can't think of what to do with it, they should give it back to their shareholders." The debate that these comments triggered point to a series of policy

Figure 1.18: Growth in Investment in the Asia-Pacific (year-on-year)



Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

Figure 1.19: Cash and Cash Equivalents on the Corporate Balance Sheet



Source: Data from Various company reports, analysis by PECC International Secretariat (Matthew Tang and Tim Porter, paper forthcoming)

discussions that ought to be happening that range from corporate governance practices to international and domestic tax policies. Whatever the ultimate reasons for the corporate anxiety, if the cash/total asset ratio were the same as it was in 2006, it would imply an additional US$1.5 trillion in investment from just 100 companies. This phenomenon is not limited to the financial sector in which mandated reserve ratios have been increasing; indeed, it has been most prevalent in the technology sector.

BOX 1.3 CHALLENGES FOR JAPAN`S ECONOMIC POLICIES

Contributed by JANCPEC

Since returning to office in 2012, Prime Minister Shinzo Abe has launched active economic policies dubbed "Abenomics" consisting of monetary easing, fiscal policy and structural reform. Abenomics has entered a stage where monetary and fiscal policy have been employed in tandem to accelerate structural reform.

Overview of monetary policy

The Bank of Japan (BOJ), under the leadership of Governor Haruhiko Kuroda, introduced an unconventional monetary policy (QQE: Quantitative and Qualitative Monetary Easing) and set an inflation target of 2 percent in 2013. As the BOJ intended, QQE succeeded in bringing down real interest rates[2] to boost business and housing investment, and in lowering real exchange rates for the Japanese yen, which was expected to accelerate exports. QQE also pushed up asset prices, including stock prices, inducing credit expansion as well as positive wealth effects. Since its launch, the consumer price index (CPI) has turned positive, and other macroeconomic figures, particularly

[2] Nominal interest rates minus inflation expectations

employment trends, have moved upward. According to an estimate by the BOJ, QQE contributed to filling the output gap by 1.1 percentage points to 3.0 percent.[3] However, this trend is not very strong. In July 2016, the CPI, excluding fresh foods, was -0.5 percent and the CPI excluding foods and energy was 0.3 percent.

Despite the expansionary monetary policy, continuous slow economic growth, which might be called "secular stagnation," has cast serious doubts about achieving the 2 percent inflation target. Lower real interest rates have not generated large investment demand as anticipated. The average annual potential growth rate has been 0.2 percent over the past five years, indicating the highly mature status of the economy. The money stock (M3) and bank lending have grown at a slower pace. Moreover, larger Japanese companies have been retaining rather than reinvesting their substantial earnings. Accumulated retained corporate earnings amounted to 366 trillion JPY – approximately 3.66 trillion USD – as of March 2016. Domestic private consumption and exports have also not boosted the demand. Private consumption stagnated or even fell after the consumption tax rate was increased to 8 percent in April 2014. Exports have grown slowly, buffeted by the slowdown of the world economy. Despite the overstretching the BOJ's monetary efforts, the recent weak economic figures suggest that monetary policy alone have not been adequate to further revitalize the economy. In view of the limits of monetary policy, the real challenge is how to strengthen the economic structure itself.

Prospects of fiscal policy

At the G7 Ise-Shima summit held in May, the leaders of the G7 economies discussed measures to address the struggling world economy. PM Abe's efforts as the summit chair to build a consensus around enhanced fiscal policy were not fully successful, but the world leaders agreed to flexible use of fiscal policy together with mutually-reinforcing monetary and structural reform policies. Following the G7 summit, PM Abe first announced a delay in raising the consumption tax rate from 8 to 10 percent and, more recently, a fiscal package of 28 trillion JPY, although the actual amount of fresh spending is only about a quarter of this announced amount. It has been pointed out that the economic impact of conventional fiscal policy in Japan, which typically involves infrastructure investment, have sharply diminished over the past decades. The linkage between long-term economic goals and conventional economic stimulus is also weakening. Hence, budget spending that aligns with long-term policy goals is particularly important. In economic terms, fiscal policy should simultaneously address the supply and demand constraints.

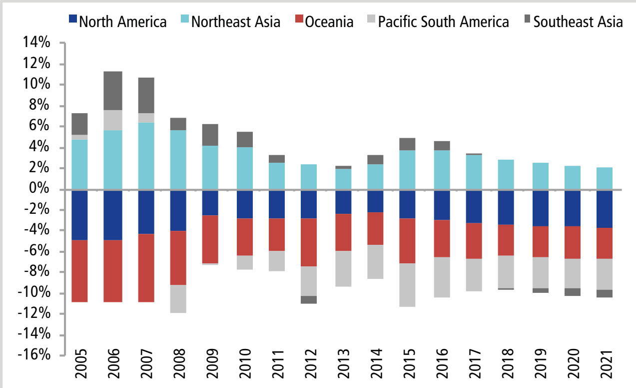
How can we assess the new stimulus package? Some innovative aspects can be recognized in the realm of investment but the real effects of these over the long run remain to be seen. The stimulus package dubbed "Investments for the Future"[4] covers four broad areas, of which the first two mainly address supply-side constraints. These two areas account for about half of the 28 trillion JPY total. First, the policies under the category of "Promoting the Dynamic Engagement of All Citizens" are designed to tackle the aging and declining population. The budget will be spent to increase the supply of childcare and elderly care services since more than half of working women quit their jobs after giving birth and that some workers find it difficult to continue their jobs while taking care of elderly family members. The policies aim to create an environment conducive to continuing their careers. Reforms to the traditionally long working hours are also being undertaken. Labor productivity can improve by shifting from a time-intensive working style to a more efficient one. Labor market reform also includes encouraging older people to stay in the workforce and accepting more foreign workers in certain industries. As for human resource investments, scholarships for students will be upgraded to provide more grants and interest-free loans. Secondly, the policies under "21st Century Infrastructure Development" aim to develop potential growth industries and new infrastructure in Japan and overseas. The budget will be allocated to upgrading hard and soft infrastructure to attract more foreign tourists. In 2015, Japan saw a record 19.7 million tourists from overseas, and the government has set a target of 40 million tourists by 2020. Investments will be made to enhance competitiveness in the agricultural sector and to promote exports of agricultural products. As for new infrastructure development, the budget will be spent to accelerate construction of high-speed maglev train lines between Tokyo and Osaka and to promote Japan`s "Partnership for Quality Infrastructure" initiatives overseas via Japan International Cooperation Agency (JICA) and Japan Bank for International Cooperation (JBIC).

Japan`s economic policy goal is to strengthen its economy by addressing long-term structural issues. It will take a long time to achieve this. However, monetary and fiscal policies aligned in tandem with a structural reform agenda should make steady progress toward the ultimate goal.

[3] Bank of Japan, 2015, "Ryoteki Shitsuteki Kanwa: Ninenkan no Koka no Kensho (Quantitative and Qualitative Monetary Easing: Assessment of the Policy Impact of the Past Two Years)," https://www.boj.or.jp/research/wps_rev/rev_2015/data/rev15j08.pdf (accessed September 15, 2016).

[4] Cabinet Office, 2016, "Mirai heno Toshi wo Jitsugen suru Keizaitaisaku (Economic Policies to Realize Investments for the Future)," http://www5.cao.go.jp/keizai1/keizaitaisaku/20160802_taisaku.pdf (accessed September 15, 2016).

Figure 1.20: Asia-Pacific Current Account Balances



Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

Figure 1.21: Number of Protectionist Measures Adopted and Implemented by Asia-Pacific Economies

Source: Data from IMF WEO April 2016 database, analysis by PECC International Secretariat

CURRENT ACCOUNT

In the run-up to the Global Financial Crisis, one of the key concerns was current account imbalances, and in particular, the 'transpacific imbalance.' The US was running deficits that reached a peak in 2006 of close to 6 percent of GDP while China's current account surplus peaked in 2007 at 10 percent of GDP. Since then the imbalances have receded to more 'normal' and sustainable levels. There are some shifts taking place in the structure of the region's trading patterns. Southeast Asia, long thought of as a region of net exports, is beginning to run current account deficits.

SOUTHEAST ASIA

The ASEAN grouping is expected to grow at 4.5 percent this year, roughly the same rate as in 2015, and then to begin a gradual improvement over the following three years to around 5.3 percent. These growth rates are well below ASEAN members' previous performance in the 1990s and 2000s. Part of this comes from a maturing of some economies such as Malaysia and Thailand, and also the exposure of a number of economies in Southeast Asia to the poorer external environment.

The end of 2015 marked the formal launch of the ASEAN Economic Community (AEC), a market of US$2.6 trillion and over 622 million people. The objective of the AEC was to create: a) a single market and production base, b) a highly competitive economic region, c) a region of equitable economic development, and d) a region fully integrated into the global economy. Initial work to create the AEC focused on the elimination of tariffs under the ASEAN Free Trade Area (AFTA) starting in 1992 and then the ASEAN Trade in Goods Agreement (ATIGA) in 2010. To date, the ASEAN-6 (Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand) have 99.2 percent of tariff lines at 0 percent while for Cambodia, Laos, Myanmar and Vietnam (CLMV), the figure stands at 90.86 percent. ASEAN is now working on a broad trade facilitation agenda including the simplification of rules of origin and self-certification processes and an 'ASEAN Single Window,' which will create a single point of entry where trade-related documents and information can be submitted to speed up customs clearances and reduce transaction times.

ASEAN is looking to further deepen integration through the adoption of the ASEAN Economic Community Blueprint 2025. The objective of the Blueprint is to achieve a "highly integrated and cohesive; competitive, innovative and dynamic; with enhanced connectivity and sectoral cooperation; and a more resilient, inclusive, and people-oriented, people-centered community, integrated with the global economy."

PACIFIC SOUTH AMERICA

The economies on the Pacific side of South America show a very mixed performance. Commodity exports in economies like Chile and Peru have been affected by lower commodity prices but macroeconomic reforms have helped them remain much more resilient than they would have otherwise been. As they integrate their markets through the Pacific Alliance, the expectation would be that businesses would see the potential of a single market and single production base in the region.

THE RISING SCEPTER OF PROTECTIONISM

Although it has been more than seven years since regional and global growth slumped as a result of the Global Financial Crisis, the damage it wrought continues to bear heavily on the world economy. The swift action from the international community through the newly created G20 and APEC economies prevented what could have been a repeat of the Great Depression. Critical among the policy responses was an unequivocal rejection of the adoption of protectionist measures. While this prevented the type of tit-for-tat tariff hikes that characterized trade policy in the 1930s, since 2008, according to data from the Global Trade Alert, there has been a steady increase in the number of trade-restricting measures that economies have been implementing. While some of these measures may comply with global trade rules they nonetheless have the impact of restricting already tepid trade growth. These include trade finance for local companies, trade defense measures, localization requirements in public procurement and import tariffs.

BOX 1.4 PACIFIC ALLIANCE: MEETING EXPECTATIONS

Contributed by Loreto Leyton, CHILPEC / Executive Director, Chile Pacific Foundation

As APEC returns to Peru for the second time in eight years, the landscape of regional economic integration has changed considerably since 2008. ASEAN's milestone of achieving Economic Community has passed, negotiations for the TPP have been concluded and those for the RCEP are expected to be completed by the end of 2016. The 2013 State of the Region report included a chapter on the Pacific Alliance titled: "Pacific Alliance – Deep integration, deep expectations."

In spite of changes in governments, the process has proved to be successful so far. The Additional Commercial Protocol to the framework agreement of the Pacific Alliance entered fully into force on May 1st 2016.

One of the challenges ahead is to continue deepening the agenda and reach new agreements in areas such as financial integration, and services. Another important challenge is to implement what has already been agreed through the Commercial Protocol.

While governments work hard to fully comply with what was agreed, they are also starting more formal conversations with other economies, blocs and regions in order to develop a working agenda between them and the PA as a whole. As was stated in the PA Charter, one of the main objectives of this group after achieving their integration is to explore new markets, specifically in the Asia region.

Pacific Alliance and ASEAN

In this regard, the Ministers of the Pacific Alliance met with their counterparts in the Association of Southeast Asian Nations (ASEAN) on September 2014, in the context of the United Nations´ General Assembly. They stated their willingness to develop a space for dialogue and mutual understanding, and also, to reflect on the possible topics and initiatives of an agenda for joint work between the Pacific Alliance and ASEAN.

Later, in May 2015, Ambassadors and Representatives of the Pacific Alliance and the Permanent Representatives Committee of ASEAN met in Jakarta, Indonesia, to define an initial agenda of issues, such as energy and minerals, trade facilitation, innovation, logistics, infrastructure and small and medium enterprises.

On the occasion of the 70th session of the UN General Assembly in New York, in September 2015, the Ministers of the Pacific Alliance met again with their ASEAN counterparts in order to continue strengthening the links between PA and other Asia-Pacific economies. They presented the advances "that have obtained both integration mechanisms and agreed to promote closer economic cooperation to facilitate trade and investment flows between the two regions for mutual benefit" ("Pacific Alliance identifies areas for cooperation with ASEAN," 2016)[5]

On May 10th 2016, another meeting was held between the PA and ASEAN representatives in Bangkok. They focused on developing a framework document on economic cooperation, education, mutual knowledge and innovation that could be endorsed by their Ministers of Commerce during the next UN General Assembly.

Pacific Alliance and APEC

At the 23rd APEC Economic Leaders' Meeting in 2015, an informal dialogue between PA and APEC economies took place, which was co-chaired by Peru and the Philippines. This meeting explored possible synergies and opportunities between the PA and APEC agendas. Among other things, they analyzed the progress of regional economic integration and collaboration opportunities, identifying at least three areas of cooperation—participation of SMEs in global value chains; regional integration and human capital development.

APEC has spoken against protectionism, but much more needs to be done. With the Doha Round effectively dead, trade liberalization has moved toward plurilateral negotiations. The bilateral trade agreements of the 2000s are now being replaced by mega-regional deals such as the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP), the Trans-Atlantic Trade and Investment Partnership (TTIP), and the Pacific Alliance (PA). Nonetheless, the fate of some of these 'second best' solutions hang in the balance.

While the TPP negotiations have been concluded with an agreement signed on February 4th 2016, the agreement does not enter into force unless at least six or more of the twelve signing countries representing at least 85 percent of the group's GDP

[5] Source: https://alianzapacifico.net

have completed ratification procedures. This means that inaction by either Japan or the United States could nullify the agreement. While Japan has begun its ratification procedures, the negative positions on the TPP on the part of both US presidential candidates makes US ratification any time soon extremely unlikely.

Although the RCEP negotiations began four years after the TPP, 14 negotiating rounds have now taken place, having missed the first deadline of the end of 2015 for conclusion. In comparison, the TPP took 19 rounds plus numerous officials' and ministerial meetings. It is far from clear whether or not the RCEP will meet its deadline for completion by the end of the year. Both the TPP and RCEP offer the Asia-Pacific region tremendous opportunities for boosting economic growth. Economic estimates suggest that the TPP could boost baseline global GDP by over US$200 billion and the RCEP US$650 billion. If these two tracks should eventually result in an Asia-Pacific free trade area, it would provide a boost of over US$2 trillion to global output by 2025.

The likelihood of this happening remains in the balance. The political atmosphere in the US has become ambivalent about the TPP, and some argue that the results of the UK referendum to leave the European Union represent a deeper and broader backlash against integration and globalization. Public views on the benefits of trade remain mixed. According to a 2014 survey undertaken by the Pew Global Institute, 50 percent of those surveyed in the US thought that trade destroyed jobs and 45 percent thought that trade lowered wages. This compares with attitudes in China where 67 percent of those surveyed thought that trade led to job creation, 61 percent to higher wages. During the PECC conference held in partnership with the Jakarta Post last April, then Indonesian Trade Minister, Thomas Lembong stressed the importance of public communications to explain the benefits of trade to "men and women on the street in very simple terms without which there will not be public support for regional economic integration."

INTEGRATION AND INEQUALITY

A longer term structural issue in the region and the world is increasing income inequality. While increases in GDP per capita across the Asia-Pacific region have undoubtedly raised millions in the region above the poverty line, the income share of the richest has been rising disproportionately faster than the rest of society. The linkage between globalization and income inequality has long been an issue on the regional and global agenda but this concern has come increasingly to the forefront in recent years. In the aftermath of the 1997-98 Asian crisis, some fundamental questions on the nature of globalization were asked:

1. Has inequality among economies increased or decreased?
2. Has inequality within economies increased?
3. Is globalization responsible for increased inequality in developing economies?
4. What can explain the disappointments of recent globalization?

These questions were posed at the PECC General Meeting in 2001 by Paul Krugman. The conclusion at that time was that the benefits of globalization and integration far outweighed the costs, but that the downsides should "alert all of us in the region to the need to prepare forward-looking capacity building programs which can act as insurance against tomorrow's emerging concerns about globalization."[6] While addressing income inequality has long been on the regional agenda, since the Global Financial Crisis a framework has been put in place through the APEC Growth Strategy to ensure that future growth is more sustainable and inclusive. The challenge today is that the pace of structural changes is accelerating with the wider and deeper uptake of technology. The Global Financial Crisis accentuated many of these changes that the policy community has largely been unable to effectively address. Much more needs to be done to deal with the structural changes taking place both internationally and within the region's economies. Although trade, integration, and globalization have all too easily been blamed for many of socioeconomic problems that individuals, companies, and communities face, those critiques fail to take into account the tremendous benefits that have come with deeper integration in the long run. While much of the focus on the regional agenda has been on the benefits of integration, it might also be worthwhile articulating the cost of a stalling or even a reversal of the process. Estimates by the UK Treasury suggest that the cost to the UK of Brexit would be a reduction to baseline GDP of between 3.4 to 9.5 percent after 15 years depending on the type of relationship the UK is able to develop with its trading partners in the European Union.

Given the sentiments towards freer trade and globalization, the Asia-Pacific would do well to set a forward-looking agenda that addresses concerns about rising incoming inequality and wage stagnation. As is argued in the next chapter, this would involve deepening integration, especially in services sector where the majority of people in the region now work. In a 21st century economy, an efficient services sector is a prerequisite to efficiency in all other sectors – manufacturing, mining, and agriculture.

[6] PECC XIV Hong Kong Declaration: A New Challenge for a New Century.

CHAPTER 02 BENEFITS OF SERVICES TRADE LIBERALIZATION IN THE ASIA-PACIFIC

CONTRIBUTED BY DR. SHERRY M. STEPHENSON, SENIOR FELLOW, INTERNATIONAL CENTRE FOR TRADE AND SUSTAINABLE DEVELOPMENT (ICTSD) / PECC SERVICES NETWORK

In the context of the slower growth that is being experienced by the world economy and by the Asia-Pacific that was underlined in the overview chapter, new drivers of economic dynamism are being sought out. Of the three new drivers of growth that APEC member economies have identified, services are at the top of the list, together with digital trade and increasing the participation of women in the work force. A great deal of potential is still to be derived from achieving more efficient services economies. It is estimated that reducing supply chain barriers, many of which entail services liberalization, would bring about gains much larger than the full elimination of tariffs in the Doha Round context. Reducing these supply chain barriers (aggregated in four categories: market access, border administration, transport and telecommunications infrastructure, and business environment) has the potential to increase world GDP by over six times more than removing all tariffs, thus resulting in an increase of 5 percent of global GDP and 15 percent of trade.[1]

As services have become pervasive throughout the entire economy, achieving more efficient services should unlock economic potential not just in the tertiary sector but also across the board in all areas, including manufacturing and agriculture.

Around the world, services have gone from being viewed largely as a less important, non-tradable sector to a transformational force. Services are now key to economic performance both at the national level and in international markets. Advances in information and communications technology have made services increasingly tradable. However, the commitments undertaken in many trade agreements of the 1990s, including the WTO GATS, are very much out of date. According to the UNCTAD, roughly 50 percent of all services are now traded thanks to the Internet and constitute digital trade, the most dynamic form of trade flows at present.

The potential income and efficiency benefits that can be derived from services liberalization and reform are tremendous. A study by the Peterson Institute of International Economics estimated that a modest liberalization of services comprised of a 10 per cent reduction in the level of existing restrictions plus trade facilitation reforms in the Doha Round context would result in income gains for developing countries of US$135 billion, or 1.3 percent of their GDP, much higher than their OECD counterparts. Importantly, the potential gains from services liberalization and trade facilitation for developing countries are over six times larger than the gains from the proposed formula cuts in tariffs on goods and market access liberalization for agriculture in the Doha context (US$135 billion compared with US$21.5 billion). This is likewise true for trade, where services liberalization would result in export gains that are 3.7 times greater than liberalization of tariffs on goods and agriculture (US$132 billion compared with US$35 billion).[2]

A more recent study looked at potential gains from services liberalization in the context of the Trans-Pacific Partnership (TPP) Agreement, once it is implemented, on the basis of a more ambitious liberalization scenario. Based on CGE modeling by Peter Petri, Michael Plummer and Fan Zhai (2012, updated in 2016) that assumed a 30 percent reduction in the tariff-equivalent restrictions to services, the authors find that the TPP would increase service exports by TPP members by about US$225 billion annually when fully phased in by 2030. This would mean an increase in two-way services trade of about US$450 billion annually over the 2015 baseline.[3] As TPP countries account for just over one-third of world trade, very simple calculations suggest that a similar degree of worldwide liberalization of services (reducing restrictions by 30 percent) would increase two-way global services trade by around US$1.6 trillion annually over baseline. Resulting GDP gains would be around 25 percent of these trade gains, or around US$400 billion annually. If the share of developing countries were calculated as proportional to their respective share in world services trade (of 30 percent), then the increased services trade to and from developing countries on a global basis from a global partial liberalization of services restrictions would amount to US$480 billion annually.

[1] World Economic Forum, in collaboration with Bain & Company and The World Bank, Enabling Trade Valuing Growth Opportunities, Geneva, 2013. The report examines supply chain barriers to international trade and concludes that they are far more significant barriers to trade than tariffs, with potentially far higher gains for the world economy from removal of these barriers.
Available at: http://www3.weforum.org/docs/WEF_SCT_EnablingTrade_Report_2013.pdf

[2] Gary C. Hufbauer and Jeffrey Schott, Figuring out the Doha Round, Washington DC: Peterson Institute for International Economics, 2010.

[3] The CGE model and results were first presented in the paper by Peter A. Petri, Michael G. Plummer and Fan Zhai on The Trans-Pacific Partnership and Asia Pacific Integration: A Quantitative Assessment, East-West Center Working Papers, Economics, Series No. 119, October 2011, Available at: https://www.usitc.gov/research_and_analysis/documents/petri-plummer-zhai%20EWC%20TPP%20WP%20oct11.pdf.
Discussion of the results of the CGE modeling by Petri, Plummer and Zhai are found in chapter 7 by Gary C. Hufbauer on "Liberalization of Services Trade" in the volume Assessing the Trans-Pacific Partnership: Volume I Market Access and Sectoral Issues, Washington DC: Peterson Institute for International Economics, 2016, pages 80-91. Available at: https://piie.com/publications/briefings/piieb16-1.pdf

The Centre for International Economics in Australia has also quantitatively estimated the benefits from services liberalization on a global basis. Taking a very ambitious liberalization scenario, they obtain striking results based on the complete removal of all barriers to Mode 1 and Mode 3 (cross border services trade and commercial presence, or foreign direct investment in services) in all countries and regions. Developing countries are the big winners in this liberalized scenario, experiencing a nearly 1 percent gain on average to real GDP over the long-term, while developed countries gain 0.2 percent on average. The cumulative gains over the period 2011 to 2025 are estimated to be worth over twice as much to developing countries as to developed ones (A$3.6 trillion compared with A$1.7 trillion). Putting this on an annual basis would allow developing countries to enjoy gains of A$238 billion per year in additional income.[4]

These potentially very important gains in GDP and trade for developing countries will only come about through liberalizing existing restrictions on services and undertaking accompanying structural or regulatory reforms. This is because restrictions on services trade are much higher on average in the developing world, which has led to higher costs for trade in services. In fact, the trade costs of services are estimated to be two to three times as high (in ad valorem terms) as the trade costs of goods.[5] While the latter have fallen about 15 percent over the last decade, the trade costs of services have remained high and relatively stable.[6] A large number of studies indicate that those countries with the highest initial barriers to trade in services stand to gain the most from liberalization.

Enhanced productivity resulting from greater services efficiency can lead to better overall economic performance. In the case of the United States, services productivity growth has been the key for the overall economy growth since the early 1990s.[7] Because services are a key contributor to innovation, they have been demonstrated to account for a major share of such productivity growth in many advanced economies.[8]

Services contribute to a more diversified and stable economy through generating more diversified and differentiated goods. But they also can also determine the level of human capital through their critical impact on the quality of education, R&D and health services, among others.[9]

More efficient services enhance the competitiveness of the whole economy due to the extensive role that they play as inputs into all other economic activities. Achieving a more efficient services sector results in better internal and external competitiveness, measured as a share of services in GDP and the share of services exports in GDP, respectively. Research has shown that services are the only sector of the economy where improvements to both internal and external competitiveness take place simultaneously.[10]

The increased use of telecommunications and the applications of ICT have vastly increased the scope for services trade by reducing the costs of delivering many cross-border services to virtually zero. This has made the possibilities of e-commerce accessible for small and medium-size firms in developing countries. The potential beneficial impacts of engagement in e-commerce are considerable. Results from a study of several European economies show that an increase in participation in e-sales over the period 2003-2010 accounted for 17 percent of the increase in their labour productivity. The impact is shown to be stronger on small than medium-sized firms and to be stronger for services than for other firms.[11]

Policies affecting services competitiveness encompass regulatory policies, trade barriers (that affect cross-border trade, investment and labor mobility in services) and domestic enabling factors that include human capital, infrastructure and the quality of institutions, among others.[12] Services liberalization and regulatory reform comprise two of these three areas and are thus vital in terms of outcomes.

SERVICES ARE OF CRITICAL IMPORTANCE TO THE ASIA-PACIFIC REGION

Services are critical important for the Asia-Pacific region for a number of reasons, which are starting to be appreciated fully now that better statistics are available.

[4] Centre for International Economics, Quantifying the benefits of services trade liberalization, prepared for the Department of Foreign Affairs and Trade, 2010, Canberra, Available at: https://dfat.gov.au/about-us/publications/Documents/quantifying-the-benefits-of-services-trade-liberalisation.pdf

[5] Sebastian Miroudot, Jehan Sauvage, and Ben Shepherd, Measuring the Cost of Trade in Services, 2010, available at http://gem.sciences-po.fr/content/publications/pdf/Miroudot_Sauvage_Shepherd_costofservices04102010.pdf

[6] Martin Molinuevo and Sebastian Saez, Regulatory Assessment Toolkit A Practical Methodology for Assessing Regulation on Trade and Investment in Services, Washington DC: The World Bank, 2014, page 1. Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/17255/9781464800573.pdf?sequence=1

[7] Triplett, J. E. & Bosworth, B. P., Productivity in the US Services Sector: New Sources of Economic Growth, Washington DC: Brookings Institutions, 2004, cited in Francois, J., Manchin. M., & Tomberger, P., Services Linkages and the Value Added Content of Trade, Washington DC: The World Bank, Policy Research Working Paper No. 6432, 2013, p. 2.

[8] Uppenberg, K. & Strauss, H., Innovation and Productivity Growth in the EU Services Sector, Luxemburg: European Investment Bank, 2010, pp. 12-13.

[9] Joseph Francois and Bernard Hoekman. Services Trade and Policy, CEPR Discussion Paper 7616, London: CEPR, 2009, p. 3. Available at: https://ideas.repec.org/a/aea/jeclit/v48y2010i3p642-92.html

[10] Sebastian Sáez et al., Valuing Services in Trade: A Toolkit for Competitiveness Diagnostics. Washington, DC: The World Bank, 2014, page 20. Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/21285/9781464801556.pdf?sequence=8&isAllowed=y

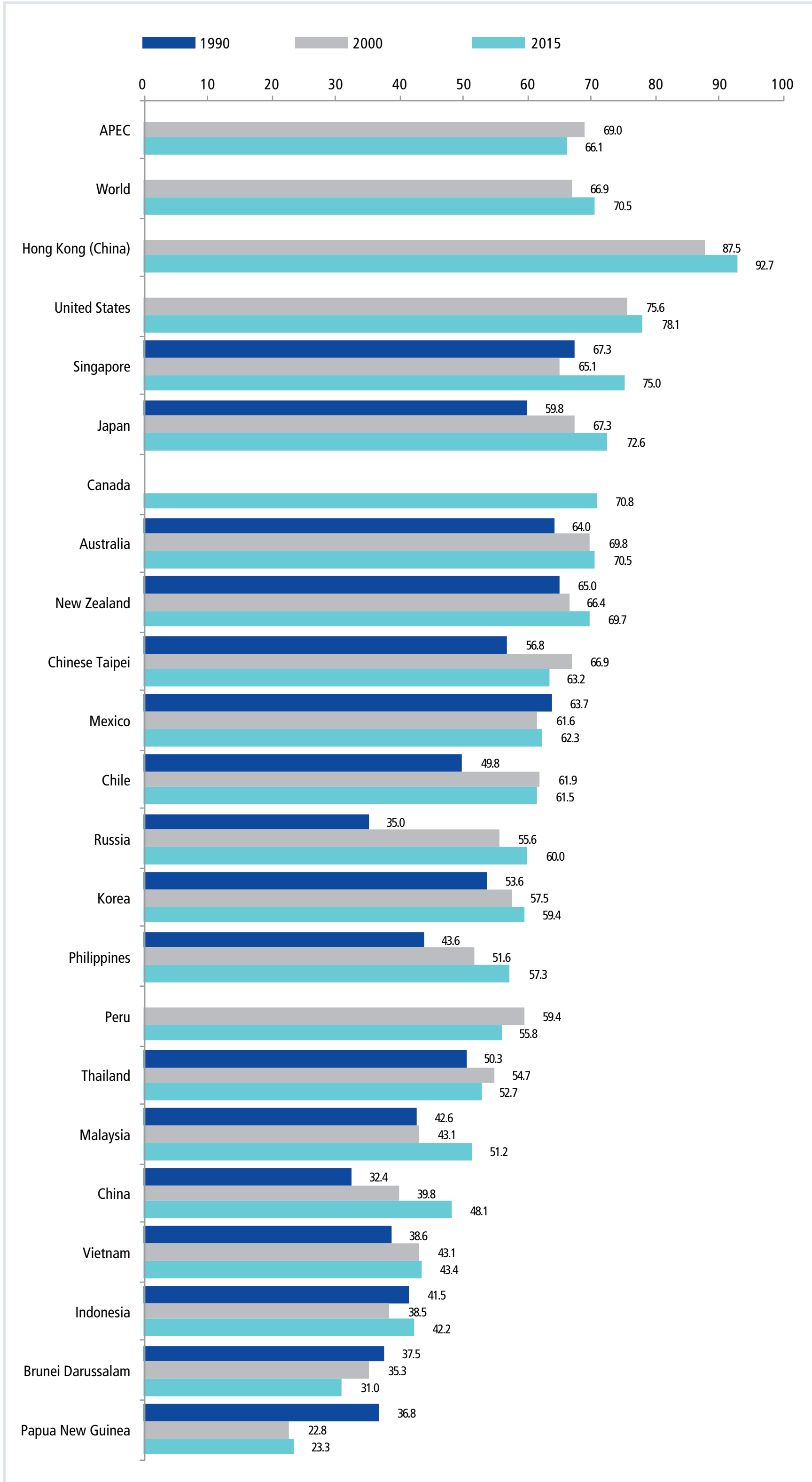
[11] UNCTAD, Information Economic Report 2015: Unlocking the Potential of E-commerce for Developing Countries, Geneva, page 7. Available at: http://unctad.org/en/PublicationsLibrary/ier2015_en.pdf

[12] The World Bank, Valuing Services in Trade: A Toolkit for Competitiveness Diagnostics, op.cit, page 6. Based on an earlier analysis by Arti Grover Goswami, Aaditya Mattoo, and Sebastian Sáez, Exporting Services: A Developing Country Perspective, Washington DC: The World Bank, 2012. Available at: https://openknowledge.worldbank.org/handle/10986/2379

- Services are the most important economic component of most economies in the region and account for the majority of GDP, employment and new investment flows. The share of services in GDP has consistently evolved over the past 15 years for Asia-Pacific economies, as shown in Figure 2.1, The APEC average at around 67 percent is still lower however than the world average for the share of services in GDP, which reached 70 percent in 2015. For emerging economies of the region, services are still less important than agriculture and manufacturing combined, but their share continues to increase steadily.

  It is well known that as economies progress in their level of development, services take on increasing importance in all realms of economic activity. This phenomenon has been labeled as 'servicification', which denotes the increasing importance of services in both the inputs and output of manufacturing and agriculture, as they are embodied and embedded in goods and natural resource products, along with the increasing proportion of services in consumption baskets and investment flows.[13]

Figure 2.1: Evolution of Share of Services in GDP in Selected Asia-Pacific Economies

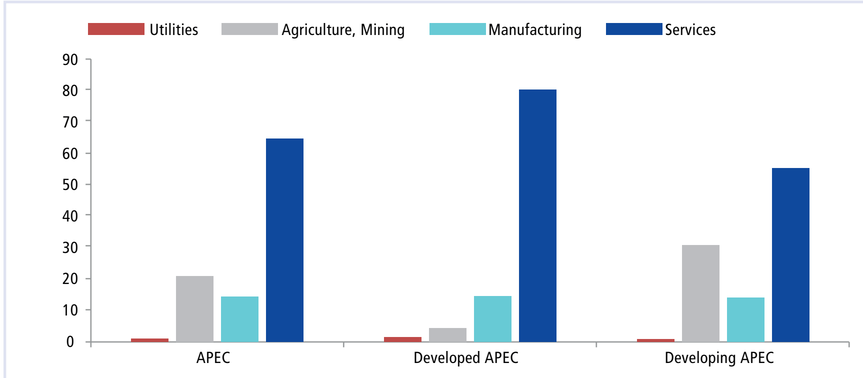


Source: Figure based on the World Bank, World Development Indicators.
Note: Figures for 2015 are of that year or of the latest available year.

[13] Kommerskollegium, Everybody is in Services – The Impact of Servicification in Manufacturing on Trade and Trade Policy, Kommerskollegium, The National Board of Trade, 2012, available at http://www.kommers.se/Documents/dokumentarkiv/publikationer/2012/skriftserien/report-everybody-is-in-services.pdf

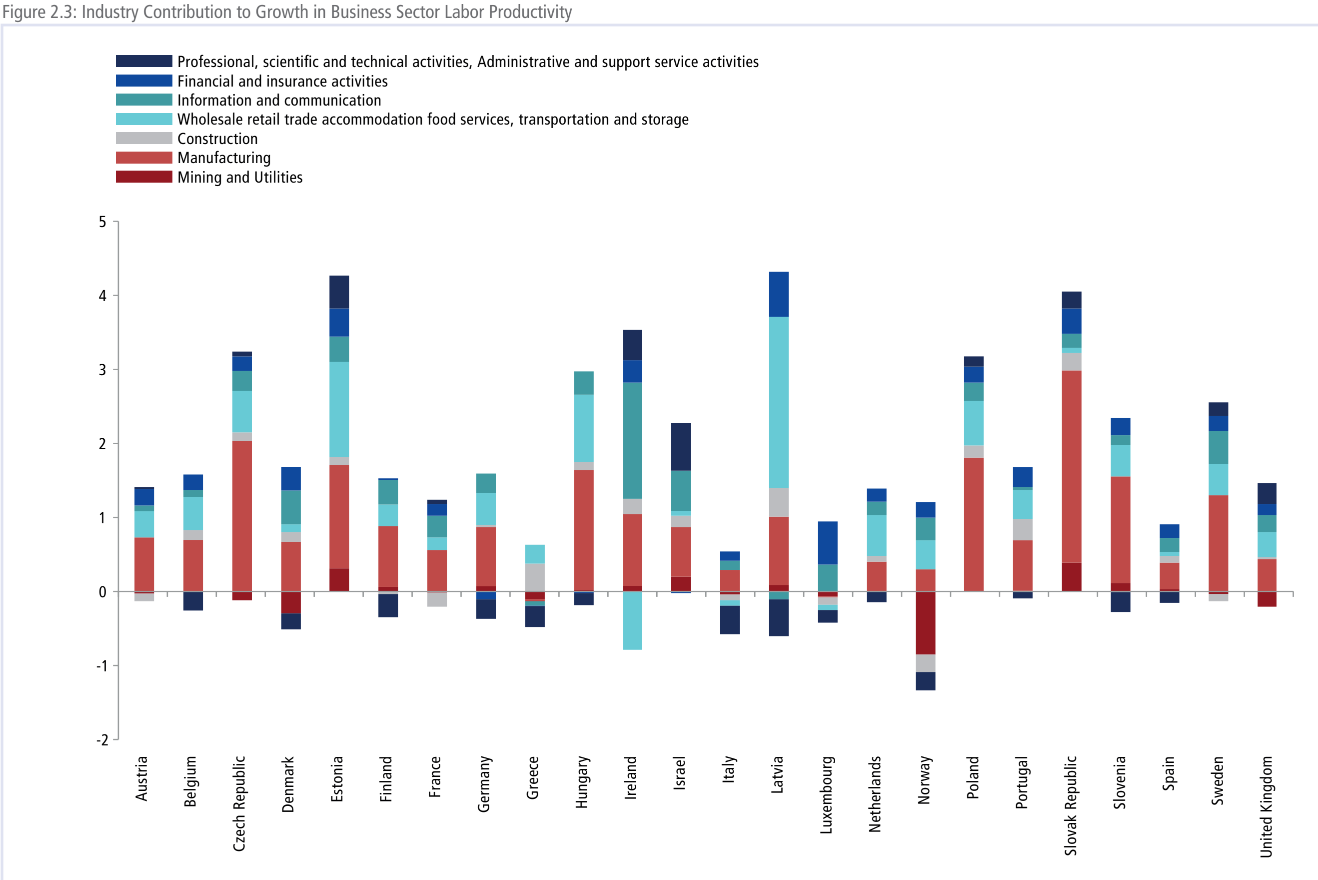
- The services sector is also the biggest employer, engaging the largest number of workers on average, in the Asia-Pacific. In fact, as shown in Figure 2.2, the services sector employs twice as many workers as the agriculture and manufacturing sectors combined within APEC. Services employment in many economies also offers better paid than jobs in other sectors.

Figure 2.2: Service Sector Employs Largest Number of Workers in APEC Economies



Source: APEC PSU computation based on ILOSTAT database. Taken from PSU, August 2016

Figure 2.3: Industry Contribution to Growth in Business Sector Labor Productivity

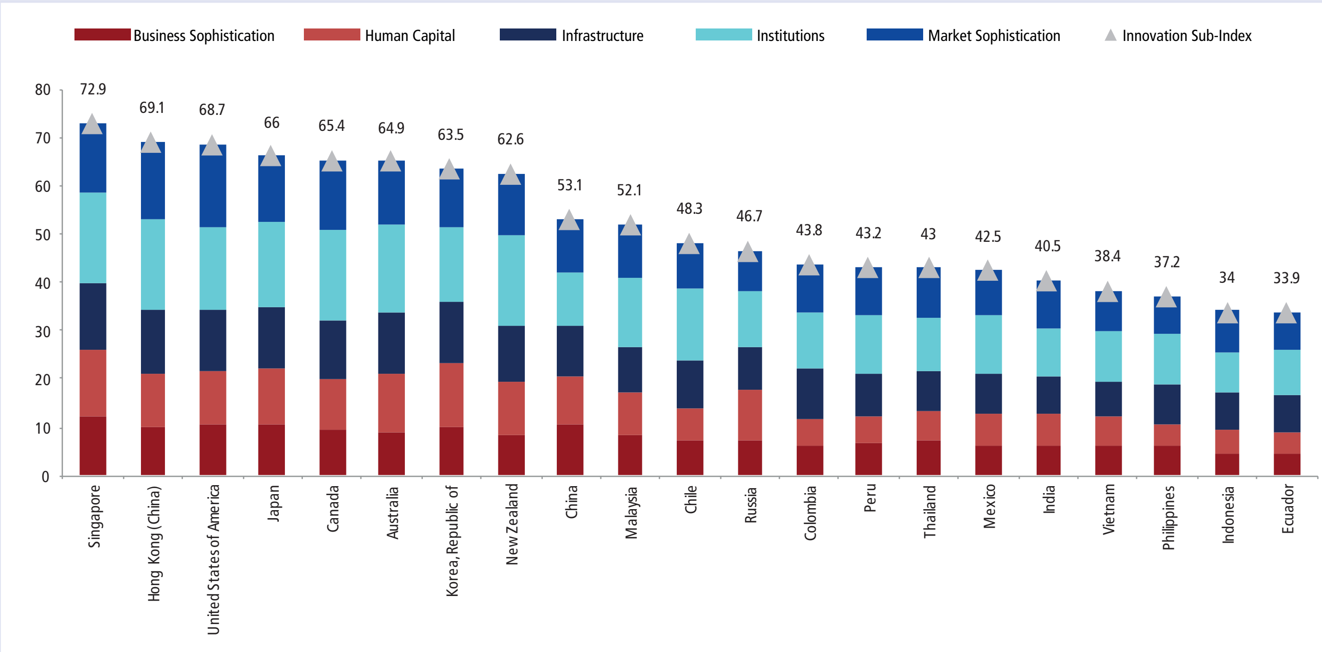


Source: OECD, Dataset: Productivity and ULC by main economic activity (ISIC Rev.4)

- Services are key to innovation and productivity increases in the region. The productivity component of economic growth is often difficult to measure, but for those economies with databases that allow for this, it can be observed that services provide a significant boost to productivity growth. Figure 2.3 shows that for several OECD member economies, services account on average for 42 percent of labor productivity growth (including construction as a service).

Examining results from the Global Innovation Index (GII) gives an idea of how important the services sector is to innovation. The economies in the Asia-Pacific region show quite a variety in their ratings in the GII, as shown in Figure 2.4. Much of the data on institutions and market sophistication cover the same indicators that measure services restrictiveness, especially the regulatory environment. Notably, many economies in the Asia-Pacific do relatively well in terms of the institutions index.

Figure 2.4: Global Innovation Index: Factors contributing to innovation



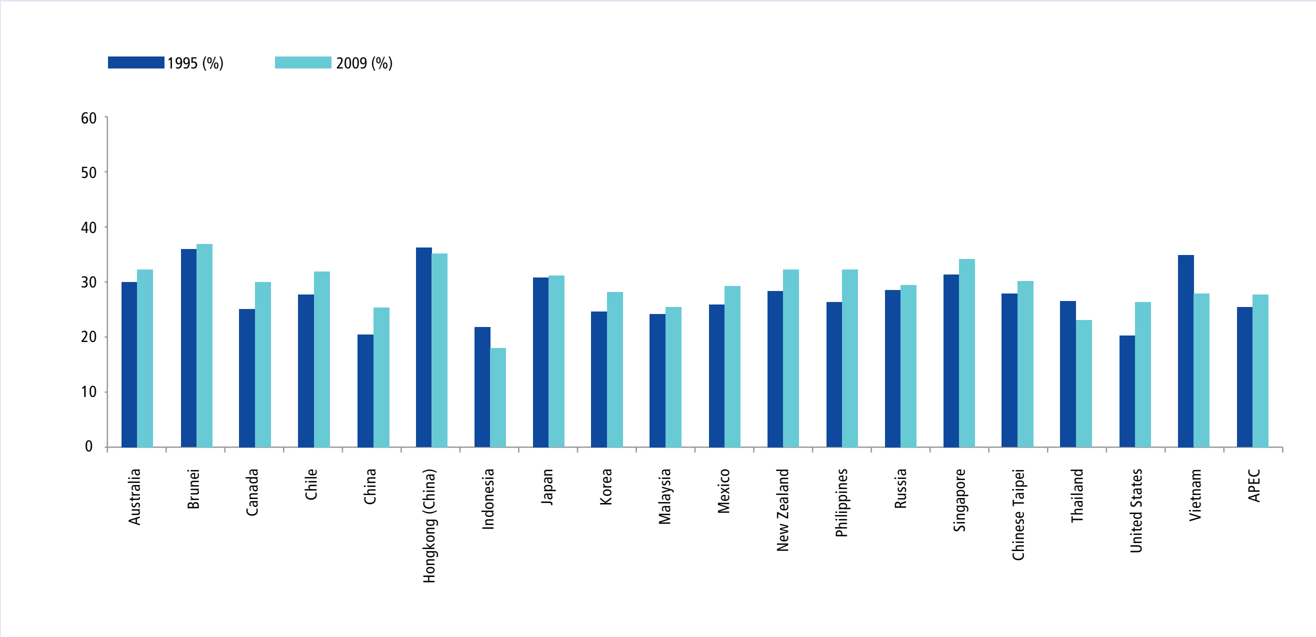
Source: The Global Innovation Index 2016, available at https://www.globalinnovationindex.org/gii-2016-report.

- Services are inputs into all other economic activities. They are often embodied into manufacturing products during their production cycle and embedded into final products at the time of sale. Embodied services thus create part of the value of the final output, which can either be sold at home or exported across borders. "Add-on" or embedded services are linked and related to the sale of a good or another services, in for example, after-sales support, technical assistance and/or finance. These embodied and embedded services tend to be on the higher value-added end of the scale, in the form of business services, ICT services, engineering services and R&D services. Such high value and technologically sophisticated services help firms to differentiate products and develop 'niche' markets, allowing them develop a comparative advantage in a particular product area, often an input into a global value chain network. Such services inputs help to raise the productivity of firms and increase their competitiveness on world markets.

The prevalence of embedded and embodied services is particularly marked for trade in manufactured products for APEC economies and has been growing slowly over time as illustrated in Figure 2.5 showing the evolution of the share of value-added in APEC manufacturing exports over a 15-year period. A series of 22 case studies of products and firms from various Asia-Pacific economies carried out under the direction of the APEC Policy Support Unit during 2013 and 2015 illustrates how extensively services are used in the output of manufactured products and how services are essential to the operation of integrated production networks. The type and function of these services is mapped in the case studies, which show that on average, the number of services entering the value chains of each of the product in each of these case studies ranges from 37 in the case of automotive components to 74 in the case of power plant equipment and that the share of total value (cost) attributable to services inputs ranged between 30 and 90 percent of the manufacturing product in question.[14]

[14] APEC (2015). Services in Global Value Chains: Manufacturing Related Services, Case study volume by the APEC Policy Support Unit edited by Patrick Low and Gloria Pasadilla, available at http://publications.apec.org/publication-detail.php?pub_id=1677

Figure 2.5: Share of Value Added in APEC Manufacturing Exports (1995 & 2009)

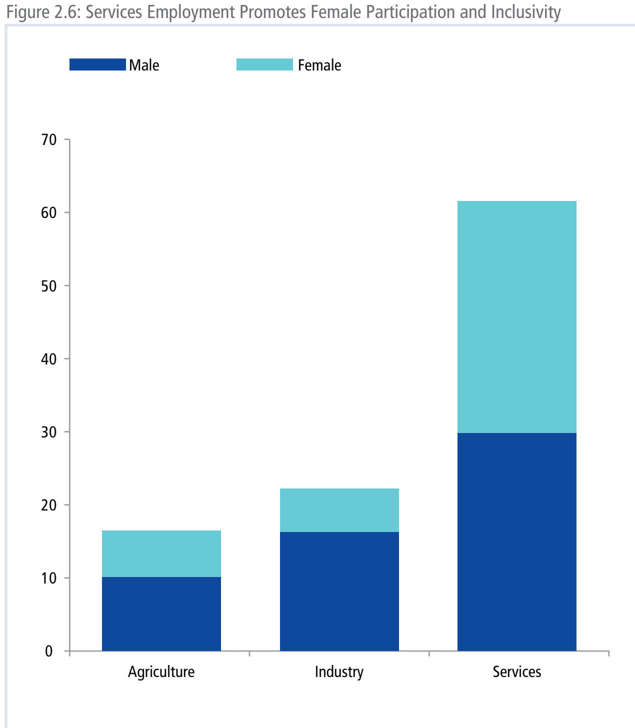


Source: APEC PSU report on Services, Manufacturing and Productivity 2015.

The importance of services inputs into economic output continues to grow. A study from Australia has shown that services used as inputs to the production of goods and services were worth almost as much as cross-border services exports in 2011.[15] Services industries thus play a critical role in sustaining and growing other parts of the economy, including manufacturing, construction, agriculture and mining. Services are particularly dominant in downstream industries and act as essential links in integrated production networks, allowing for components of production to be dispersed around the world and brought together into final products in a cost-effective, timely manner.

- Services sector participation promotes inclusivity and helps to bring more women into the work force. Services have traditionally attracted a greater percentage of the female work force, as shown in Figure 2.6. In the APEC region the services sector constitutes more than half of female employment. Thus, as the services sector continues to grow in importance as the process of 'servicification' advances, Asia-Pacific economies should become more inclusive in their employment patterns, which should enable both greater inclusivity as well as greater gender equality in the labor market.

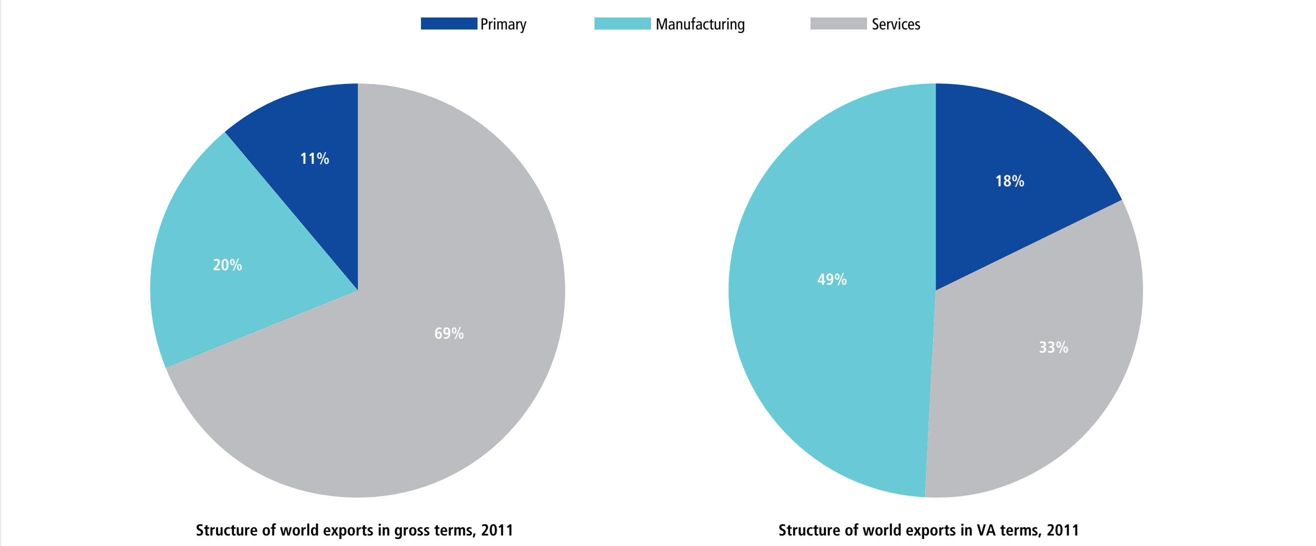
Figure 2.6: Services Employment Promotes Female Participation and Inclusivity



Source: APEC Policy Support Unit computation based on ILOSTAT Database. APEC data exclude Australia, China, PNG, and Peru. Taken from APEC PSU website, August 2016

[15] Thomas Westcott, The importance of embodied services for trade and investment in the APEC region: Issues, conclusions and next steps, Paper prepared for the Australian APEC Study Centre, December 2011. Available at: http://www.apec.org.au/docs/05-2012%20embodied%20services/05-2012%20Discussion%20Paper%20.pdf

Figure 2.7: Services Now Generate the Highest Value-Added (VA) in International Trade Flows (2011)



Source: OECD & WTO, Trade in Value-Added Database, May 2016, http://www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm

- Services are now more important than goods in international trade when measured in value-added terms. On a global basis and in gross terms, services are reported to account for around 23 percent of world exports, with manufacturing products taking up 65 percent and primary products 12 percent.[16] However, these figures are not accurate when embodied and embedded services are taken into account and when trade is measured on a value-added basis.

- A more detailed understanding of services exports comes from the analysis of input-output tables. These can be used to calculate the value of an economy's embodied services in its exports. This highlights those services sectors that are embodied in the production of goods and services, as well as which goods contain more intermediate services inputs. Using this value-added approach, the importance of services in world trade increases dramatically, rising to 49 percent of world exports, as shown in Figure 2.7, while the share of manufacturing falls to 33 percent. This also mirrors the heightened importance of investment flows into the services sector, which now receive nearly two-thirds of all new FDI. Much of this investment is destined for services that are used in exported goods and services.

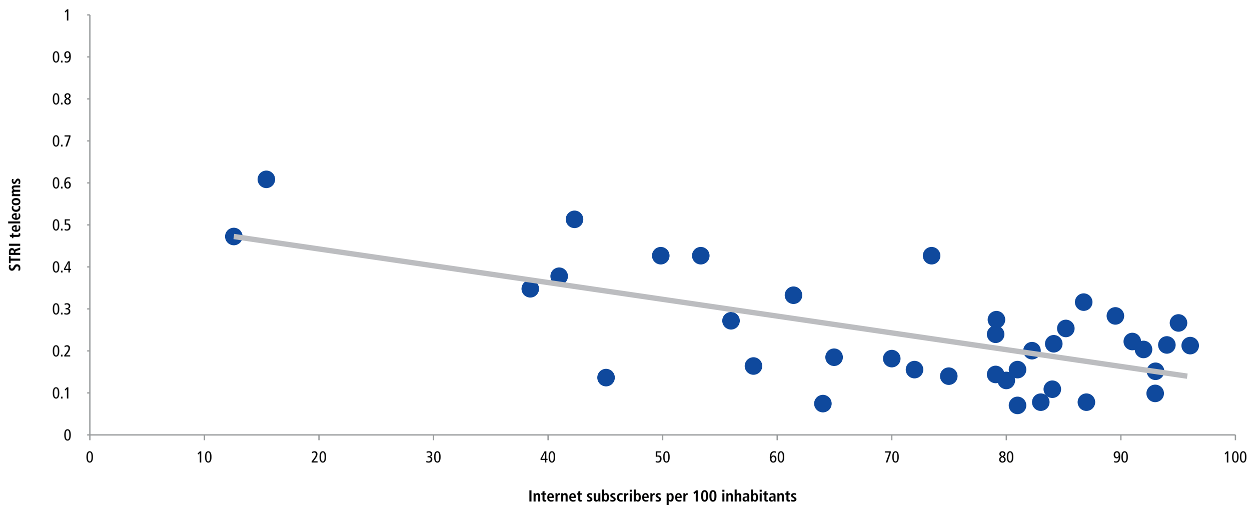
  The importance of measuring trade in value added terms instead of in gross terms has become particularly important with the emergence of global value chains (GVCs) and the increased importance of intermediate products in trade flows (now nearly three-fourths of total trade). This makes it imperative to use more accurate statistical methods in order to avoid double counting of trade flows as well as to obtain a better understanding of the actual contribution of each economy and of each component (services, manufacturing, agriculture).

- Services reform can bring about tremendous economy-wide benefits for Asia-Pacific economies. These potential gains are highlighted later in this chapter in a section that discusses what types of transformations and benefits structural reform in services could bring about. Such potential on the part of services is now being recognized within APEC and has become a key issue for policy makers, the private sector and consumers. Structural reforms in the services infrastructure sectors of transport, energy and telecoms have been projected to generate US$175 billion a year in additional real income for APEC economies.[17] These projected gains would be nearly twice as large, region-wide, as would further liberalization of merchandise trade. As shown in Figure 2.8, the less restricted the telecoms sector, the greater the percentage of the population with access to the Internet. Asia-Pacific economies have begun to focus on the needed reforms in services that could provide such a long-term boost to their economic growth trajectories.

[16] APEC PSU report on Services, Manufacturing and Productivity 2015, Ibid.

[17] Philippa Dee, 2011. 'Modelling the Benefits of Structural Reforms in APEC Economies', Chapter 2 in Asia-Pacific Economic Cooperation Policy Support Unit, The Impacts and Benefits of Structural Reforms in the Transport, Energy and Telecommunications Sectors in APEC Economies.

Figure 2.8: Positive Relationship between Telecom Reform and Access to the Internet



Source: APEC Policy Support Unit computation based on ILOSTAT Database. APEC data exclude Australia, China, PNG, and Peru. Taken from APEC PSU website, August 2016

SERVICES ARE NOW RECEIVING MORE POLICY ATTENTION IN THE ASIA-PACIFIC

Despite the fact that technological developments and globalization have transformed services into powerful economic forces for change and growth, their role was consistently under-appreciated by policy makers for many years.

Services were often viewed as the 'poor cousin' within government ministries and thus often missing from planning programs and development strategies in the Asia-Pacific.

This situation has changed in the last couple of years. Both within individual Asia Pacific economies, in preferential trade agreements, and at the regional level in APEC, services have been brought to the forefront of policy priority. In trade agreements, services now constitute a major component of disciplines. Within the Trans-Pacific Partnership (TPP) Agreement, signed in February 2016 by 12 APEC members, services and services-related topics represent fully one third, or 10 of the 30 chapters in the agreement. Services are a major component of the ongoing Regional Comprehensive Economic Partnership (RCEP) negotiations, and of the ASEAN Economic Community's framework.

During the Philippines APEC Year 2015, services were brought to the forefront in APEC's agenda. Services received a prominent place in the APEC Leader's Economic Declaration of November 2015, when they committed to develop the services sector within APEC and stated:

We acknowledge that international trade in services facilitates cross-border business activity, reduces costs, spurs innovation, boosts competition and productivity, raises the standard of domestic services suppliers, and widens the range of choice for consumers. We also acknowledge that trade in services has an enormous potential for creating jobs, and for increasing competitiveness in the global market, providing whole-of-economy benefits. Inclusive growth cannot be achieved without addressing services-related issues, as many MSMEs operate in this sector.

During 2015 several steps were taken to remedy the lack of focus on services at the top policy levels within APEC. These included notably, the adoption of the APEC Services Cooperation Framework (SCF) at the APEC Economic Leaders Meeting in November 2015, an umbrella document that provides a common strategic direction and coherence to APEC's broad-based approach to services competitiveness. The Framework ensures that APEC's multi-fora and multi-stakeholder services agenda remain dynamic and responsive to economic, market, and technological developments. It is designed to better enable the region's economies to address trade-related services restrictions and review the progress of agreed action plans to liberalize services trade in light of APEC's Bogor Goals, namely free trade and investment in the Asia-Pacific region by 2020. The Framework will ensure that attention remain focused on services by APEC Senior Officials, Ministers and Economic Leaders on a continuous basis, over the next five years, until the Bogor Goals' deadline of 2020.

Four ambitious and innovative objectives that are set out in the APEC Services Cooperation Framework should be highlighted, namely:

- Development of an APEC Services Competitiveness Roadmap with an agreed set of qualitative and quantitative indicators and targets;
- Establishment of the APEC Services Knowledge Center, which would be a virtual knowledge-sharing platform on information and best practices of services-related policies and programs of APEC economies; and
- Creation of the APEC Services Regulators Forum – a knowledge-sharing platform that would bring together sectoral/regulatory officials responsible for trade, investment and competition policies; and
- Development of a mechanism for reporting, review, and updating of the ASCF beginning in 2016, on the basis of specific quantitative indicators, to be incorporated into a stand-alone report on APEC's progress towards free and open trade and investment in services.

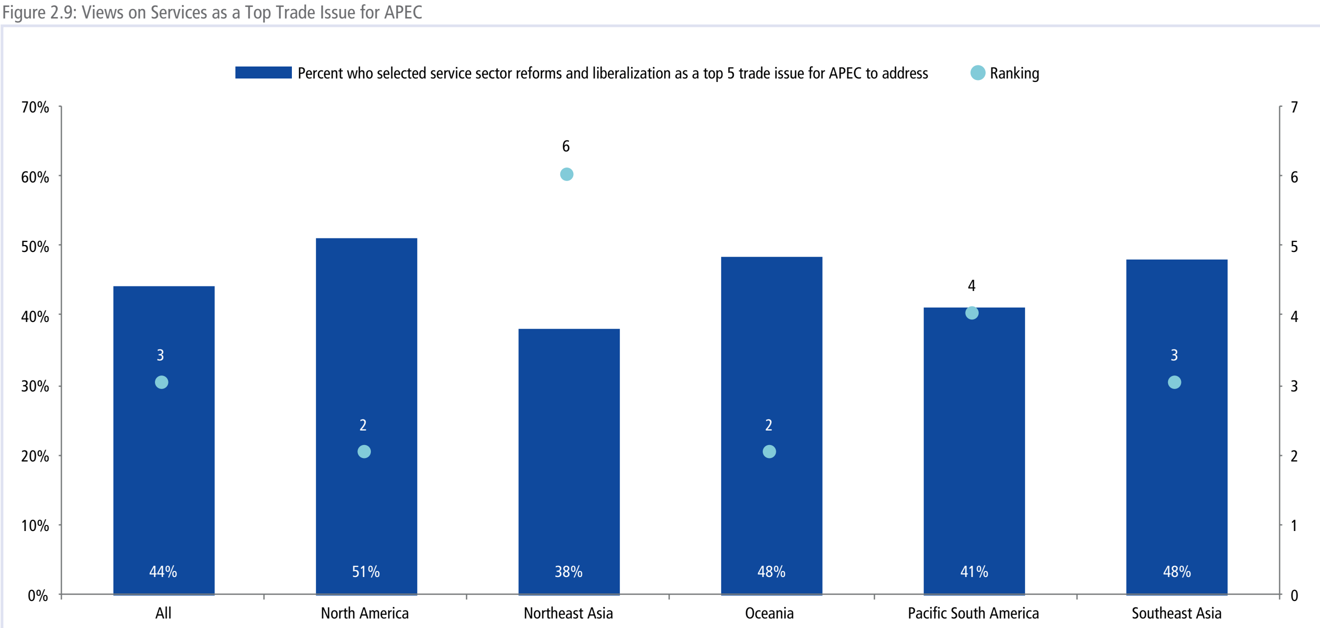
As mandated in the APEC Services Cooperation Framework, the APEC Services Competitiveness Roadmap is being developed in 2016 to provide a strategic and long-term vision for APEC's work on services. The Roadmap should set out a concerted set of actions and mutually agreed targets for services to be achieved by 2025. The draft Services Competitiveness Roadmap document has been extensively discussed during the APEC Peru Year 2016 and should be finalized with a view to adoption by APEC Economic Leaders in November 2016.

The Services Competitiveness Roadmap will not only guide APEC's work on services but will also include indicators through which progress along this path toward greater liberalization and regulatory reform will be evaluated. Such indicators will likely include some of the types of indices discussed in the next section.

SERVICES ARE STILL HIGHLY RESTRICTED IN THE ASIA-PACIFIC

The importance of taking action and concrete steps towards greater services liberalization in the Asia-Pacific is underlined by the high levels of services restrictiveness that still exist across the region. While tariff and at-the-border barriers have been reduced significantly through unilateral steps of autonomous liberalization and within preferential trade agreements, services trade barriers have remained more elusive to policy makers. These impediments to services trade are standing in the way of greater regional integration as they block the ability of services providers and consumers to export and import services. In fact, the restrictive impact of services regulations was highlighted by the PECC State of Trade in the Region Report for 2015 as the top impediment cited by respondents to their ability to trade in the Asia-Pacific and as one of the top priorities for APEC to address.[18] Notably, the importance of services sector reforms and liberalization was a view broadly shared across all APEC sub-regions, as highlighted in Figure 2.9. For example, among respondents from Southeast Asia, 48 percent rated it a top 5 trade issue for APEC to address as did 51 percent of respondents from North America and 44 percent on average for all respondents.

Figure 2.9: Views on Services as a Top Trade Issue for APEC



[18] See PECC 2015 Report on the State of the Region at https://www.pecc.org/resources/trade-and-investment-1/2210-state-of-the-trade-2015.

Table 2.1 Comparisons of the OECD and World Bank STRI Databases

	Years with Data	APEC Economies Covered	Number of Services Sectors
OECD STRI	2014 and 2015	11	19 sectors
World Bank STRI	1 year between 2009 and 2011	16	5 major sectors

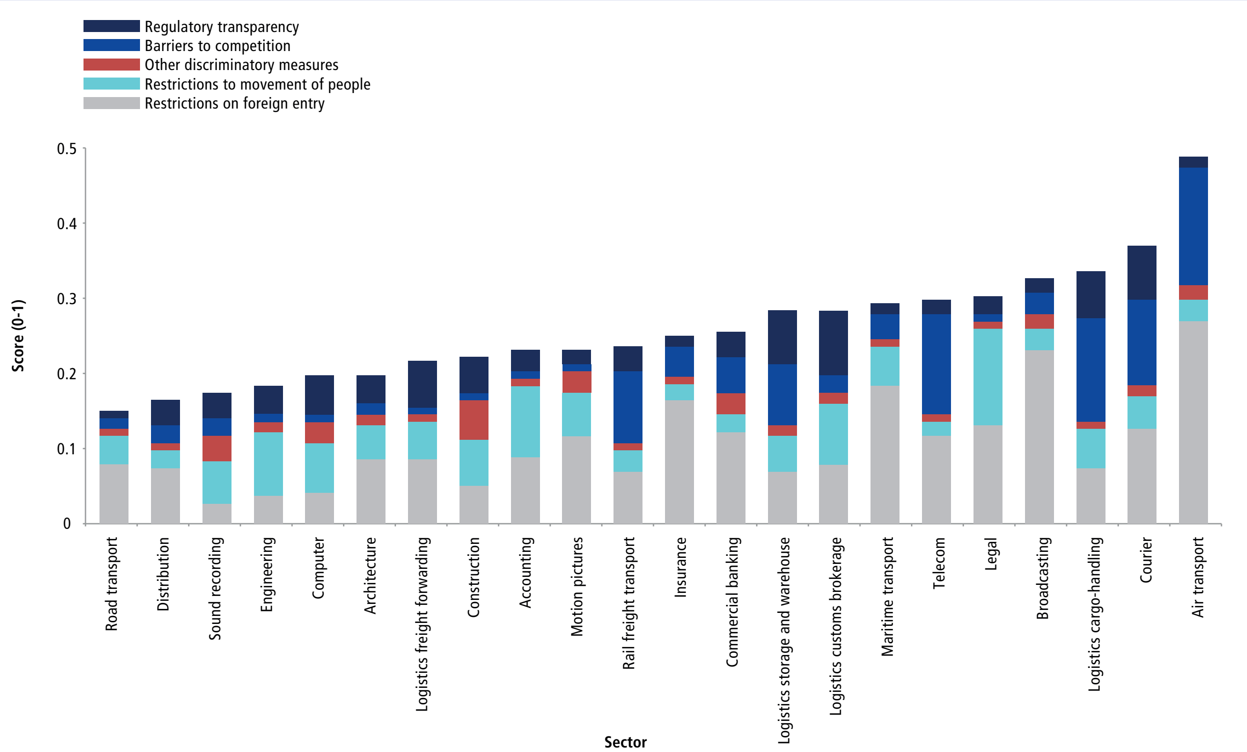
Measuring the extent of services restrictiveness has become easier with the availability of the two databases published by The World Bank and the OECD detailing the restrictive impact of services regulations. While the country and sector coverage of these two Services Trade Restrictiveness Index (STRI) databases vary as seen in Table 2.1, as well as the methodology used for obtaining and assessing the information, both of them show interesting and worthwhile results of concern, which the APEC Policy Support Unit has put together for those APEC economies included in the databases.[19]

Figure 2.10 gives an indication of the average level of restrictiveness of services regulations in 11 APEC economies for the various sectors covered in the OECD STRI database (2015 data). The chart divides up the overall level of restrictions into five categories according to the way they affect services, namely:

- Restrictions on foreign entry;
- Restrictions to movement of people;
- Other discriminatory measures;
- Barriers to competition; and
- Regulatory transparency.

The highest levels of restrictions shown on the right hand side of the chart are found in the sectors of transportation (air, maritime and rail), logistics (courier, cargo handling, customs brokerage and warehousing), broadcasting, telecoms and legal services. The type of regulations affecting these service sectors varies, although barriers to competition together with restrictions on foreign entry (investment) appear to be the most prevalent.

Figure 2.10: Average Level of Restrictiveness of Services Regulations in Asia-Pacific by Sector and Type of Restrictive Policy Based on OECD STRI



Source: PSU computations based on data from OECD Statistics. Accessed 25 April 2016.

[19] In terms of the methodology, the OECD STRI database information was compiled through the collection of regulations in force, which were then verified by the government individual economy in question. Only after this verification process was the information publicly released. The World Bank STRI database was compiled by collecting information on policies in place based on extensive consultations with government officials and private sector representatives. The OECD STRI database is broader in terms of sectoral coverage, while the World Bank STRI database is broader in terms of country coverage. The intention of the OECD is to periodically update the information in its STRI database and to broaden coverage as well.

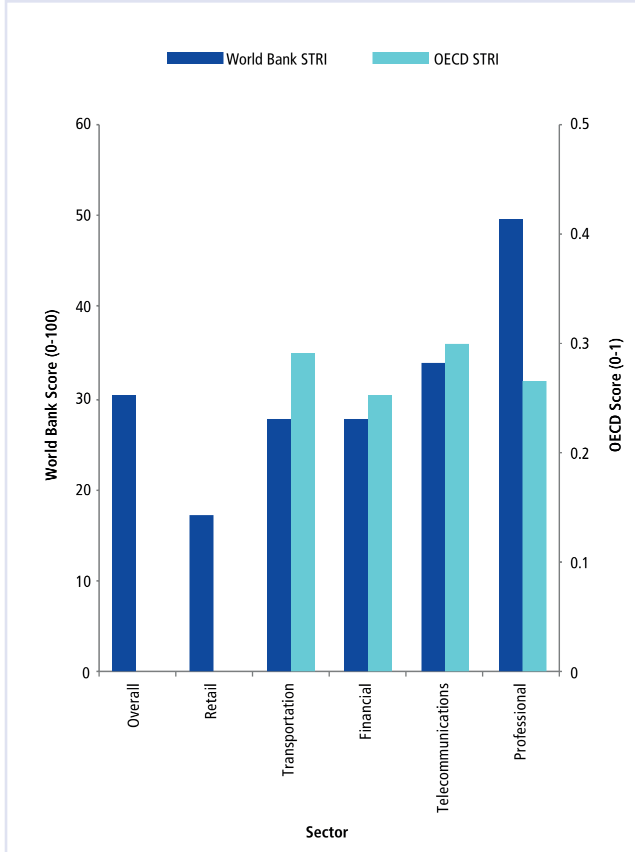
Figure 2.11 shows the APEC average for the five sectors covered in the World Bank STRI database compared with the OECD STRI database, as calculated by the APEC PSU. In the cases of transportation, financial services and telecoms, the restrictiveness indices are fairly similar. However, the level of services restriction on professional services is shown to be much higher in the World Bank STRI, while the retail sector was not included as such in the OECD STRI and thus cannot be compared.

An index has also been developed by the OECD to assess the restrictiveness of policy on foreign direct investment. The FDI Regulatory Restrictiveness Index covers 13 APEC economies in the database with information on FDI restrictions over eight years, stretching from 1997 to 2014. Foreign direct investment in services is included in this database and thus services are also covered. In recent years the majority of FDI flows have been directed to the service sector, so commercial presence as a form of services trade continues to be very important. FDI restrictions are assessed in four areas on the basis of policies in place (gleaned from Investment Codes and Investment Agreements):

- Foreign equity limitations
- Discriminatory screening or approval mechanisms
- Restrictions on the employment of foreign personnel
- Other operational restrictions

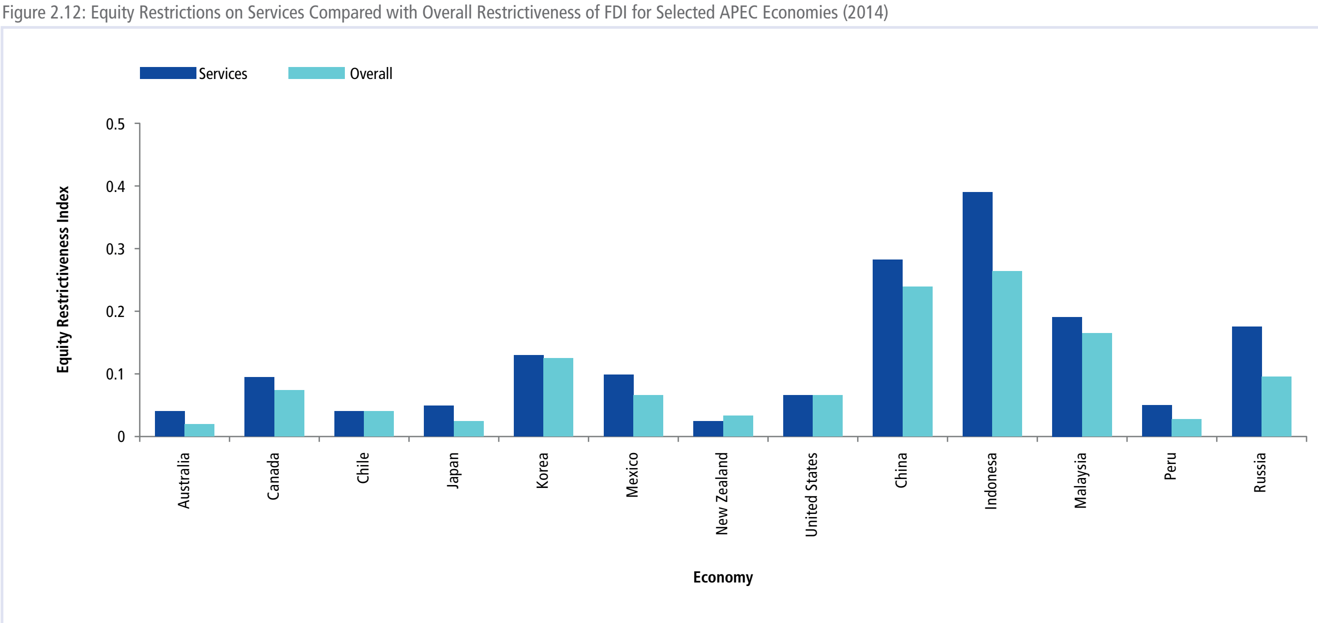
The information in Figure 2.12, calculated by the APEC PSU, shows that investment restrictions are higher on services than overall in nearly all the economies shown, and in many cases by a very significant amount.

Figure 2.11: Comparing the World Bank and OECD STRI Indices for Services Restrictions by Sector for APEC Economies



Source: PSU computations based on data from World Bank and OECD. Accessed 12 April 2016.

Figure 2.12: Equity Restrictions on Services Compared with Overall Restrictiveness of FDI for Selected APEC Economies (2014)

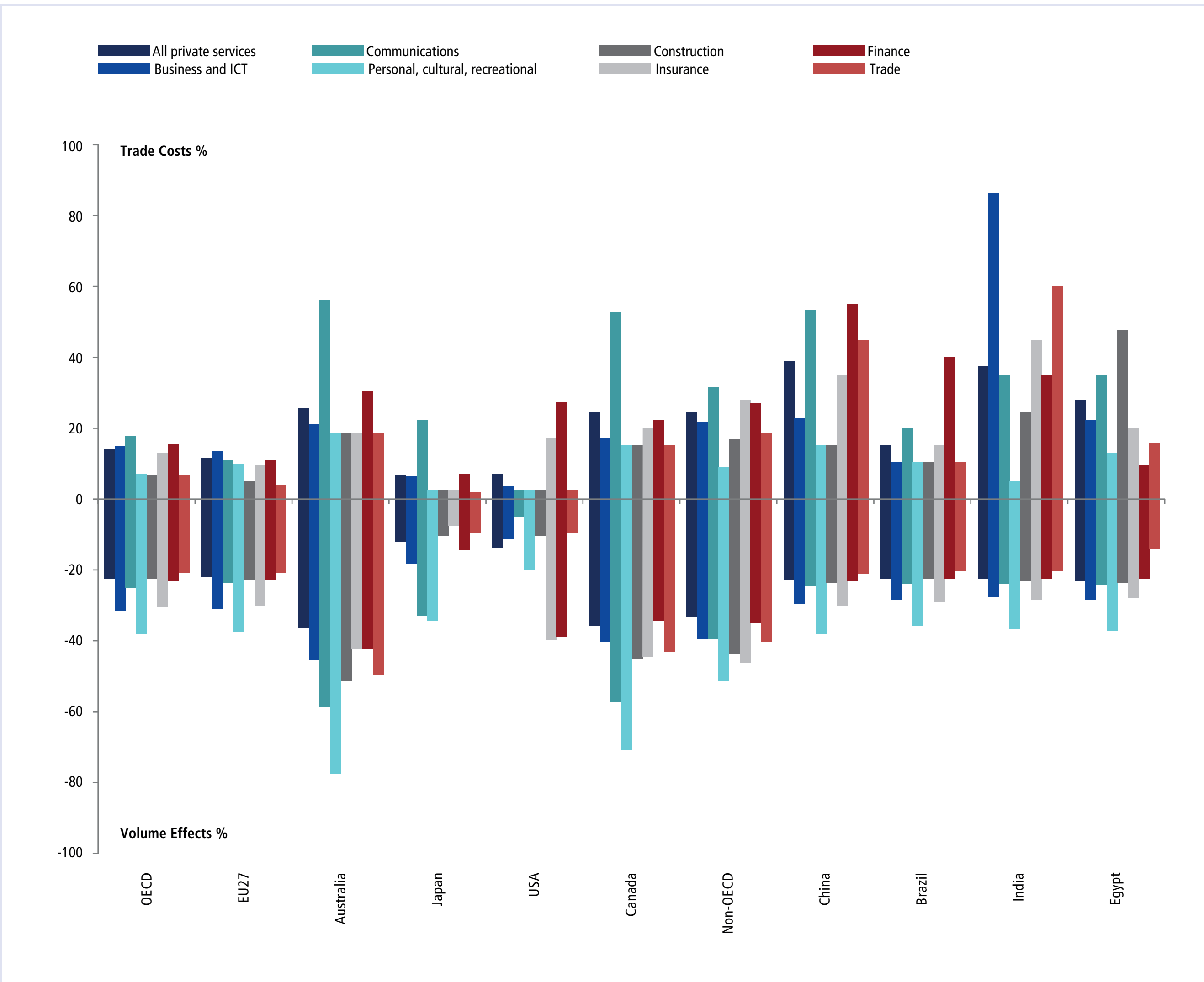


Source: APEC Policy Support Unit computation based on ILOSTAT Database. APEC data exclude Australia, China, PNG, and Peru. Taken from APEC PSU website, August 2016

Currently not all of the economies in the Asia-Pacific are covered in these various databases that help us to assess the restrictiveness of regulations affecting services and investment, and many data gaps exist as well. APEC economies are considering steps to increase the number of member economies with STRI and FDI restrictive indexes so that there could be baseline measures against which existing policies on services and investment could be evaluated and reviewed at present and in the future. Such indicators would also help to relate services reform with outcomes. However, what is clear from the existing information available is that the level of restrictive regulations affecting services is quite high both on average and on specific sectors in the Asia-Pacific that are critical to economic competitiveness and boosting regional integration.

The 2011 Policy Brief by PECC and ADBI (Services Trade: Approaches for the 21st Century) underlines the impact that restrictions on foreign direct investment (FDI) impose on diverse services sectors, showing how both the cost of trade as well as the volume of trade is affected as a result. As could be expected, restrictions on FDI impose positive and often very high trade costs, depending upon the sector, and result in negative volumes of trade. As shown in Figure 2.13, the services sectors and countries most impacted in cost terms by restrictive FDI policies are: communications (Australia, Canada, China and India), finance (Australia, USA, China and Brazil), trade-related services (China and India), business and ICT services (India), and construction (Egypt). However, the services sector that is most negatively affected in volume terms by restrictive FDI policies is personal, cultural and recreational services (Australia, Canada), followed by communications (Australia and Canada).

Figure 2.13: Negative Impact on Services Trade of Restrictions on FDI



Source: PECC & ADBI, Services Trade: Approaches for the 21st Century, 2011

SERVICES LIBERALIZATION AND REFORM WOULD PROVIDE TREMENDOUS BENEFITS TO ASIA-PACIFIC ECONOMIES

There is no better way to unleash economic potential in Asia-Pacific economies than to focus on improving the quality and performance of the service sector. Box 1 summarizes the potential gains to be derived from regulatory and structural reform in services. These are multiple and far reaching, extending beyond trade and contributing to broader development objectives.

BOX 2.1 BENEFITS DERIVING FROM SERVICES LIBERALIZATION

- Export competitiveness. Reducing trade costs deriving from services results in an increase in overall productivity as many sectors use services inputs intensively. Therefore, the reform will also enhance export competitiveness.

- Private sector development and foreign direct investment. Lower trade costs and entry barriers in services attract foreign direct investors, thus creating jobs and providing local producers and consumers with more and better products. This is particularly true for services, which account for over 60 per cent of global FDI stock, according to the UN World Investment Report 2016.

- Market integration. As trade costs fall, it is easier for economies to integrate regionally. If services reform is undertaken through regional trade agreements and reform of services regulations is founded on reasonable and objective criteria, the result will be not only positive for those in the region but also for those outside. In this case, such reform will not imply any welfare lose or artificial trade diversion.

- Economic growth and employment. Services liberalization has the potential to boost economic productivity and employment due to the significant contribution that the sector enjoys in GDP and employment and taking into account the fact that services is the most dynamic sector in the world economy

- Other positive spillover effects. Improvements in services can contribute to help attain overall development objectives, including many of the sustainable development goals (SDGs), in particular SDG 1 to end poverty, SDG 3 on good health and well-being, SDG 4 on quality education, SDG 6 on clean water and sanitation, SDG 7 on affordable and clean energy, SDG 8 on decent work and economic growth, SDG 10 on reduced inequalities within and between countries, among others.

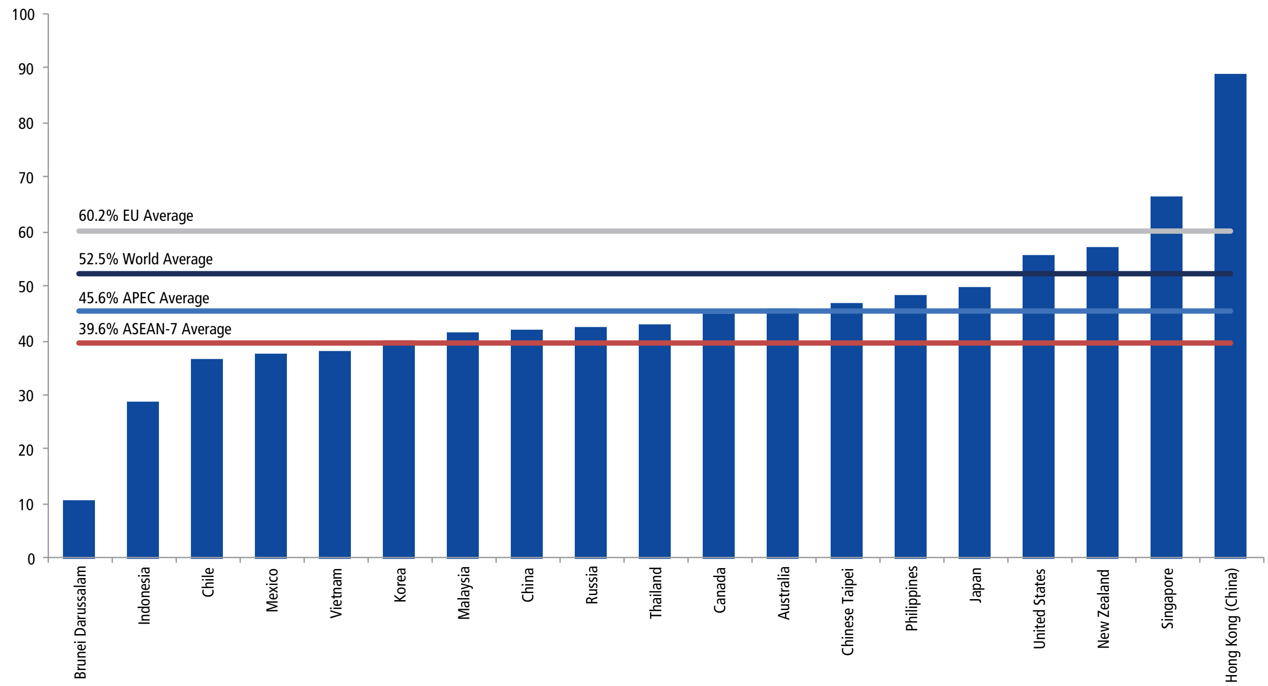
Source: Adapted from WEF, The Global Enabling Trade Report 2014, Geneva: WEF, 2014.

UNTAPPED POTENTIAL FOR SERVICES CONTRIBUTION IN THE ASIA-PACIFIC

The relevance of the services sector in the Asia-Pacific in terms of its contribution to GDP, employment, trade and inclusive growth is already significant. However, there remains a huge potential to be untapped through services liberation and reform.

One of the indicators of this shortfall between current performance and potential is the gap between APEC's average engagement in services value-added in trade and the average for the world economy, as shown in Figure 2.14. The services value-added share of gross exports for 15 of the 19 APEC economies included lies below the world average of 49 percent (based on the most recent data available in the TiVA database for 2011) while the average for APEC runs around 45 percent. Only four economies in the Asia-Pacific region display shares of services in value-added trade higher than the global average (United States, New Zealand, Singapore, and Hong Kong (China)). At the national economy level, services value incorporated in exports differs widely within the region, ranging from just 10 percent services value-added contribution in trade for Brunei Darussalam to almost 90 percent for Hong Kong (China). The potential for the economies of the Asia-Pacific region to intensify their services content of exports, even as they deepen the services component of all economic activities, is very high. There is clearly considerable room for the Asia-Pacific to increase the services value added in exports both as a region as well as at the national level.

Figure 2.14: APEC Services Value Added in Exports below World Average



Source: Calculated by PECC Services Task Force, Jane Drake-Brockman, and presented to the APEC Public Private Dialogue on Services in Arequipa, Peru, May 2016

At the APEC level, there is a need to move services liberalization forward in order to comply with the commitments undertaken in the Bogor Goals to reach free and open trade in goods, services and investment by the year 2020. The information in Table 2, taken from the APEC's Bogor Goals Dashboard 2015, shows the evolution of services liberalization in the region between 2008 and 2014, based on three indicators: the services sectors with GATS commitments, the depth of services commitments in FTAs and the number of FTAs covering services.[20] These are taken to be very rough indicators of how the region has progressed in the services area. The Dashboard shows the following:

- When considering the number of services sectors with GATS commitments, APEC economies have made commitments in only half of the services sub-sectors available in the WTO GATS Classification List (79 out of a total of 160 sub-sectors).
- Regarding the depth of services commitments achieved in FTAs, APEC economies still have a long way to go, having been ranked at just over half (57.30 on a scale of 0 to 100) by the APEC Policy Support Unit in their evaluation of the depth of services commitments of FTAs in force by each APEC economy for modes 1 (cross-border trade) and 3 (commercial presence).
- Lastly, since 2008 the number of FTAs concluded by economies in the region that cover services has increased significantly over time, with nearly three fourths of FTAs containing services provisions and commitments (105 out of a total of 143 FTAs in 2014). This number is significantly higher than what is found among the FTAs included in the WTO RTA database, where 141 FTAs/RTAs out of a total of 281 cover services trade (or around 50 percent).[21] A word of caution is in order here, though, as the mere increase in the number of FTAs does not necessarily imply an actual improvement in services liberalization. This will depend upon the depth and quality of the commitments that are contained in the agreements. A larger number of FTAs may also play the role of complicating the task of services exporters through overlapping sets of commitments and obligations.

[20] These indicators consider measures negotiated at the multilateral, regional and multilateral levels, but do not capture unilateral measures.

[21] WTO, Regional Trade Agreements Information System (RTA-IS), http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx

Table 2.2 Indicators Evaluating the Engagement in Services by APEC Economies

APEC	2008	2009	2010	2011	2012	2013	2014
Services							
Services Sectors with GATS Commitments	77	77	77	77	79	79	79
"Best" RTA/FTA Services Commitments Achieved (0= no commitments, 100=full commitments in all sectors)	51.03	56.93	56.95	56.95	57.30		
Number of RTA/FTAs with Sectoral Services Commitments - Number of RTA/FTAs	56-86	67-98	74-104	82-116	89-126	99-137	105-143

Source: APEC's Bogor Goals Dashboard, APEC Policy Support Unit, 2015. http://publications.apec.org/publication-detail.php?pub_id=1665

GAINS TO BE DERIVED FROM SERVICES LIBERALIZATION AND REFORM

Several authors have estimated the economic gains that the benefits that services liberalization and reform could bring to the Asia-Pacific region.

The 2011 study presented by the APEC Policy Support Unit (PSU) addressed the improvement of competition (both domestically and internationally) in the infrastructure service sectors of transport, energy and communications, estimating the impact of reforms in these sectors and related downstream sectors, as well as the corresponding adjustment costs.

Policy recommendations from the study focus on improving competition in these sectors domestically and internationally through trade in services. Box 2 presents these recommendations by sector.

BOX 2.2 POLICY RECOMMENDATIONS TO IMPROVE COMPETITION BY SECTOR

Air Transport Improve competition through reforms to air services agreements, to entry conditions for domestic and foreign carriers, and ownership;

Maritime Transport Introduce competition by dismantling remaining entry restrictions, quotas and cargo sharing arrangements and by the granting of domestic-vessel treatment to foreign-owned carriers located domestically;

Rail transport Improve competition through free entry in freight operations;

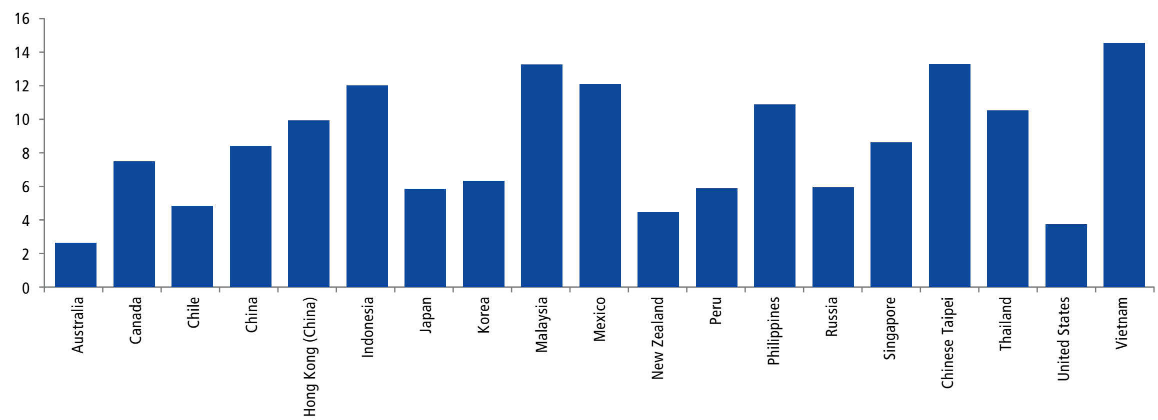
Electricity and gas Competition could be enhanced by providing third party access, unbundling, wholesale prices set through market arrangements and/or retail competition; and

Telecommunications Competition will improve through the removal of remaining foreign equity limits.

The study estimated that such a package of reforms has the potential to generate US$175 billion a year in additional real income (in 2004 dollars) across the Asia-Pacific region after a 10-year adjustment period. According to these estimations, gains from more competition in these sectors alone would be almost twice as large as those deriving from further liberalization of merchandise trade. Major gains are projected to occur in the services sectors undertaking reform as well as in those that use services inputs more intensively. This clearly indicates the relevance of the services sector in the generation of income in the region.

Another study carried out by Philippa Dee focusing on these same infrastructure services sectors within APEC, shows that the weighted average productivity improvement from reform would be between 2 and 14 percent.[22] As Figure 2.15 indicates, the most extensive reforms but also the major gains are expected to take place in Indonesia, Malaysia, Mexico, the Philippines, Chinese Taipei, Thailand and Vietnam. These gains will be all the more important as they would remove the welfare losses caused by sub-par productivity on the part of services, which has a greater negative impact than the actual application of tariffs. Structural reforms in these infrastructure sectors can come from the increase in competition in the segments that are not dominated by 'natural monopolies', even when keeping current ownership structures. The appropriate level of competition depends on the specific sector.

Figure 2.15: Weighted Average Productivity Improvements from Structural Reforms in Transport, Energy and Telecommunications for APEC Economies (in percentages)



Source: Philippa Dee, Priorities and Pathways in Services Reform, Part I: Quantitative Studies, Singapore: World Scientific Publishing Company, 2013

There have already been several success stories in the Asia-Pacific region that confirm the importance of enhancing competition in services. The APEC Services Competitiveness Roadmap highlights some of these, as reproduced in Box 2.3.

BOX 2.3 SUCCESS STORIES IN APEC AS A RESULT OF ENHANCING COMPETITION IN SERVICES

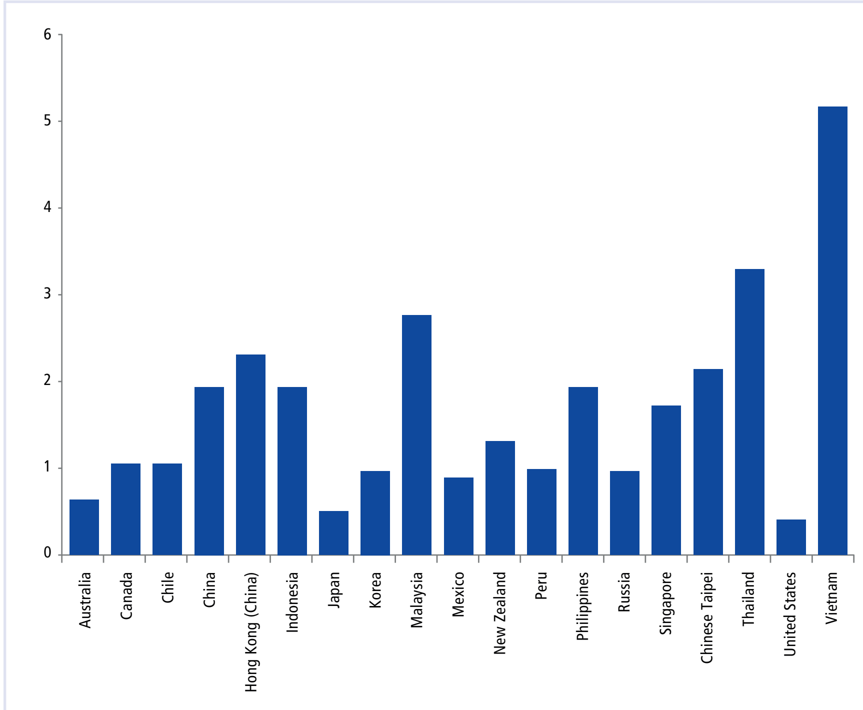
- Airfares in Korea fell by 20-30 percent as a result of increased competition from low cost carriers in 2006;
- Rail fares in Chile were 40 percent lower after the government-owned rail corporation divested some of its operations;
- Freight rates between Thailand and Laos fell by 20-30 percent when quotas on cross-border freight licenses were removed;
- Retail competition reduced electricity prices in the United States by 5-10 percent for residential customers and by 5 percent for industrial customers;
- In Vietnam, a transparent and predictable regulatory environment to foster competition in telecommunications reduced prices and increased mobile phone penetration to 80 percent;
- The number of mobile subscribers rose by 700 percent after the introduction of competition in Papua New Guinea. Charges also fell by 11 percent during peak times for local calls and 51 percent during off-peak periods.

Source: APEC Services Competitiveness Roadmap.

[22] Philippa Dee, Services Trade Reform: Making Sense of It, World Scientific Studies in International Economics, Volume 28, 2014, ISSN 1793-3641.

The expected welfare and real GDP gains from structural reforms in services for the different economies in APEC are expected to vary. Figure 2.16 presents the welfare gains from structural reforms relative to each economy's initial GDP, suggesting a correlation between the expected gains and the extent of the services reform to be undertaken. The economy that would have to undergo the most extensive reform but that would also derive the largest benefit would be Vietnam, with welfare and real GDP gains of around 5 percent. Thailand and Malaysia would also realize significant gains of around 3 percent of GDP after undertaking structural reforms in services, with several economies showing potential gains of around 2 percent of GDP (China, Hong Kong (China), Indonesia, Philippines and Chinese Taipei).

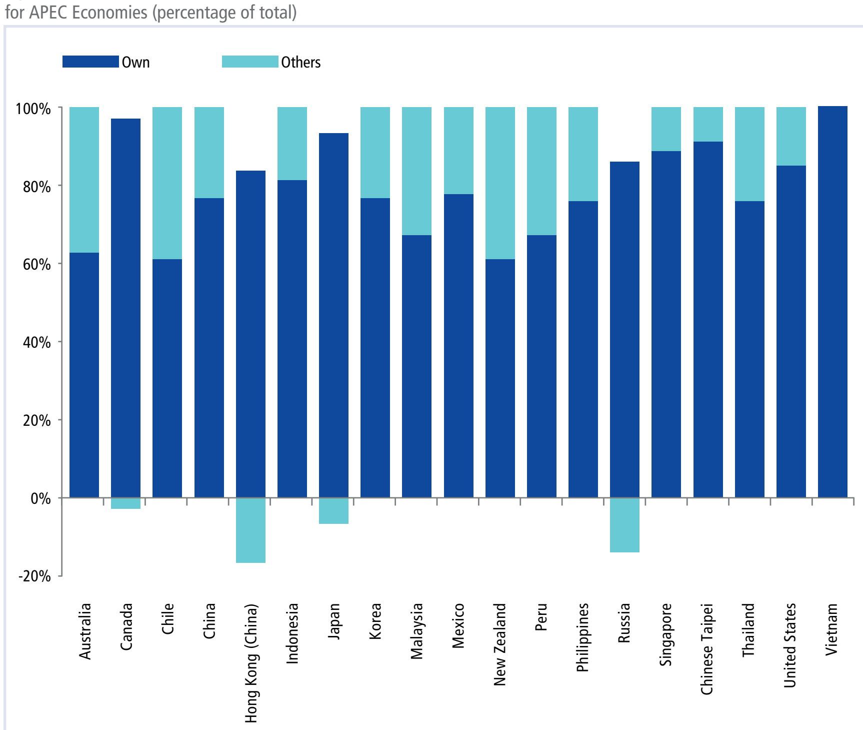
Figure 2.16: Welfare Gains from Structural Reforms in Services Relative to Initial Economic Size for APEC Economies (in percentages)



Source: Philippa Dee, Priorities and Pathways in Services Reform, Part I: Quantitative Studies, Singapore: World Scientific Publishing Company, 2013

Of direct relevance to policy makers, it is key to observe that the vast majority of the potential gains to be derived from structural reform in services is realized from unilateral action. Figure 2.17 breaks down total gains into two parts: those deriving from domestic reform and those deriving from others' reforms. For all APEC economies, more than 60 percent of the gains derive from their own reforms. Thus, it is clear that the primary urgency for action on structural reform lies with national governments and not with collective decision-making, though this can also help to provide emphasis to unilateral policy decisions. But to generate benefits, there is actually no incentive for governments to wait for others to make the first move.

Figure 2.17: Contribution to Welfare from Own and Others' Structural Reform in Services for APEC Economies (percentage of total)



Source: Philippa Dee, Priorities and Pathways in Services Reform, Part I: Quantitative Studies, Singapore: World Scientific Publishing Company, 2013.

FUTURE CHALLENGES

Due to the highly restrictive content of services regulations and the lack of policy focus that was the case for many years, services are still not providing the potential they could and should for economies in the Asia-Pacific to enhance their growth and improve their competitiveness.

To advance on this path it will be critical for APEC to progress the targets contained in the Services Competitiveness Roadmap in order to move closer toward the Bogor Goals of free and open trade in services and investment by 2020 and beyond. Many future challenges remain for the Asia-Pacific in the area of services liberalization and structural reform that need to be met through well-targeted work in this context.

In moving forward towards more open and efficient services economies, the Asia-Pacific region can think of addressing the challenges of services liberalization and reform along a three-pronged path: continuing with the autonomous services opening that has been a driving force in recent years; setting and monitoring targets for services liberalization and structural reform within APEC within the APEC Services Cooperation Framework and the Services Competitiveness Roadmap at both the economy and regional level; and negotiating supportive trade agreements with strong services components. While the concluded or future potential mega-regional trade agreements (TPP, TTIP and RCEP) offer important benefits in terms of making the policy environment for services trade more predictable, they also risk dividing the world into separate blocs where different rules apply. The plurilateral Trade in Services Agreement (TiSA) that is under negotiation offers yet another pathway forward that may be more acceptable to a larger number of economies and more inclusive, depending upon how it is applied once finalized (on an MFN or non-MFN basis) and whether or not its deeper disciplines for services can be incorporated in some form into the WTO framework so that those WTO members applying it can have access to the dispute settlement mechanism.

Given the potential benefits that services can generate in terms of employment, more efficient outcomes in all sectors of the economy, enhanced productivity and innovation, and achieving more inclusive growth patterns, services should and must remain a high priority focus of the Asia-Pacific.

CHAPTER 03 PERSPECTIVES ON REGIONAL POLICY ISSUES

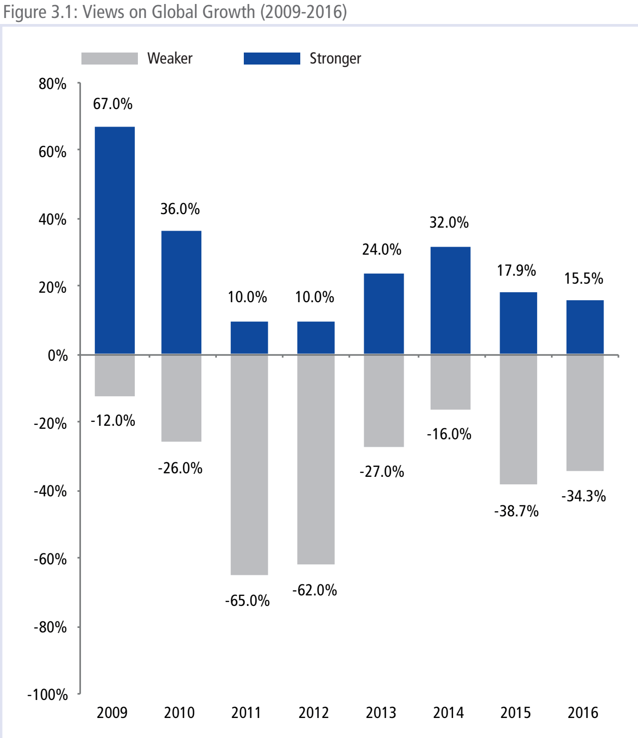
CONTRIBUTED BY MR. EDUARDO PEDROSA, SECRETARY GENERAL OF PECC / COORDINATOR OF STATE OF THE REGION

The state of the region remains in flux. The regional policy community remains concerned about the prospects for future growth in the region and the risks coming from the failure to implement structural reforms. The region's long-term vision of an integrated Asia-Pacific is at risk from increased protectionist sentiment and a deterioration of the political environment for further trade liberalization.

At the same time, the key policy issues are shifting from tariff to non-tariff barriers. As discussed in chapter 2, the importance of services to economic growth is increasing but as revealed in this year's survey, while the policy community sees big benefits in the liberalization of the services sector in terms of cheaper and better services and overall competitiveness, policy reforms may be hampered by the lack of competitiveness of local firms. If progress is to be made, government officials need to make regulations more transparent and predictable, especially among multiple layers of authority. Rapid technological advances are making services increasingly tradeable but new issues are coming to the fore such as barriers to data flows. If inclusive regional growth is to be achieved, the Asia-Pacific needed to take significant steps to resolve these issues.

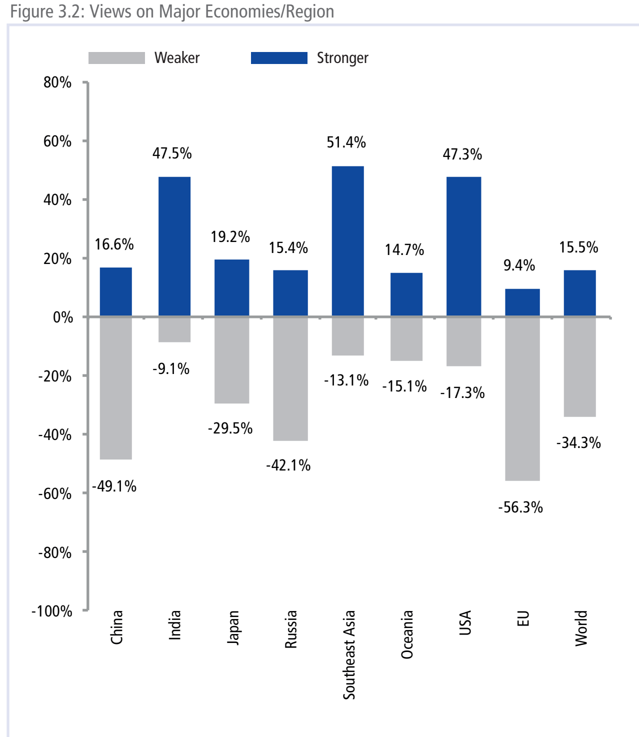
In 2006, the PECC took the decision to develop the Pacific Economic Outlook publication from a forecast of the regional economy to a broader look at the state of the region. A key component of the State of the Region report is a survey of the regional policy community including businesses, governments, academics, media and civil society. This chapter summarizes the key findings from the 2016 survey of the regional policy community.

Figure 3.1: Views on Global Growth (2009-2016)



Question: What are your expectations for economic growth over the next 12 months compared to the last year for the following economies/regions?

Figure 3.2: Views on Major Economies/Region



Question: What are your expectations for economic growth over the next 12 months compared to the last year for the following economies/regions?

OUTLOOK FOR WORLD ECONOMY REMAINS NEGATIVE

As shown in Figure 3.1, regional perceptions on the global economic outlook remain negative. Thirty-four percent of respondents expect the world economic growth to be weaker over the coming 12 months compared to the last year. These figures are broadly the same as 2015 survey's results indicating that very little has changed in the minds of the regional policy community.

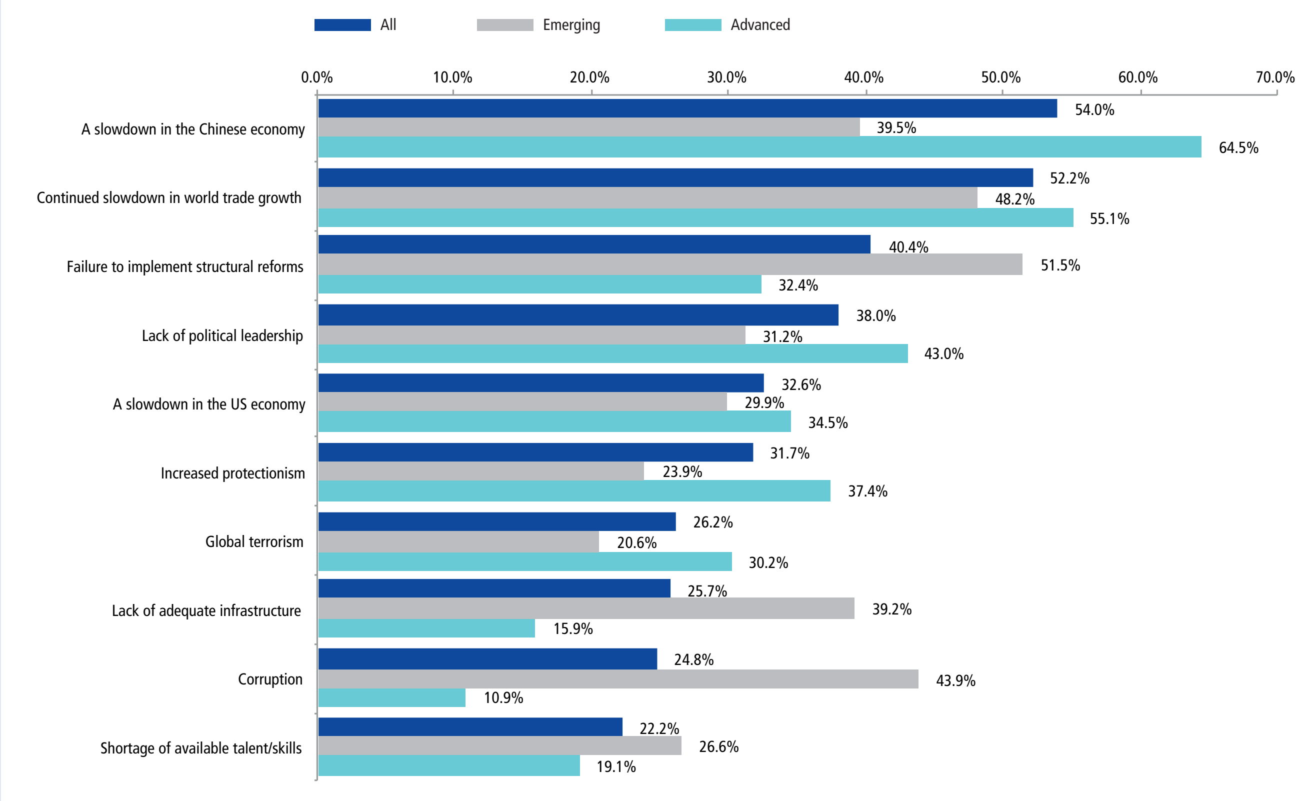
There are some bright spots with respondents most positive about the trajectory of growth in in India followed by Southeast Asia and the United States.

SLOWDOWN IN WORLD TRADE GROWTH NOW A MAJOR RISK

The top 5 risks to growth in the region were:

- A slowdown in the Chinese economy
- Continued slowdown in world trade growth
- Failure to implement structural reforms
- Lack of political leadership
- A slowdown in the US economy

Figure 3.3: Risks to Growth



Question: Please select the top five risks to growth for your economy over the next 2-3 years.

As shown in Figure 3.3, while there was broad convergence among regional economies on their perceptions of risk to growth there were some important differences. Respondents from advanced economies tended to be more concerned than those from emerging economies on the impact of China's slowdown on their economy. Conversely, the failure to implement structural reforms was seen as a much bigger risk to growth by respondents from emerging economies than those from advanced economies.

With the exception of concerns over the slowdown in world trade growth, the list of top risks is the same as it was in last year's survey. The managed slowdown in China continues to top respondents concerns as it did last year with the failure to implement structural reform and the lack of political leadership completing the list of the top risks.

RISING RISK OF PROTECTIONISM

Concerns over the impact of protectionism on economic growth are rising. As shown in Figure 3.4, over recent years, a growing percentage of respondents have been selecting protectionism as a top 5 risk to growth for their economy reaching 32 percent this year. Looking more closely at the breakdown of responses at the sub-regional level in Figure 3.5 it was North Americans who were most concerned about the risk that increased protectionism poses to their economies with 52 percent selecting it as a top 5 risk to growth. The concerns over the lack of political leadership may well be related to the failure to implement structural reforms and increased protectionism.

Figure 3.4: Evolution of Protectionism as Risk to Growth 2011-2016

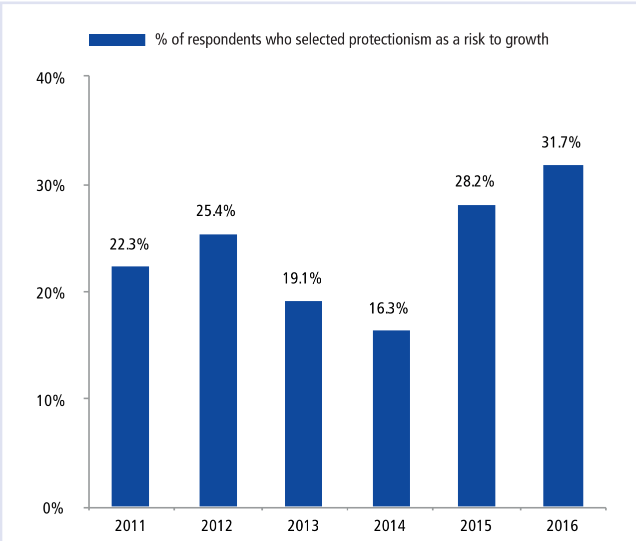
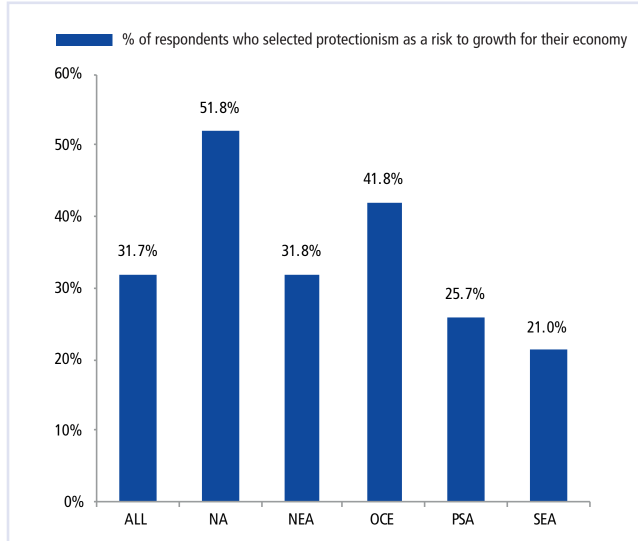


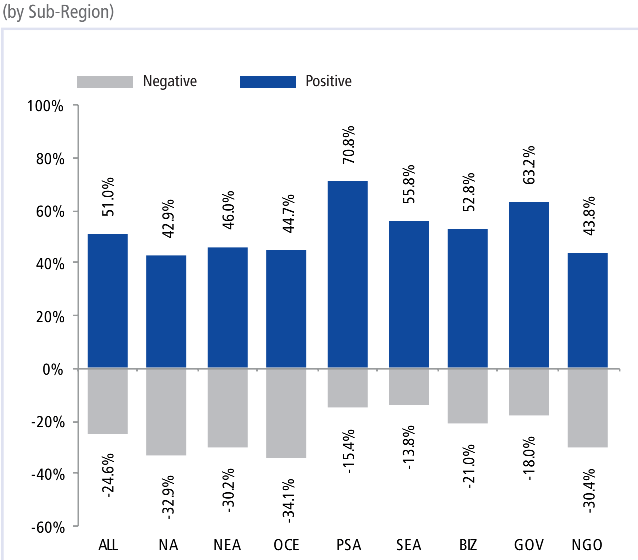
Figure 3.5: Protectionism as a Risk to Growth (views by sub-region)



ATTITUDES TOWARDS TRADE

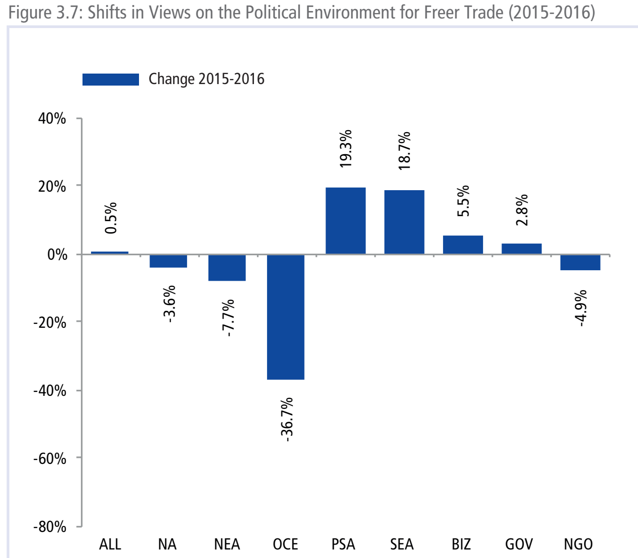
Given the assessment of the risk that slower trade growth and protectionism have on economic growth, there are rising concerns over the future of some of the region's trade initiatives. Those concerns tend to focus on the political support for trade initiatives rather than the net economic gains that they might potentially bring.

Figure 3.6: Views on the Political Environment for Freer Trade in the Asia-Pacific (by Sub-Region)



Question: How do you assess the political environment for Asia-Pacific freer trade and investment in the coming five years?

Figure 3.7: Shifts in Views on the Political Environment for Freer Trade (2015-2016)



Question: How do you assess the political environment for Asia-Pacific freer trade and investment in the coming five years?

As shown in Figure 3.6, 51 percent of respondents had a positive view on the political environment for freer trade in the region while 25 percent had a negative view or a net favorability of 26 percent. This is very similar to the views expressed to the same question last year. On balance, respondents from North America were the most pessimistic with 43 percent having positive views and 33 percent negative, this was closely followed by Oceania with 45 percent having positive views and 34 percent negative views. Figure 3.7 shows the shift in 'net favorability' (those who have a positive view minus those who have a negative view) towards freer trade in the region. The biggest shifts in views between 2015 and 2016 were in Oceania.

By far the most optimistic were respondents from Pacific South America, 71 percent were positive and only 15 percent negative. There were also positive shifts in the region towards trade, with Southeast Asians becoming more positive in their views towards the political environment for trade.

Overall, the assessment from the Asia-Pacific policy community on the political environment for freer trade is skeptical. An overall favorability rating of 26 percent, while still positive, would give pause to any decision-maker on the ability to move forward on an ambitious agenda. Much more needs to be done to make the case for freer trade if any of the ongoing and putative initiatives are going to succeed. It should be emphasized that this is a survey of the policy community and not the general public and that respondents were not asked for their personal views but an assessment of the political environment.

The bottom line is that the policy community in the region's emerging economies have a much more optimistic assessment of the political environment for freer trade than those in the region's advanced economies.

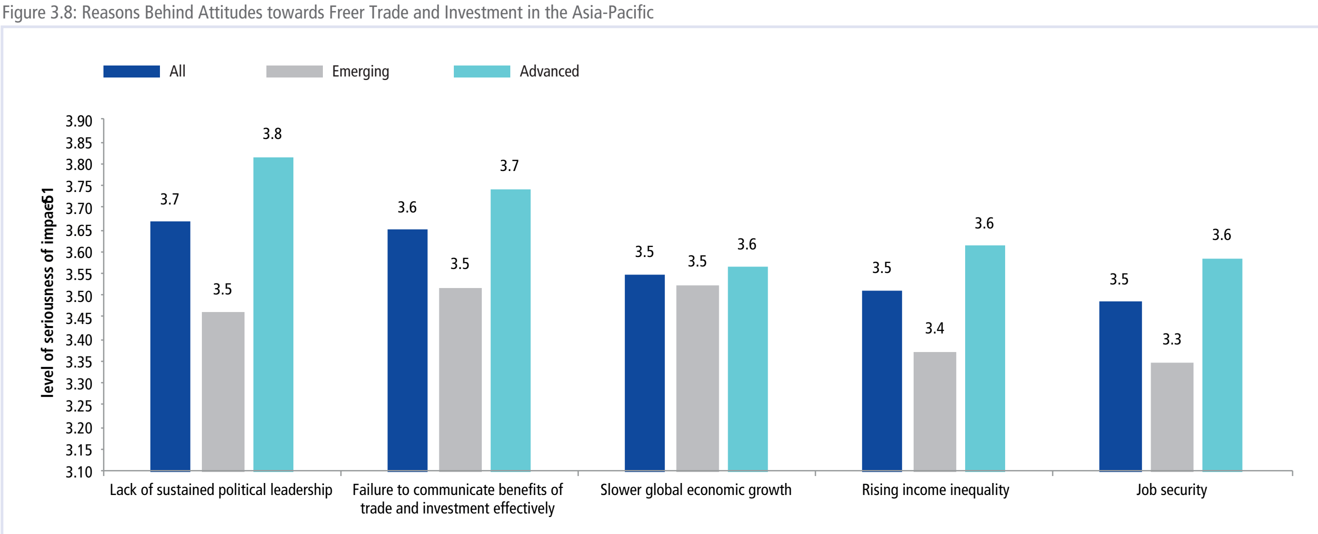
WHAT LIES BEHIND FALTERING SUPPORT FOR TRADE?

If the region is to make progress on its overarching goal of regional economic integration a better understanding of what lies behind the assessment on the political environment is needed. As shown in Figure 3.8, the top factors that were singled out as having the greatest impact on attitudes towards freer trade:

- the failure to communicate the benefits of trade and investment effectively; and
- the lack of sustained political leadership

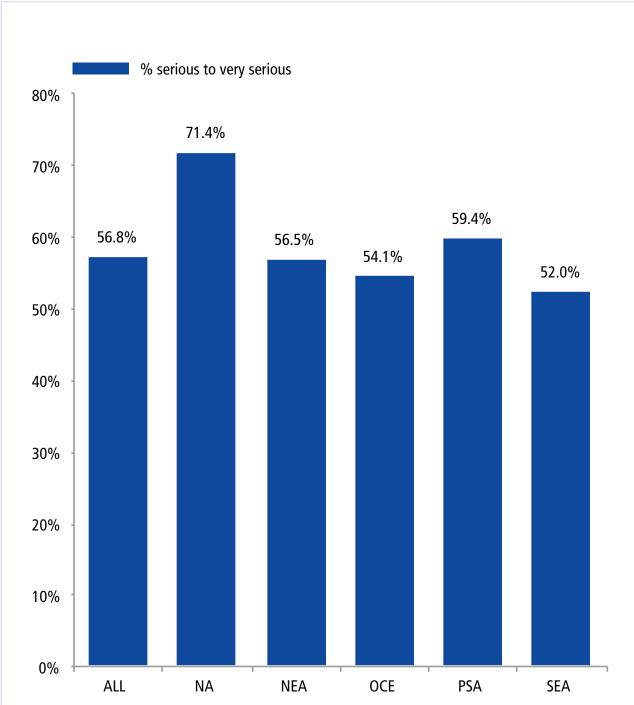
Respondents were asked to rate the impact of 5 issues on the impact they have on attitudes towards freer trade and investment in the region. The issue that scored the highest was the lack of sustained political leadership which scored 3.7 with 64 percent of respondents saying that it had a serious or very serious impact. This was closely followed by the failure to communicate the benefits of trade and investment effectively which scored 3.6 with 64 percent of respondents saying it had a serious or very serious impact. Respondents from advanced economies tended to place a much higher degree of importance to all of the factors provided. While discussions on trade, integration and globalization have focused on their impact on income inequality and jobs, the regional policy community tended to look to the failure to communicate the benefits of trade and sustained political leadership as having the most serious impact.

Figure 3.8: Reasons Behind Attitudes towards Freer Trade and Investment in the Asia-Pacific



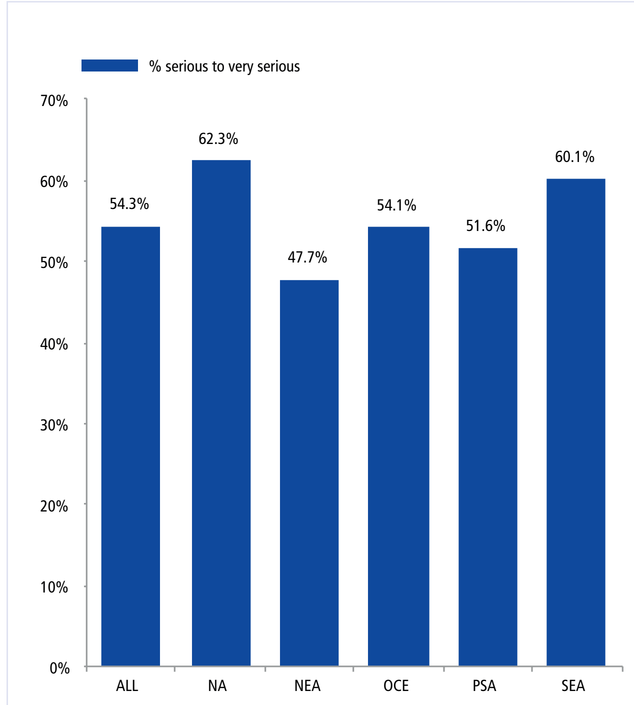
Question: Please rate each of the following from 1 to 5 on the impact they have on attitudes towards freer trade and investment in your economy with 1 having no impact, 2 a minor impact, 4 a serious impact and 5 a very serious impact.

Figure 3.9: Impact of Rising Income Inequality on Attitudes towards Trade



Question: Please rate each of the following from 1 to 5 on the impact they have on attitudes towards freer trade and investment in your economy with 1 having no impact, 2 a minor impact, 4 a serious impact and 5 a very serious impact.

Figure 3.10: Impact of Job Security on Attitudes towards Trade



Question: Please rate each of the following from 1 to 5 on the impact they have on attitudes towards freer trade and investment in your economy with 1 having no impact, 2 a minor impact, 4 a serious impact and 5 a very serious impact.

As shown in Figures 3.9 and 3.10, North American respondents thought that rising income inequality had a more serious impact on attitudes towards trade than others at 71 percent compared to 52 percent for Southeast Asians. A similar pattern was seen with respect to job security with 62 percent of North Americans saying that it had a serious to very serious impact compared to 48 percent of Northeast Asians.

The ranking of issues was fairly consistent across sub-regions even though the severity of the impact differed, except for Northeast Asians. For Northeast Asia, it was slower economic growth that had the most serious impact on attitudes towards trade. Regional governments need to do much more to convince skeptical publics, especially in advanced economies of the benefits of trade.

VIEWS ON THE BENEFITS OF ECONOMIC INTEGRATION INITIATIVES

In spite of the less-than-enthusiastic view of the political environment for free trade, assessment of the economic benefits of a large range of economic integration initiatives was overwhelmingly positive. Overall respondents were most positive about the impact of the WTO's Trade Facilitation Agreement (TFA) on their economies. That such assessment of the TFA was shared by respondents from both emerging and advanced economies, it should help to give impetus to further multilateral efforts.

As shown in Figure 3.11 and 3.12, there was very little difference between respondents from advanced and emerging economies on how these initiatives would impact their economies. The two pathways to the Free Trade Area of the Asia-Pacific (FTAAP), the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership were seen by over 60 percent of respondents as having a positive impact on regional economies.

The positive view of regional initiatives was regardless of whether the respondent's economy was part of the grouping. For example, 67 percent of North Americans thought that the ASEAN Economic Community would have a positive impact on their economy as did 52 percent of respondents from Pacific South America.

Respondents tended to be less enthusiastic about less well known sub-regional initiatives such as the Pacific Agreement on Closer Economic Relations (PACER) which is an agreement among members of the Pacific Islands Forum plus Australia and New Zealand, and the Pacific Alliance, which is an agreement among Chile, Colombia, Mexico and Peru. However, these results were strongly influenced by the lack of awareness about them, with 25 percent of respondents selecting 'don't know' on the impact that they would have on their economies. The One Belt One Road Initiative (OBOR) received a somewhat lukewarm assessment compared to the TPP and RCEP, and as with PACER and the PA there is was a large lack of awareness with 19 percent selecting 'don't know' for OBOR.

Figure 3.11: Advanced Economy Views on Trade Initiatives

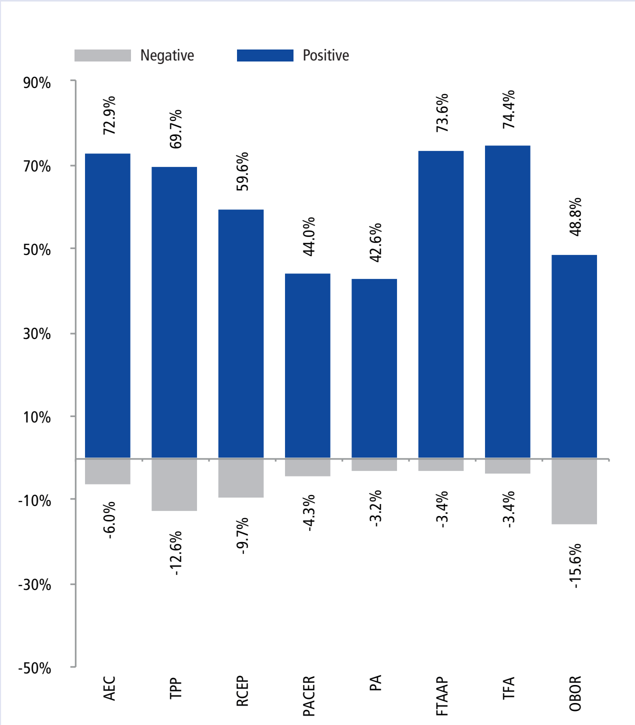
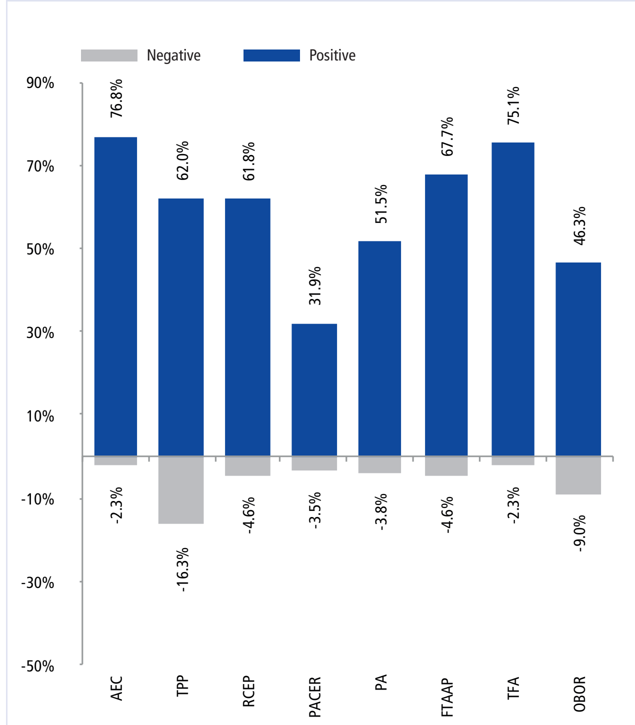


Figure 3.12: Emerging Economy Views on Integration Initiatives



APEC SHOULD FOCUS TRADE WORK ON ACHIEVING THE FTAAP

The idea of the FTAAP has been discussed by APEC for over a decade. Significant progress was made in 2014 with the adoption of 'The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP.' There was broad agreement that the economic benefits of the FTAAP were positive with 71 percent saying it would have a positive impact on their economy compared to just 4 percent who thought it would have a negative impact. There was also broad agreement that APEC should focus its work on trade policy to achieving the FTAAP . This does not necessarily mean that APEC would be the negotiating forum for an agreement, indeed the Beijing Roadmap is explicit in that "the FTAAP will be realized outside of APEC, parallel with the APEC process." However, the view seems to be that APEC should at the very least continue its incubator role if progress is to be made.

Figure 3.13: Views on the Economic Impact of the FTAAP (by sub-region)

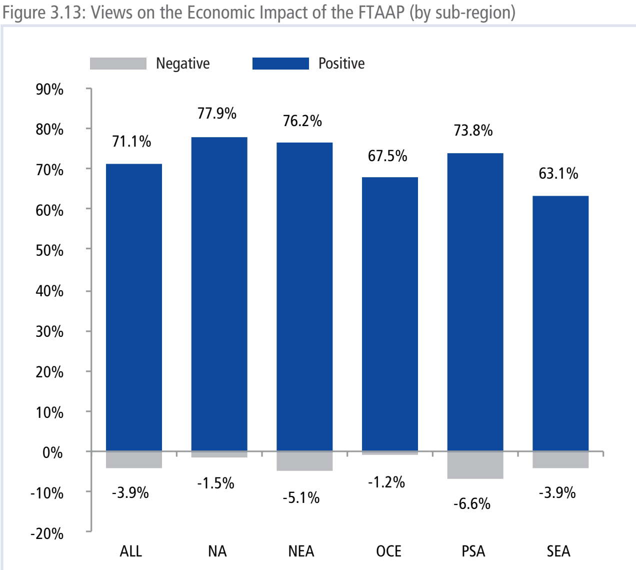


Figure 3.14: APEC should focus its work on trade policy to achieving the FTAAP

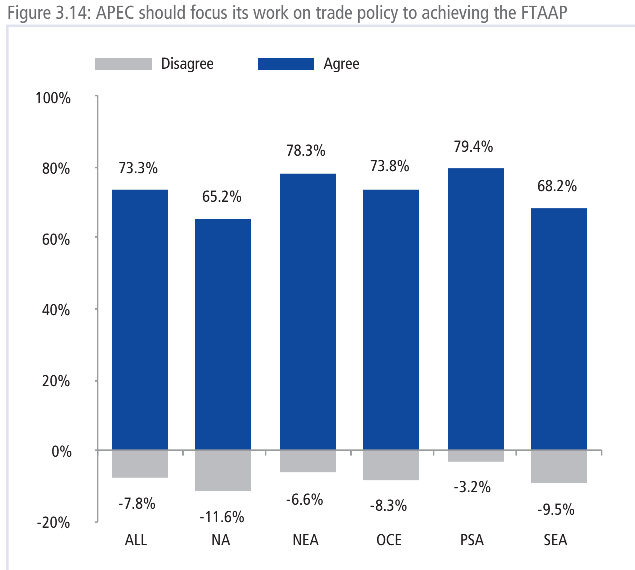
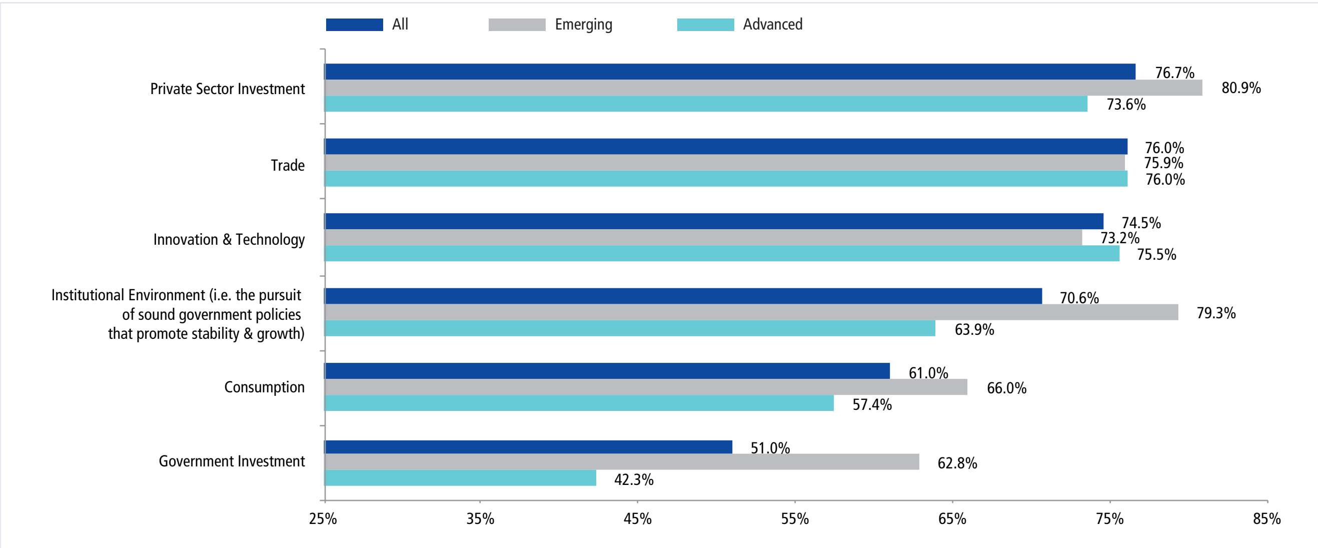


Figure 3.15: Drivers of Growth



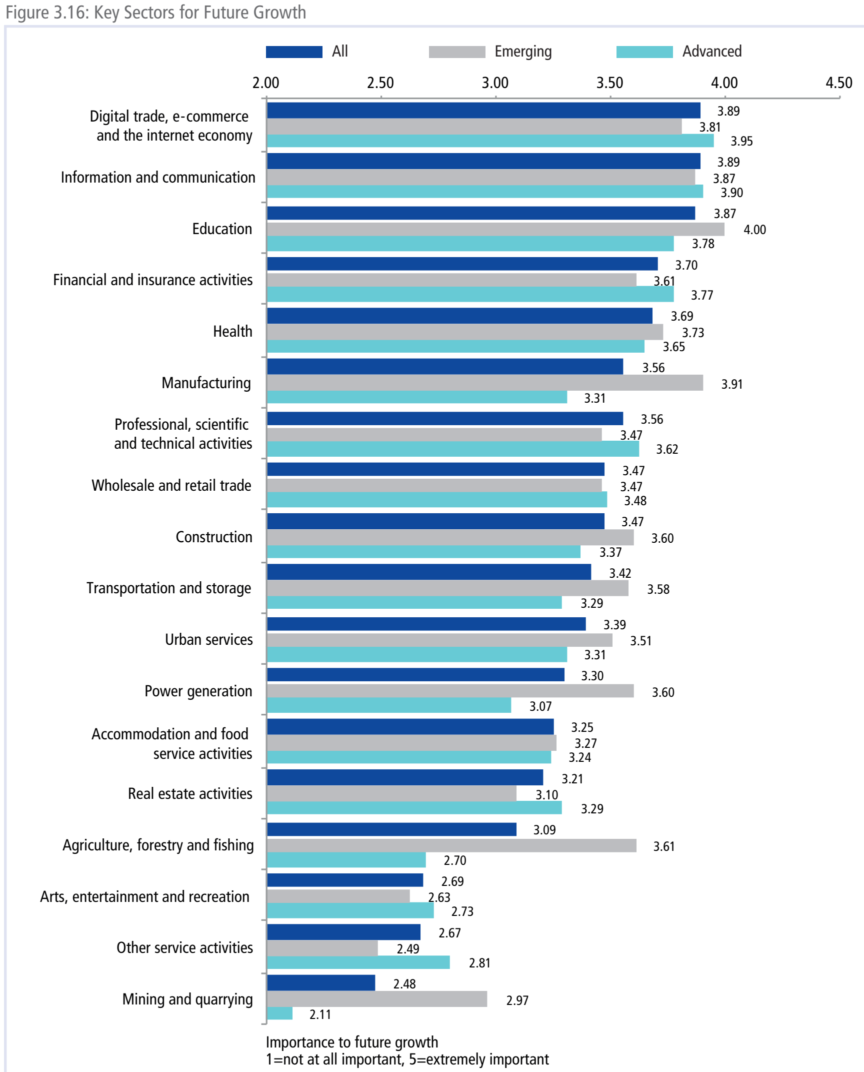
DRIVERS OF GROWTH

As discussed in Chapter 1, the role of trade as a driver for Asia-Pacific growth has been diminishing since the Global Financial Crisis. While the factors behind this are both cyclical and structural, new drivers of growth need to be developed. As shown in Figure 3.15, respondents thoughts that private sector investment would be the most important driver of growth for economies in the Asia-Pacific region.

However, there were some significant differences among respondents from advanced and emerging economies. The greater focus on structural reforms and the policy environment for emerging economies, as seen in their assessments of risks to growth, was also evident in their perceptions of key drivers of growth. Some 80 percent of respondents from emerging economies rated the institutional environment as very to extremely important to the growth of their economies over the next five years compared to 64 percent of respondents from advanced economies

Even though the assessment of the political environment for trade was less than enthusiastic, trade was still seen as an important driver of growth over the next 5 years. This sentiment was equally shared by respondents from both advanced and emerging economies.

Figure 3.16: Key Sectors for Future Growth



Question: Please rate how important each of the following activities by standard industrial classification will be to the growth of your economy over the next 5 years.

SERVICES SECTOR TO DRIVE GROWTH

Looking more deeply at potential sectors for growth, as shown in Figure 3.16, there is a clear view that the future of growth in the region is in the services sector. The top five sectors for the future growth of the region were: information and communication; education; digital trade, e-commerce and the internet economy; finance and health – all services.

There were, however, some large differences between perceptions from emerging and advanced economy respondents, with the former placing a much higher level of importance on the role of agriculture and manufacturing in their economic growth, while the latter tend to place a much higher degree of importance on services sub-sectors. As discussed in more detail in Chapter 1, while manufacturing has contributed around 30 percent to emerging economy growth between 2010 and 2014, services contributed around 53 percent and agriculture less than 5 percent.

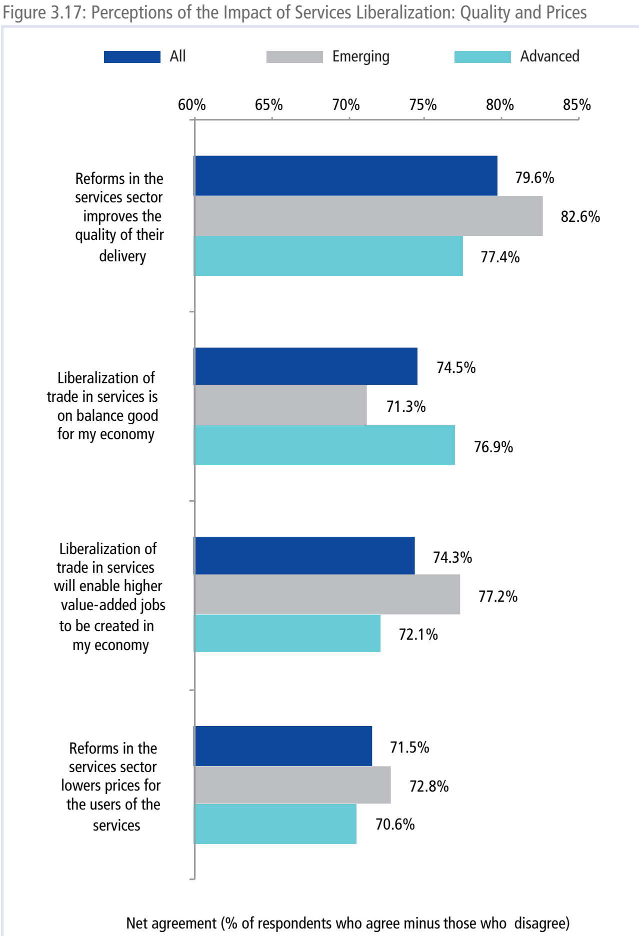
While the structure of emerging economies has changed considerably, perceptions lag behind which tend to place a greater level of importance on the role of agriculture as a driver of growth.

PERCEPTIONS OF THE IMPACT OF SERVICES LIBERALIZATION

As shown in Figure 3.17, there was a broad convergence of views that the liberalization of services trade was beneficial to the economy in terms of improving the quality of overall services delivery, the creation of better jobs and lower prices. As shown in Figure 3.18, there was also broad disagreement across the region that the liberalization of trade in services would result in a net job loss.

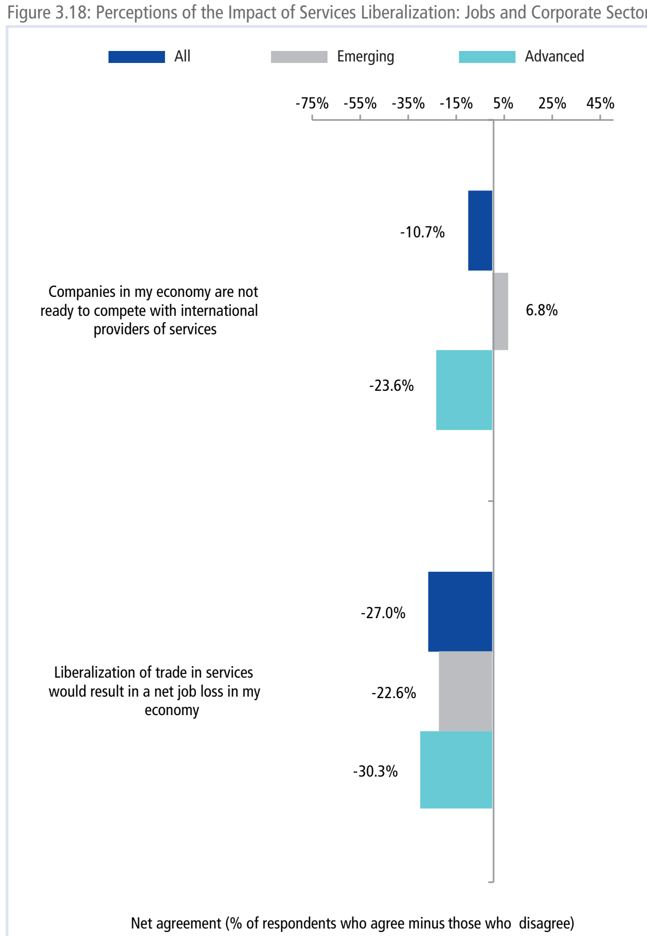
However, one issue on which there was a divergence in views was whether or not domestic services providers were ready to compete with international providers of services. Respondents from advanced economies thought that their companies were ready for international competition while those from emerging economies did not. While this point is perhaps intuitively obvious, it highlights the critical political economy of services liberalization and trade liberalization generally. While trade may be beneficial for the economy in terms of higher overall welfare and job creation, there is a view that some companies are not ready for competition which may stall the liberalization process costing the overall economy.

Figure 3.17: Perceptions of the Impact of Services Liberalization: Quality and Prices



Question: Please state the level of agreement you have with each of the following statements.

Figure 3.18: Perceptions of the Impact of Services Liberalization: Jobs and Corporate Sector



Question: Please state the level of agreement you have with each of the following statements.

BARRIERS TO SERVICES

While there is a general expectation that the services sector will drive future growth and that the liberalization of services is overall beneficial to the economy, the challenge is how to identify the most serious barriers to services. Barriers differ from economy to economy and sector to sector. There was however broad agreement that the most serious barrier to trade in services is transparency (or the lack thereof), multiple layers of authority and the lack of predictability. While respondents from both the business sector and the government thought that this was the biggest problem. As shown in Figure 3.19, on a scale of 1 to 5 with 1 being a not at all serious and 5 a very serious impediment, business respondents were more concerned than government officials. In percentage terms, 63 percent of business respondents considered the lack of transparency as a serious to very serious impediment to services trade compared to 54 percent of government respondents.

Indeed, this finding was true across all types of impediments with just two exceptions: certifications and standard and screening of foreign investments. While respondents from government rated certification and standards issues as the second most serious impediment to services trade, businesses ranked it only as the sixth highest. Businesses saw restrictions on data flows as the fourth highest impediment to services trade, governments saw it as only the sixth highest. The problem of barriers to data flows is a relatively new issue that requires a better understanding of the costs they impose on businesses – especially SMEs. As shown in Figure 3.20, 44 percent of respondents from services firms considered barriers to data flows a serious to very serious impediment compared to just 29 percent of those from non-services firms.

Figure 3.19: Barriers to Services Trade

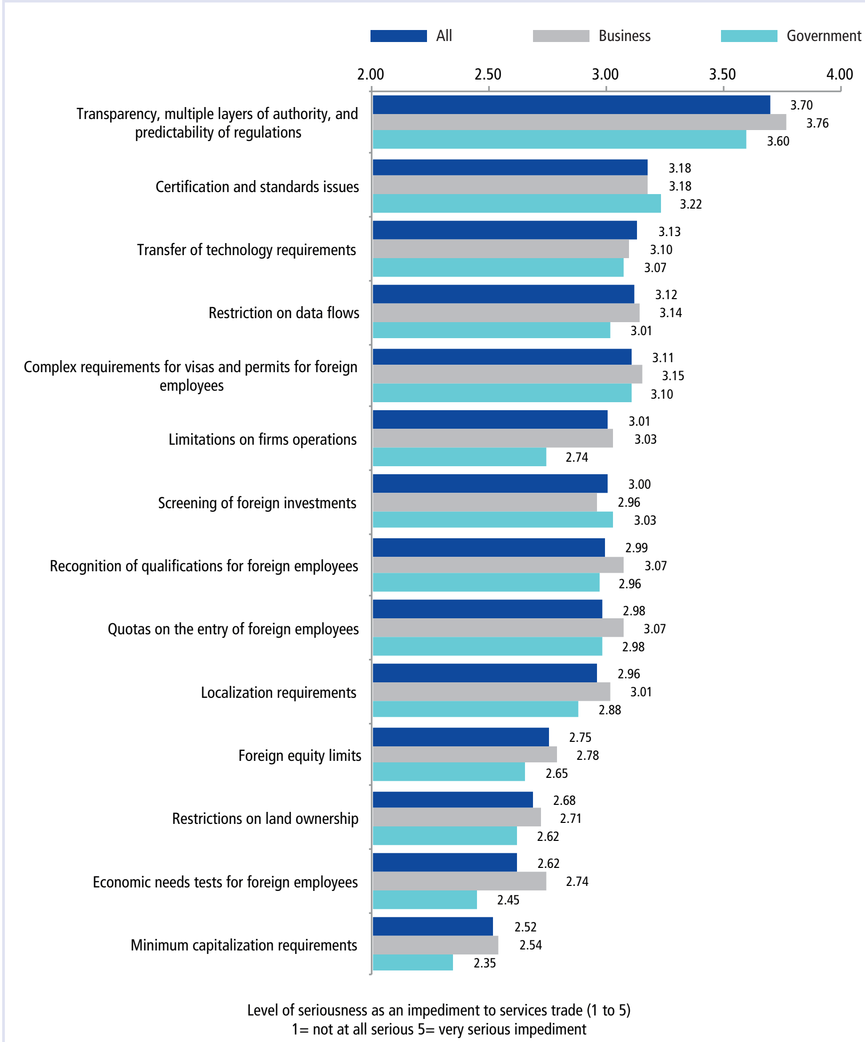
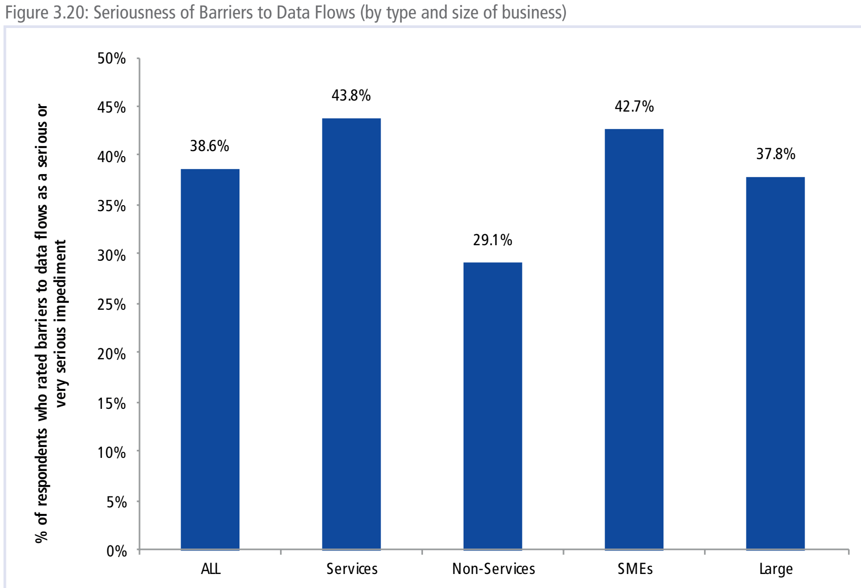


Figure 3.20: Seriousness of Barriers to Data Flows (by type and size of business)



Given work that is being done to better integrate SMEs into the regional economy, more work needs to be done to understand how barriers to data flows are impacting them. Forty-three percent of SME respondents though that barriers to data flows were a serious to very serious impediment compared to 38 percent of large firms. This indicates that the free flow of data is more important for the region's SMEs than for large firms and multinational corporations.

In addition to assessing the serious of a variety of impediments to services, respondents were also asked to suggest what APEC as a grouping could do to resolve the issue.

TRANSPARENCY, MULTIPLE LAYERS OF AUTHORITY, AND PREDICTABILITY OF REGULATIONS

Over a hundred suggestions were given by respondents, ranging from promoting APEC's role as an advocacy body to promoting greater transparency and consistency in regulatory practices, undertaking assessments of the impact of regulation through to an agreement to harmonize technical regulations.

CERTIFICATION AND STANDARDS ISSUES

In their suggestions, respondents tended to focus on the usage of existing international standards such as Codex and performance-based standards such as ISO. They also suggested that APEC could come to agreements on common requirements for certification and standards as well on phytosanitary regulations.

TRANSFER OF TECHNOLOGY REQUIREMENTS

There was a wide range of suggestions such as: APEC agreeing to eliminate transfer requirements to cooperation to implement technology transfer that builds capacity and respects protection of intellectual property. There were also suggestions that technology transfer should not be a trade issue but should be defined as a development issue.

RESTRICTIONS ON DATA FLOWS

A number of suggestions were made on what APEC could do to resolve the impact that restrictions on data flows have on services trade. These include:

- Investigate data flows to and from the region
- Limiting restrictions
- Dialogues on best practice
- Surveys of business on the impact that data flow restrictions have on their operations
- Remove all limitations on data flows

COMPLEX REQUIREMENTS FOR VISAS AND PERMITS FOR FOREIGN EMPLOYEES

Suggestions on how to deal with complex requirements for visas and permits for foreign employees ranged from consultation with the business community on the requirements that have the greatest impact on their operations; agreeing on harmonized requirements for visas and permits; to having APEC-wide visas and employment passes for qualified employees.

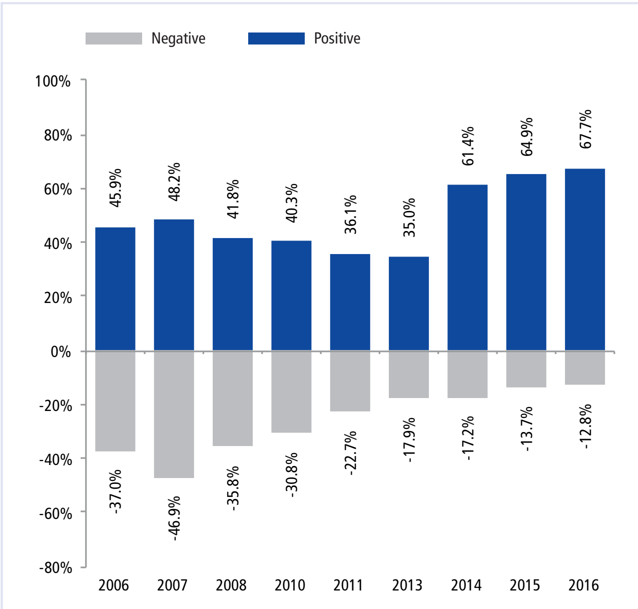
PERCEPTIONS OF APEC CONTINUE TO IMPROVE

Since PECC started the State of the Region survey, a variety of questions have been asked about attitudes towards APEC. As shown in Figure 3.22, attitudes in 2006 were ambivalent, 46 percent respondents had a positive view of APEC compared to 37 percent who had a negative view. From 2006 to 2013, respondents with a positive view of APEC fell to a low of 35 percent, even though those with a negative view also fell to 18 percent. In 2014, attitudes towards APEC swung around with 61 percent having a positive view and 18 percent negative. The improvement in the perception of APEC has continued since then. This year, 68 percent expressed a positive view about APEC and 13 percent a negative giving APEC its best 'approval rating' of 55 percent.

This is a considerable improvement in perception from the last time that Peru hosted APEC back in 2008 when only 42 percent of respondents had a positive view and 36 percent had a negative view. As shown in Figure 3.22, the positive view on APEC is shared across the whole Asia-Pacific but by far the most enthusiastic sub-region is Pacific South America with 86 percent of respondents having a positive view and only 8 percent a negative view.

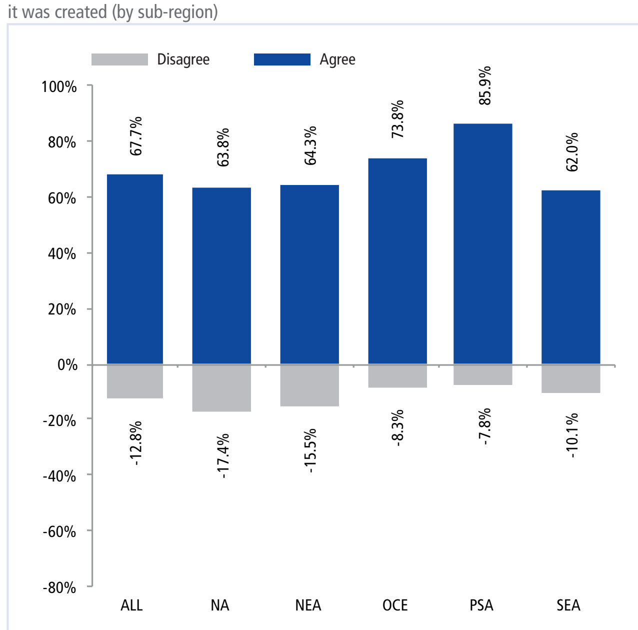
There has been a remarkable turnaround in the views of North American respondents in recent years. In 2007, 63 percent of North American respondents had a negative perception of APEC while only 30 percent had a positive view. The poor perception of APEC in North America continued from 2007 till 2013 when the percentage of respondents with a positive view of APEC began to outweigh those with a negative view.

Figure 3.21 Attitudes toward APEC (2007-2016)



Please indicate your opinion regarding the following statements: APEC is as important today as it was in 1989' (2007, 2008, 2010)
How effective do you think each of the following institutions has been in achieving its objectives (2011, 2013)
Please indicate your agreement or disagreement with the following statement: 'APEC is as important or more important today compared to 1989 when it was created' (2014, 2015, 2016)

Figure 3.22: APEC is as important or more important today compared to 1989 when it was created (by sub-region)

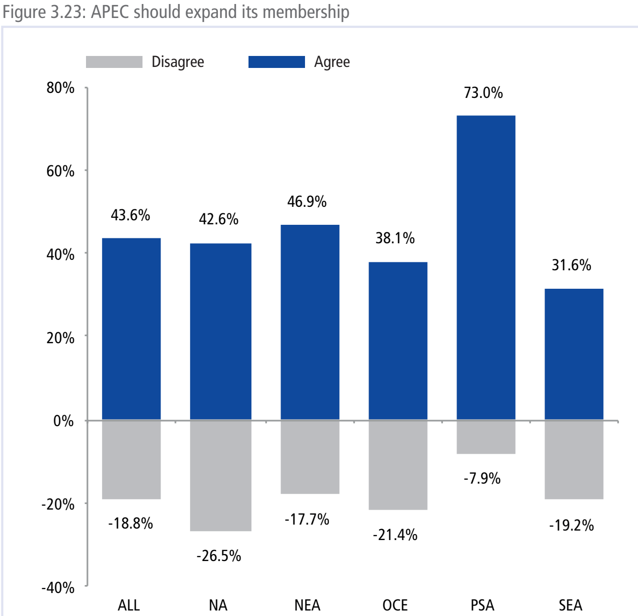


Please indicate your agreement or disagreement with the following statement: 'APEC is as important or more important today compared to 1989 when it was created' (2014, 2015, 2016)

IS IT TIME FOR APEC TO EXPAND ITS MEMBERSHIP?

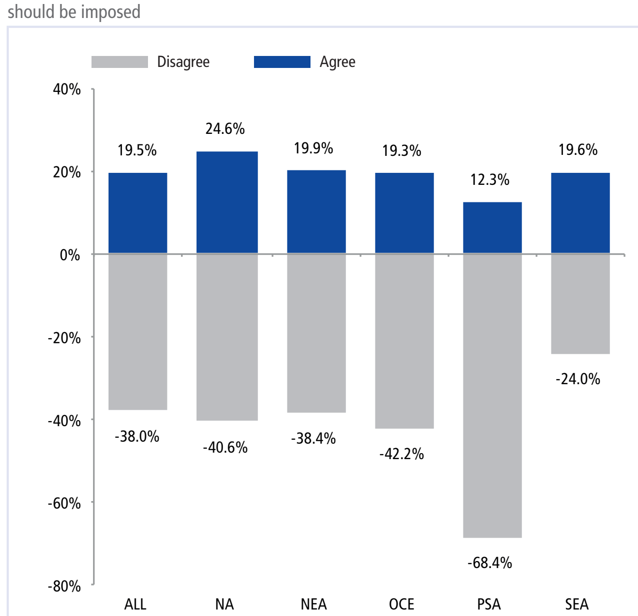
One issue confronting APEC is membership. The Asia-Pacific does not have a clear boundary, and as defined by APEC's membership, stretches from the Baltic Sea in Europe to the Atlantic shores of North America. Several economies have expressed an interest in joining APEC since the 10-year moratorium was imposed in 1997. However, no agreement has been reached on admitting new members.

Figure 3.23: APEC should expand its membership



Question: Please indicate your agreement or disagreement with the following statements: "APEC should expand its membership "

Figure 3.24: APEC is already too large, and a moratorium on new members should be imposed

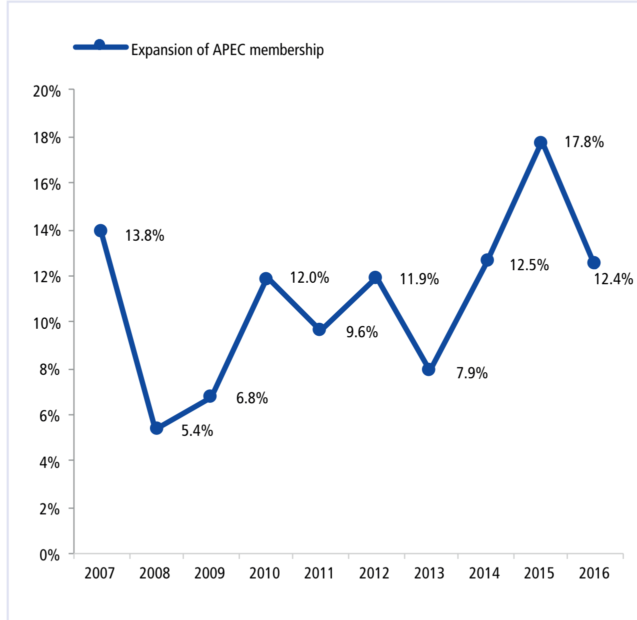


Question: Please indicate your agreement or disagreement with the following statements: "APEC is already too large, and a moratorium on new members should be imposed"

While the overall view from the policy community is that it is time for APEC to expand its membership, the level of enthusiasm for the idea varies across the region. Respondents from Pacific South America are the most enthusiastic with 73 percent agreeing with the idea that APEC should expand its membership while only 32 percent of Southeast Asians agreed. To further clarify thinking, respondents were also asked if APEC's membership was already too large and a moratorium on new members imposed. The responses were a virtual mirror of the first question on membership with 38 percent disagreeing and 20 percent disagreeing. Not surprisingly, those who disagreed the most that APEC was already too large were respondents from Pacific South America.

However, prospective members should not get their hopes up too high; as shown in Figure 3.25, only 12.4 percent of respondents selected APEC membership as a priority for APEC Leaders' discussions, making it the 19th highest priority out of a list of 28. This is a decrease from last year's survey which had APEC expansion as the 14th highest priority.

Figure 3.25: Expansion of APEC Membership as a Priority for APEC Leaders



Question: What do you think should be the top 5 priorities for APEC Leaders to address at their upcoming meeting (various venues): "Expansion of APEC membership"

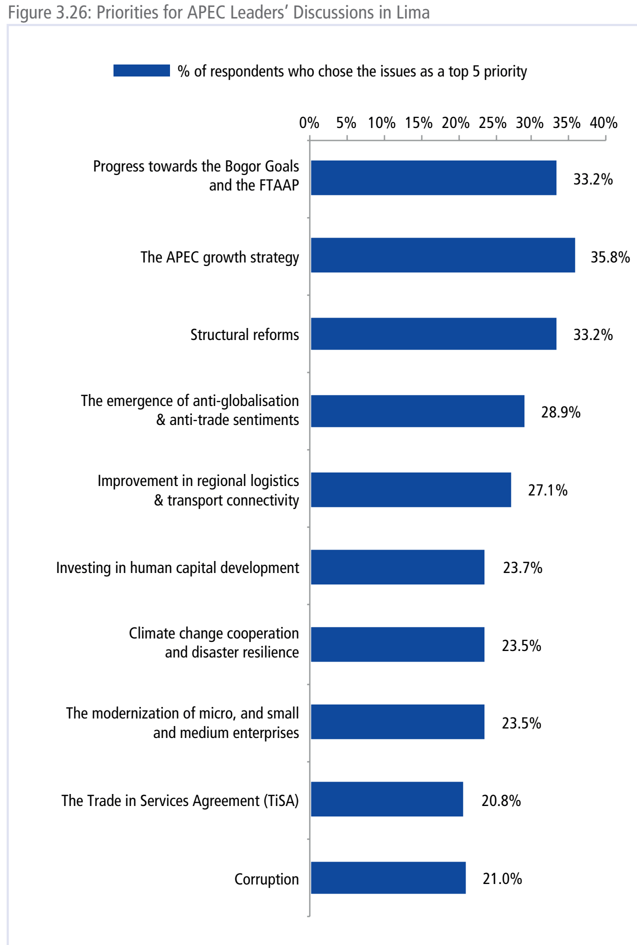
PRIORITIES FOR APEC LEADERS

The top 5 priorities for APEC Leaders' discussion in Lima were:

- Progress towards the Bogor Goals and the Free Trade Area of the Asia-Pacific (FTAAP)
- The APEC Growth Strategy
- Structural reforms
- The emergence of anti-globalization & anti-trade sentiments
- Improvement in regional logistics & transport connectivity

Figure 3.26 shows the top 10 priorities in order of their weighted scores but the figures shown are the percentage of respondents who selected the issue as a top 5 priority. The list includes all of the themes that APEC set at the beginning of 2016 except for fostering the regional food system. Only 8.5 percent of respondents selected this as a top priority for APEC Leaders' discussions making it the 26th out of 28 issues. The challenge for all international organizations, especially those that have been in existence for a number of years, is that the list of issues they are expected to deal with becomes longer and longer each year, especially in a grouping as diverse as APEC.

Figure 3.26: Priorities for APEC Leaders' Discussions in Lima



Question: What do you think should be the top 5 priorities for APEC Leaders to address at their upcoming meeting in Lima?

The top priorities identified by the regional policy community is similar to that of last year. Indeed, the FTAAP has been the top priority for many years running, similarly the APEC growth strategy was also the second highest priority last year. However, perhaps reflecting the concerns over the failure to implement them, structural reforms were the third highest priority. In 2015, APEC adopted the Renewed APEC Agenda for Structural Reform (RAASR) in which APEC economies are expected to set out their own individual action plans for implementing reforms by 2020.

Another and perhaps more important priority is the emergence of anti-globalization and anti-trade sentiment. It was by far the highest priority selected by North Americans and Oceania, the 4th by Northeast Asians, 9th for Pacific South America and 10th for Southeast Asians. To put these into perspective, 56 percent of respondents from North America selected anti-globalization as a top priority compared to just 20 percent of Southeast Asians.

Figures 3.27 and 3.28 show priorities in order of importance for advanced and emerging economies respectively. The biggest difference was on the relative importance of discussing the rise in anti-globalization and anti-trade sentiments.

Figure 3.27: Priorities for Advanced Economies

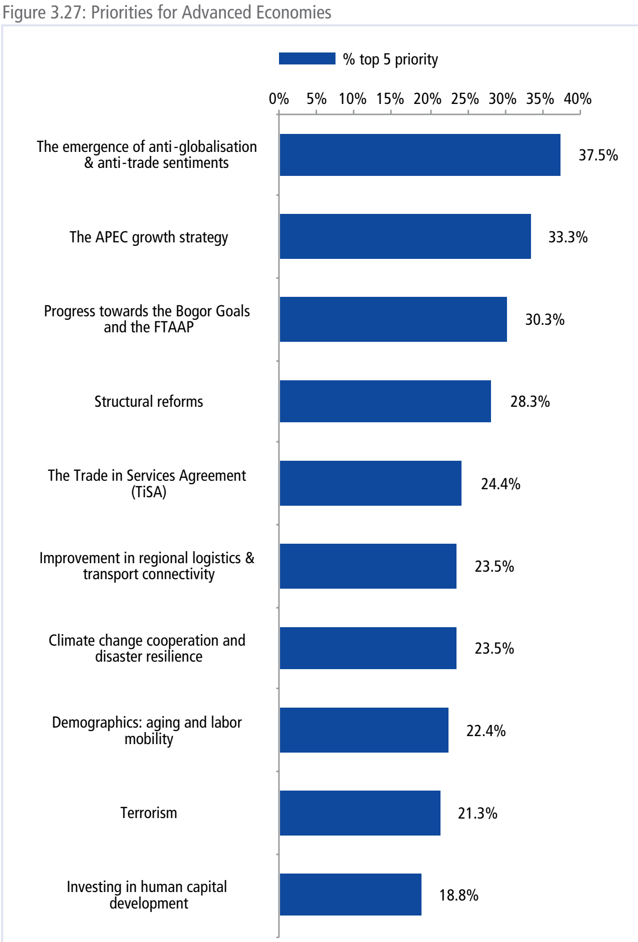
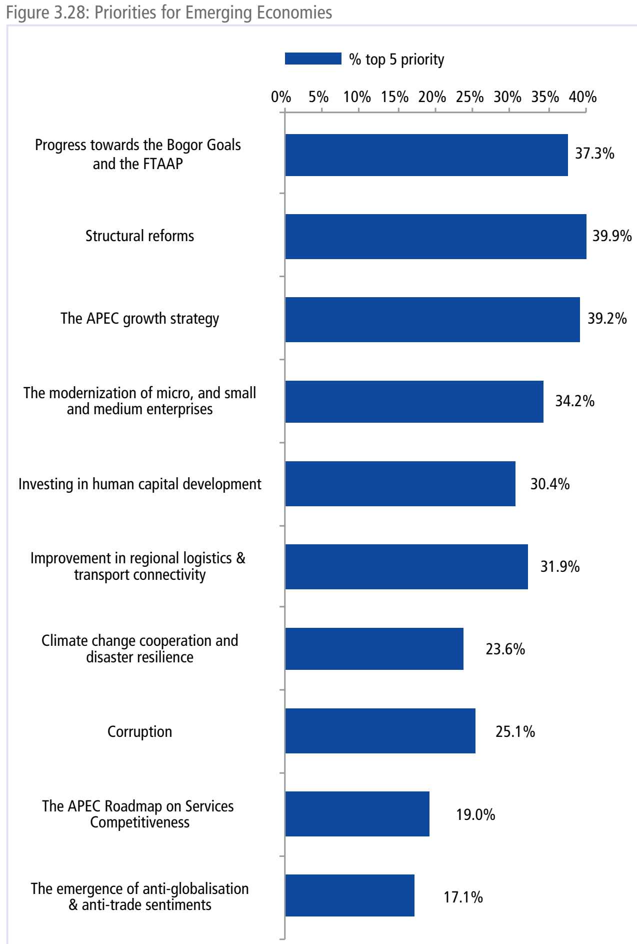


Figure 3.28: Priorities for Emerging Economies



While generally speaking there was a strong alignment of interests between respondents on priorities for APEC leaders' discussions there were some issues that were only considered a priority by one group. For advanced economies they were: Demographics: aging and labor mobility; Terrorism; and The Trade in Services Agreement (TiSA). For emerging economies, they were: Corruption; The APEC Roadmap on Services Competitiveness; and The modernization of micro, and small and medium enterprises.

Figure 3.29: Priorities for Business

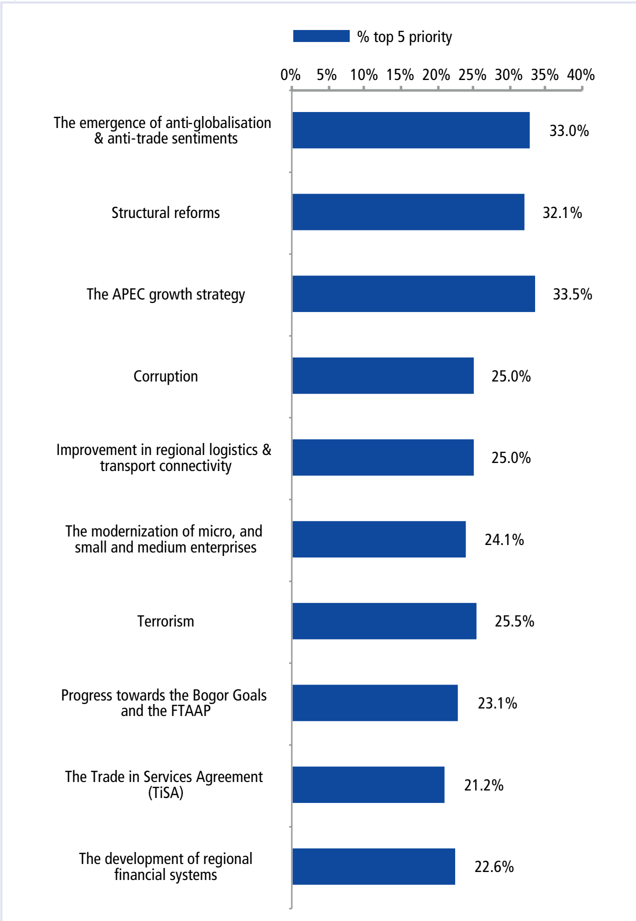
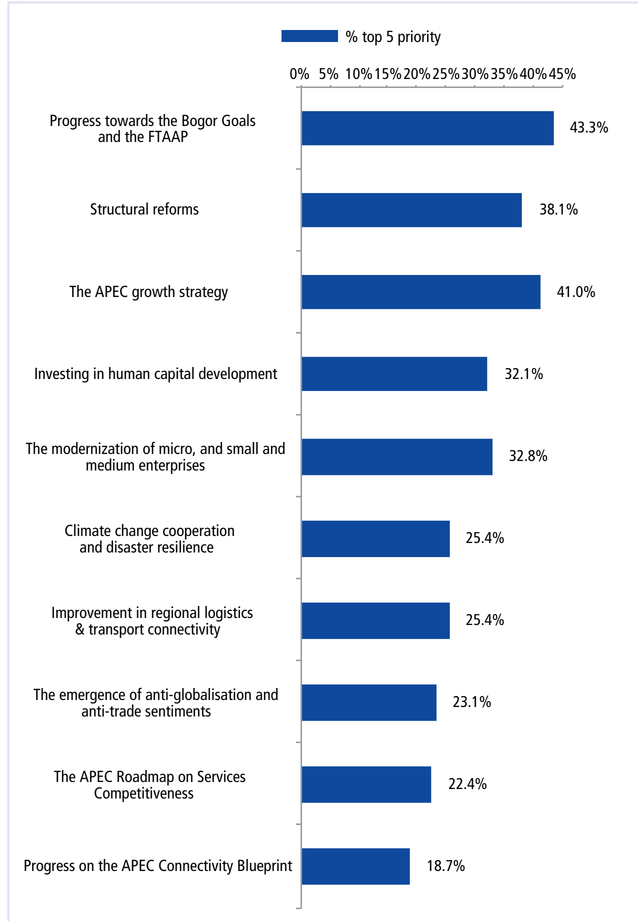


Figure 3.30: Priorities for Government



Even though the FTAAP was originally a proposal from the business community, this year, other concerns have topped their list of priorities, notably the emergence of anti-globalization sentiments. On the other hand, government respondents placed a much higher priority on the progress towards the Bogor Goals and the FTAAP.

There was slightly less alignment between business and government views on priorities than there was among advanced and emerging economies views. For businesses only: Corruption; Terrorism; Development of regional financial systems; and Trade in Services Agreement (TiSA). For government only: Climate change cooperation and disaster resilience; Investing in human capital development; Progress on the APEC Connectivity Blueprint; The APEC Roadmap on Services Competitiveness.

In spite of the very large differences among Asia-Pacific economies in terms of size, population and level of development, since the formation of APEC in 1989 and even before that, there had been a broad consensus that the best route for regional economies to develop was through free and open economies. It would be easy to understate the difficulties many economies faced in adopting this stance – especially emerging economies. However, through the Bogor Goals the region adopted a set of principles through which regional leaders had the confidence that their most important trading partners would be following the same path. As indicated in this year's survey findings, there is a risk that the consensus around these principles is faltering – especially in advanced economies. APEC leaders, ministers and officials need to work together to rebuild that consensus or risk the gains of the past few decades being lost.

CHAPTER 04

INDEX OF ECONOMIC INTEGRATION IN THE ASIA-PACIFIC *

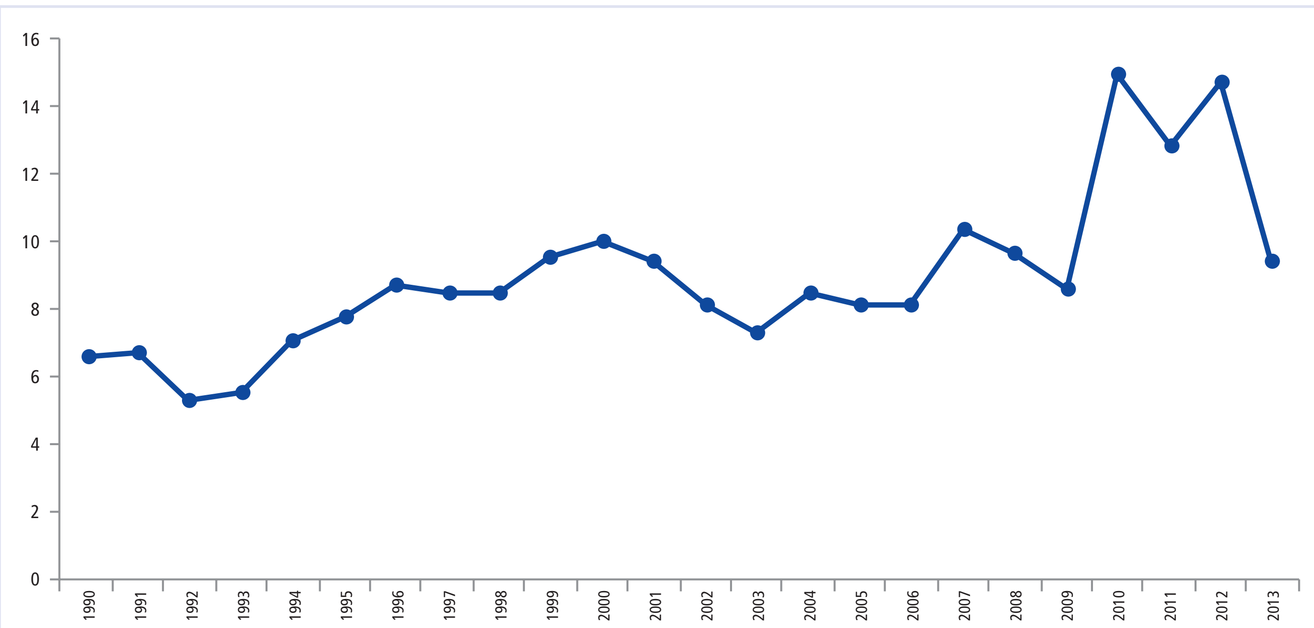
CONTRIBUTED BY DR. BO CHEN+

The latest update to PECC's index of economic integration in the Asia-Pacific region has fallen to its 2009 level. This fall follows the zigzag recovery in the index during the Global Economic Crisis.

The index measures the degree of integration taking place in the Asia-Pacific region based on intraregional flows of: goods; investment; tourists; and five measures of convergence: gross domestic product (GDP) per capita; share of non-agriculture to GDP; the urban resident ratio; life expectancy; and share of education expenditure in gross national income (GNI). The index was developed in 2008 as a tool to measure the degree of integration taking place in the Asia-Pacific. Regional economic integration has become a core objective of the Asia-Pacific Economic Cooperation (APEC) forum. The process of economic integration is commonly defined as the freer movement of goods, services, labor, and capital across borders.

The degree of economic integration can be analyzed at bilateral, regional, and global levels. Even though the Asia-Pacific region is not covered by a single trading agreement, there is much anecdotal evidence to suggest that it is becoming more integrated. As defined by the APEC membership, the region consists of not only developed economies such as the US, Japan, Canada, and Australia, but also emerging markets such as the ASEAN economies. It is well known that parts of the region are already highly integrated through production networks that facilitate trade of intermediate and finished goods across borders. Since 1998, many economies in the region have negotiated bilateral and sub-regional free trade agreements with partners in the region as well as outside the region. APEC Leaders have also endorsed a proposal to investigate the idea of a Free Trade Area of the Asia-Pacific (FTAAP), which if successful, would constitute the largest regional trading bloc in the world.

Figure 4.1: Composite Index of Regional Economic Integration



* For approach details, data sources and treatment, please refer to Bo Chen and Yuen Pau Woo (2010), "Measuring Economic Integration in the Asia-Pacific Region: A Principal Components Approach," Asian Economic Papers, Vol.9(2), pp. 121-143.

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An important feature of the index is that it excludes trade and investment flows among geographically contiguous sub-regional trading partners, namely NAFTA, the ASEAN Free Trade Area, and Australia-New Zealand Closer Economic Relations. It also excludes flows among China, Hong Kong (China), and Chinese Taipei. This is to control for the effect that sub-regional flows may have on the index, whereby a very high degree of integration among, for example, NAFTA economies could result in a falsely high measure of integration with the Asia-Pacific region as a whole.

Furthermore, since trade, investment, and tourism measures are calculated relative to global transactions, the index will rise for a given economy only if that economy's share of intraregional trade/investment is growing relative to total trade and investment.

The weights given to each dimension are determined using principal component analysis.[1]

Table 4.1: Weights Used

Composite Index

Category	Weight (%)
Convergence*	16.01
Trade	18.83
FDI	32.73
Tourism	32.43

* Convergence Sub-Index

Category	Weight (%)
GDP per capita	12.22
Non-agriculture share of GDP	9.18
Urban ratio	13.53
Life expectancy	15.07
Education expenditure share of GNI	50.00

The convergence measures are premised on the notion that integration will lead to greater uniformity among the economies. Accordingly, more trade and investment among regional partners may not translate into a higher score on the integration index if at the same time the partners are diverging in terms of income, education, life expectancy, urbanization, and economic structure.

Caution should be exercised in the interpretation of these findings. The measures chosen for inclusion in the composite index are imperfect indicators of "convergence" and trade/investment integration. The rankings in turn should not be read normatively as "league tables" in the sense that a higher ranking is superior to a lower ranking. A low ranking may simply indicate that an economy is oriented more globally than regionally, as is likely the case for China and the United States.

Nevertheless, the change in index value for a given economy over time can be read as a measure of its changing economic orientation. The index value for the region as a whole can also be seen as a measure of closer economic ties among Asia-Pacific economies and as one indicator of APEC's success.

The 2016 update to the index is based on the latest data available for the selected dimensions from 2013. Missing data were approximated using standard interpolation and extrapolation techniques.

The most recent figures showed a sharp decline to the index, not seen since 2008-2009. Since the Global Financial Crisis, economic integration in the Asia-Pacific has been volatile. The most recent decline mainly reflects the fact that China's economy has been slowing down significantly since 2012. However, the convergence indices had a sharp rebound. The 2013 update to indices by economy shows how the overall convergence process has rebounded that year; as a result, 14 out of the 17 Asia-Pacific economies included in this study became more converged to the average mean level of the Asia-Pacific region in 2013.

[1]See Bo Chen and Yuen Pau Woo (2010), "Measuring Economic Integration in the Asia-Pacific Region: A Principal Components Approach," Asian Economic Papers, Vol.9 (2), pp. 121-143.

Table 4.2: Comparison of 2010 and 2011 Indices

Composite Index

	Convergence Index		Composite Index		Ranking*
Economy	**2012**	**2013**	**2012**	**2013**	
Australia	-62.14	-9.11	48.10	32.21	7 (8)
Canada	-38.69	18.04	26.04	14.69	14 (9)
Chile	46.44	58.96	24.03	38.48	6 (11)
China	-58.69	-54.93	2.10	-14.53	17 (16)
Hong Kong (China)	-20.67	-21.60	425.37	213.44	2 (2)
Indonesia	-58.22	-35.48	1.09	-3.56	15 (17)
Japan	-29.92	-3.70	24.76	18.48	13 (10)
Korea	67.05	67.08	63.58	71.77	3 (3)
Malaysia	3.18	9.29	52.09	52.57	5 (7)
Mexico	27.21	41.37	7.99	20.60	11 (14)
New Zealand	-32.29	-56.29	54.74	22.48	10 (6)
Philippines	-105.53	-76.24	4.31	-12.61	16 (15)
Singapore	-74.44	-42.51	494.39	267.37	1 (1)
Chinese Taipei	18.97	-38.37	55.30	19.45	12 (5)
Thailand	-16.06	5.34	57.30	57.71	4 (4)
United States	-5.29	41.41	13.84	24.92	9 (13)
Vietnam	-58.95	-23.33	23.97	28.77	8 (12)
Asia-Pacific Region	**-23.46**	**-7.73**	**14.66**	**9.38**	**--**

Source: Authors' calculations and Chen and Woo (2010).
* Rankings shown in parentheses indicate those from previous year (2012).

Noticeably, Singapore and Hong Kong (China) are still the most integrated economies with the AP markets. As the freest business harbors, Hong Kong and Singapore benefit the most from economic integration in trade, investment, and tourism. However, both their integration levels declined sharply compared to their 2012 levels. Chinese Taipei has fallen not only in terms of its integration level, but also its relative ranking (from the 5th in 2012 to the 12th in 2013). These figures indicate that these economies are interacting more with those outside the Asia-Pacific region than before.

Likewise, China's integration index decreased to -14.53 in 2013 from 2.10 in 2012 and has become the least integrated economy in this ranking. Meanwhile, another key economy, the United States, recovered quite quickly from its financial crisis. As a result, it had more interaction with the rest of the Asia-Pacific region, which contributed to substantially increasing its integration index from 13.84 in 2012 to 24.92 in 2013 and its integration ranking also climbed from the 13th to the 9th.

ASIA-PACIFIC TRADE FLOWS

Figure 4.2 shows the share of Asia-Pacific intraregional imports and exports to regional GDP. After various economic stimulus plans, regional economies showed some recovery in terms of intraregional trade flows. Over the twenty-year period, intraregional flows of exports and imports (over GDP) have increased from 14 percent to 15 percent. It should be re-emphasized here that this index discounts flows among sub-regions: the economies of Southeast Asia, North America and those among China, Chinese Taipei and Hong Kong (China).

The share of Asia-Pacific intraregional merchandise trade recovered from the big hit in 2009. However, the recovery was not robust and the recovery trend has been reversed since 2012. Such result is not surprising given China, the world's largest trading economy and a key player in global supply chain, has been suffering from the pains of economic slowdown and structural change. As a result, only four economies showed slight increases in the Asia-Pacific share of their total trade. They are Vietnam, Canada, Japan, and New Zealand.

FOREIGN DIRECT INVESTMENT

Compared to flows of goods, intraregional flows of investment show a much more erratic pattern. After the large decrease in foreign direct investment (FDI) flows in 2008, they rebounded by over 200 percent year-on-year between 2008 and 2009, kept the trend till 2011. However, the unstable global and regional economic recovery eventually worried the investors such that the intraregional investment declined by almost 3 percent. Although China's economy slowed down significantly after 2012, an unusual feature is that its outbound FDI surged due to the economic structural changes and many of traditional businesses started to look for reallocation opportunities in other economies with abundant resource and/or labor supply. Hence, the intraregional investment, unlike the pattern of merchandise goods, substantially increased in 2013.

Figure 4.2: Intraregional Trade Flows (% of GDP)

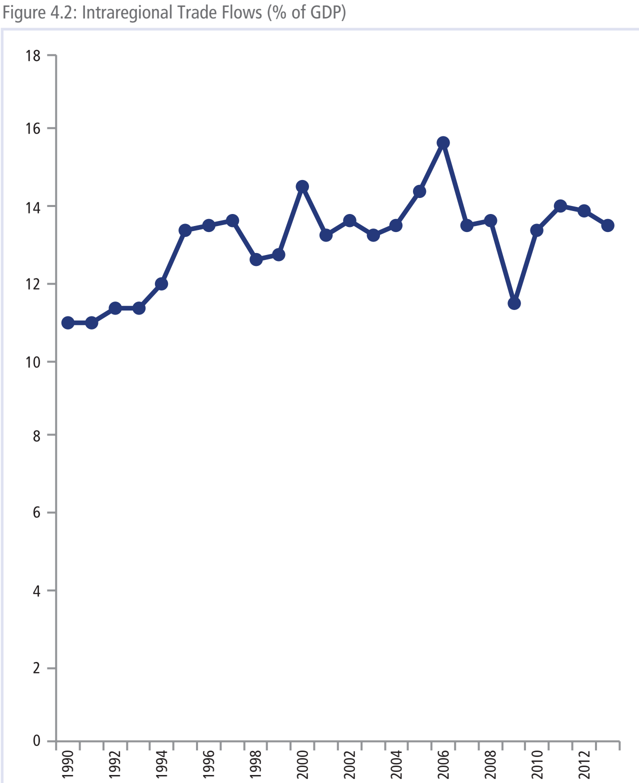


Figure 4.3: Intraregional Flows of Foreign Direct Investment (%)

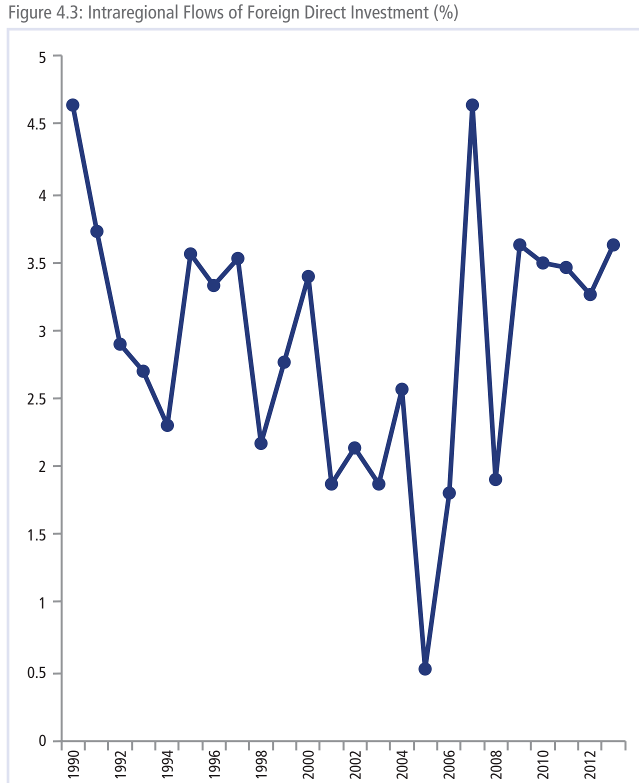


Figure 4.4: Intraregional Tourist Inflows (% of total)

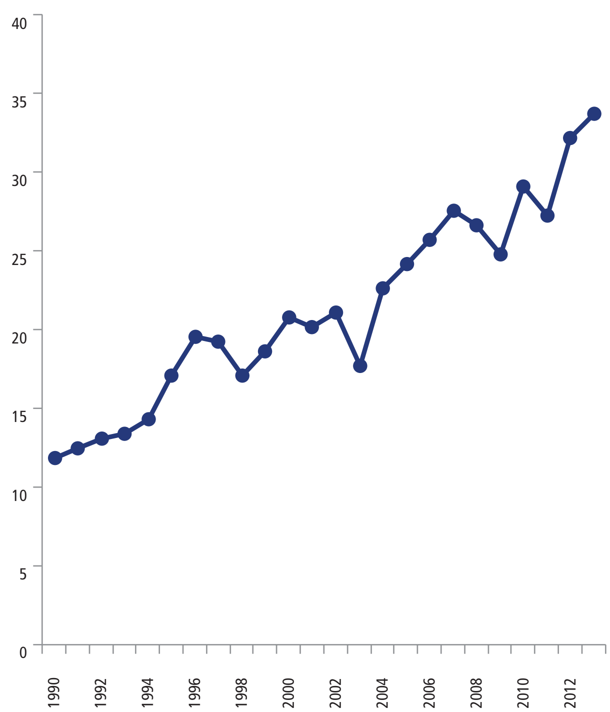
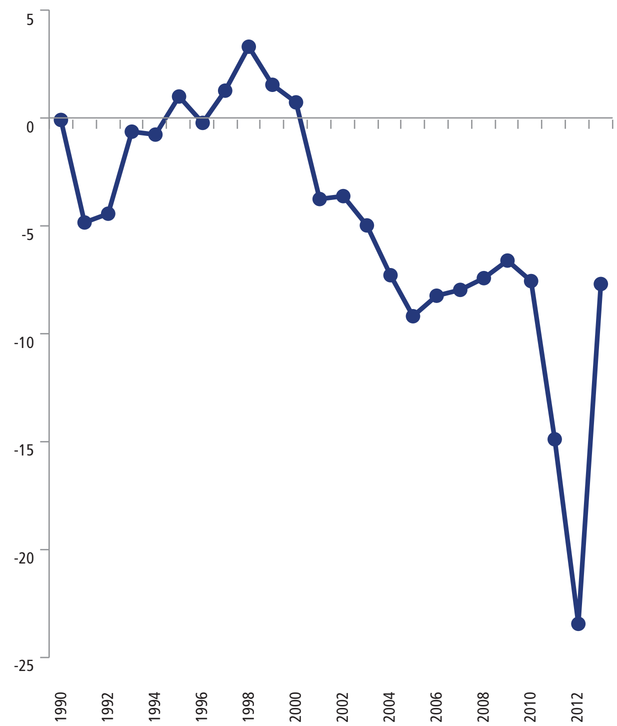


Figure 4.5: Convergence Index



TOURISM FLOWS

Figure 4.4 shows the recovery trend of the intraregional tourism. It indicates that the intraregional tourist share (to every one thousand citizens in hosting economy of the sample) increased further to reach new heights in 2013. .

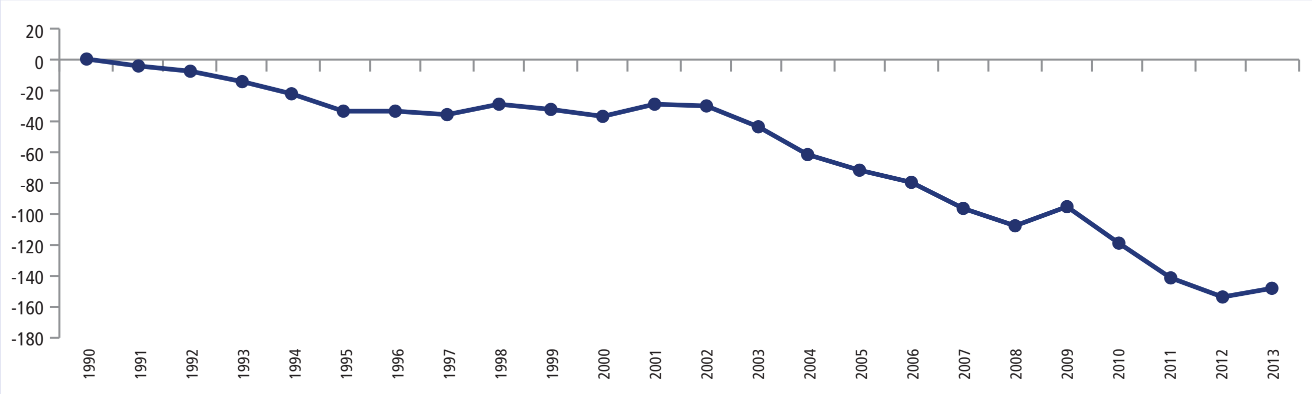
Except for the declines seen in 2007-2009 and 2010-2011, intraregional tourist flows have grown substantially from 18 percent in 2003 to almost 34 percent in 2013, the highest level recorded in our index.

According to the data, while ASEAN nations and China are still the largest recipients of inbound regional tourists, the number for the latter decreased by about 6 percent probably due to its strong currency at that time. Meanwhile, Japan experienced the largest increment of intraregional tourists by more than 25 percent helped by their travel facilitation policies and weak yen.

CONVERGENCE INDEX

The sub-index of convergence shows that economies in the region have stopped their divergence trend and redounded to the 2010 level. GDP per capita levels in the region had been converging somewhat during the crisis years. However, in 2010, divergence in incomes began once again and continued into 2012. It should be noted here that GDP per capita accounts for just 12 percent of the weight of this sub-index while education expenditure accounts for 50 percent of the weight. Shifts towards convergence in education, even minor ones, could outweigh much larger shifts in income.

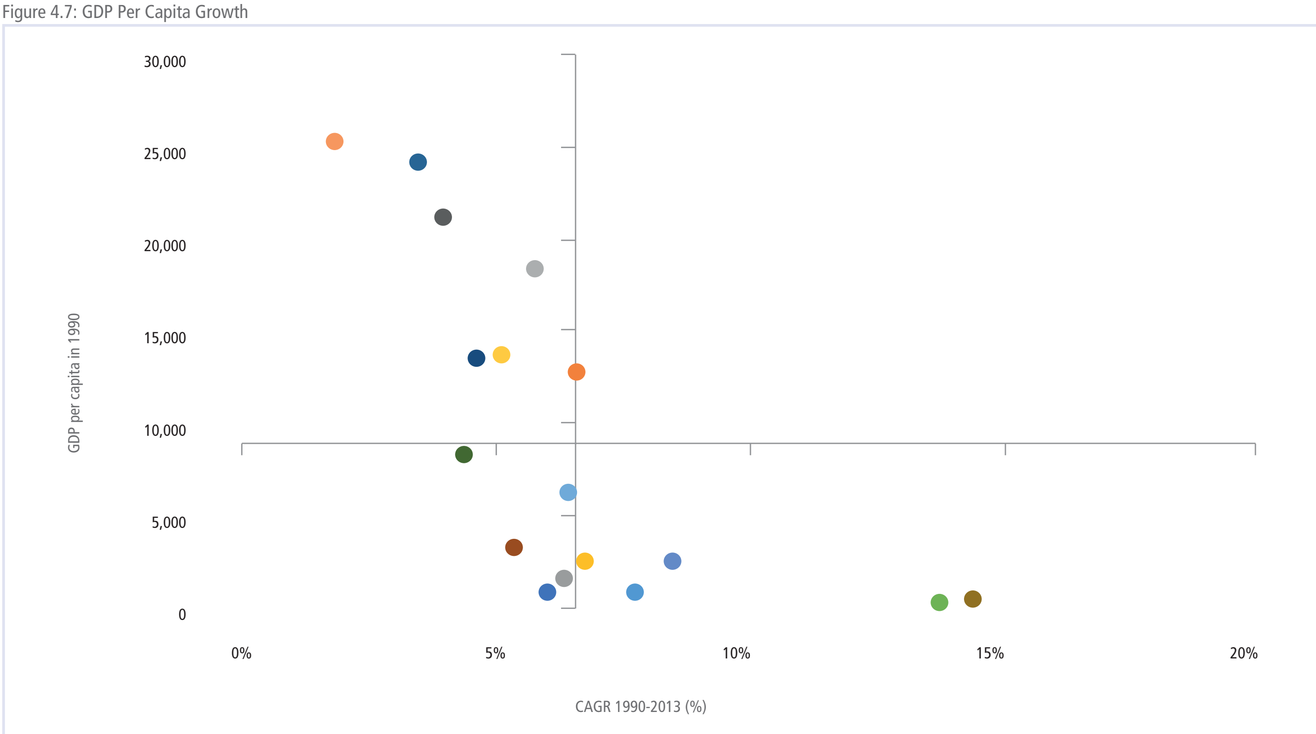
Figure 4.6: Deviation of GDP Per Capita



LESS DIVERGING INCOMES

Figure 4.6 shows that the convergence indicator of real GDP per capita decreased in 2009, continuing its sharp decline into 2012. Yet the decreasing trend stopped in 2013 since some of the developed economies such as Japan and Australia had smaller GDP per capita measures by US dollars (which was mainly attributed to their currency depreciation) whereas the figures of some developing economies such as Thailand and Vietnam significantly improved.

Figure 4.7: GDP Per Capita Growth



Over the entire index period, the divergence in incomes has been driven by differences in growth rates. In 1990, the average GDP per capita in the region was just below US$10,000. By 2013, it had increased to above US$26,728 or a growth rate of around 5 percent. However, income levels in some economies have grown at a much higher rate than the average in the region while others under the average. For incomes to converge, economies with lower starting GDP per capita levels would need to grow at a much faster rate than those with higher starting levels. Figure 4.7 shows the GDP per capita levels of regional economies in 1990 and the average growth rate over the past 23 years. For incomes to converge, those economies in the bottom left quadrant need to move into the bottom right quadrant.

Figure 4.8: Deviation Indicator: Urban Resident Ratio

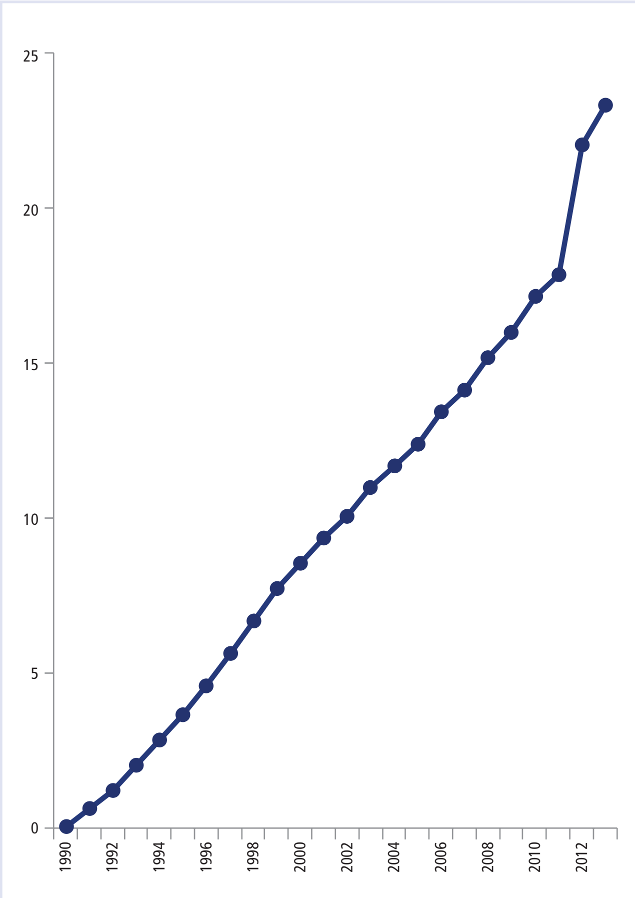
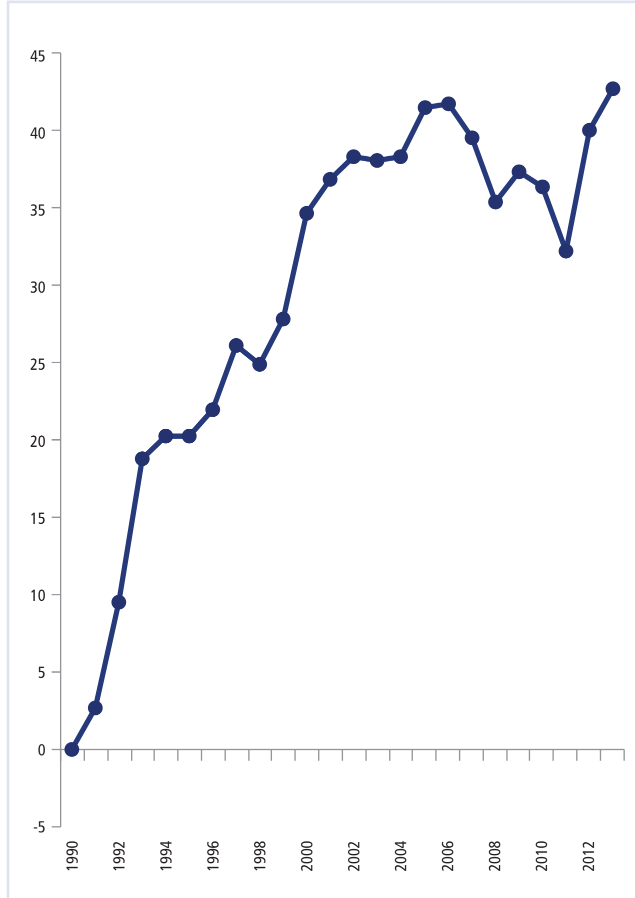


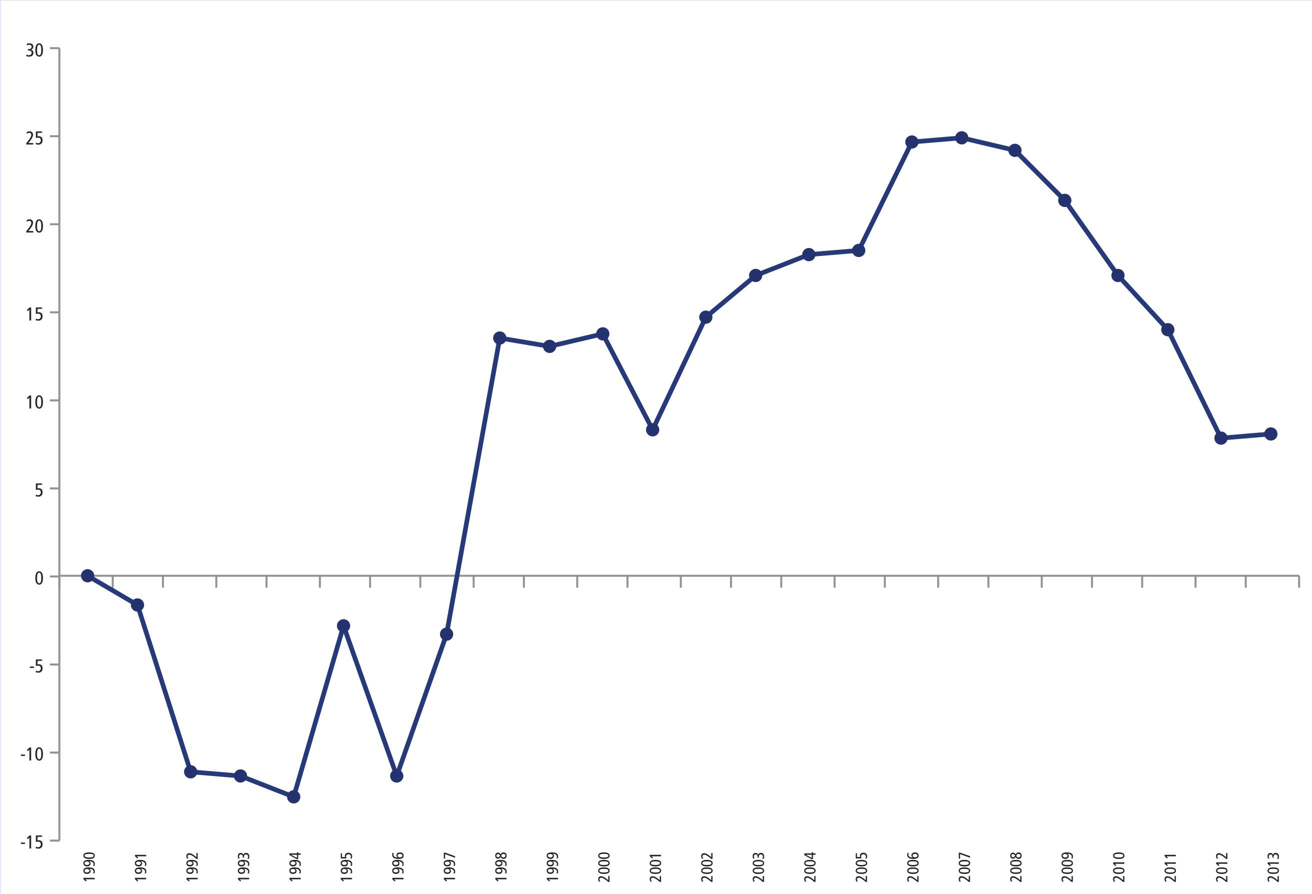
Figure 4.9: Deviation Indicator: Share of Non-agriculture in GDP



The pace of urbanization in the region has been steady throughout the period as represented by the percentage of population living in urban areas shown in Figure 4.8. In 1990, the urban resident ratio was 89 percent with a standard deviation of 8.2. By 2013, the urban resident ration had increased to 94 percent with a standard deviation of 4.7, meaning that all economies are increasing and they are converging at a similar rate. As seen in Figure 4.8, this has been a very linear trend with few interruptions.

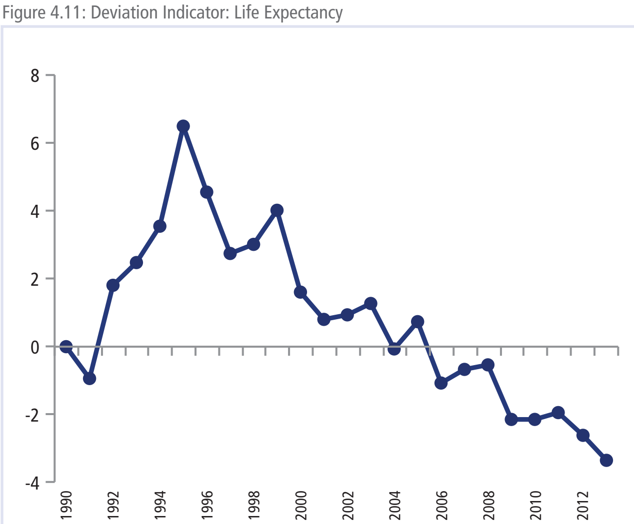
Unlike the convergence pace of urbanization, the share of non-agriculture in GDP had been much more volatile, and started a divergence trend since 2007. However, a strong rebound occurred in 2012 and the convergence level was kept on in 2013. As shown in Figure 4.9, the indicator exceeded the previous peak in 2006. According to the data, the average share of non-agriculture in GDP increased to 94.33 in 2013 from the previous peak of 94.03 in 2006 while the standard deviation across the economies shrunk to 4.71 from 4.78.

Figure 4.10: Deviation Indicator: Expenditure on Education as a Proportion of GNI



While the proportion of expenditure on education in the region has significantly risen by 2013 compared to 1990, Figure 4.10 shows that its level of convergence has declined since 2008. In 1990, the average expenditure on education as a percentage of gross national income was 3.6 percent; the latest data show that average expenditure was around 4.4 percent of GDP.

Figure 4.11: Deviation Indicator: Life Expectancy



In 1990, the average life expectancy in the region was 72.4 years. By 2013, it had increased by almost 6 years to 78.3, with a standard deviation of 3.6. As seen in Figure 4.11, between 1990 and 1995, life expectancies had been converging. However, the level of convergence began to decrease thereafter. The latest update to the index shows that the level of convergence in life expectancy in the region is even below the level in 1990. This means life expectancy is increasing faster in certain economies than others.

When APEC Leaders set out the Bogor Goals in 1994, they set out a vision through which the region would not only maintain high growth rates but also narrow development gaps. While the region has done well in integrating and overall incomes have increased at a dramatic pace, the index shows that there is a long way to go in terms of closing development gaps. Integration is not an end in itself but a means to ensuring that all citizens can achieve their potentials.

ANNEX A

Table 1: GDP Growth

	2014	2015	2016	2017	2018	2019	2020	2021
Australia	2.6	2.5	2.5	3.0	3.0	2.9	2.8	2.8
Brunei Darussalam	-2.3	-0.2	-2.0	3.0	7.9	12.8	8.9	6.8
Cambodia	7.1	6.9	7.0	7.0	7.0	6.9	6.9	6.7
Canada	2.5	1.2	1.5	2.1	2.1	2.0	2.0	2.0
Chile	1.8	2.1	1.5	2.1	2.7	3.0	3.2	3.4
China	7.3	6.9	6.6	6.2	6.0	6.0	6.0	6.0
Colombia	4.4	3.1	2.5	3.0	3.7	4.1	4.3	4.0
Ecuador	3.7	0.0	-4.5	-4.3	-0.9	0.6	-0.5	1.0
Hong Kong (China)	2.6	2.4	2.2	2.4	2.6	2.8	3.0	3.1
India	7.2	7.3	7.4	7.4	7.6	7.7	7.7	7.8
Indonesia	5.0	4.8	4.9	5.3	5.5	5.8	6.0	6.0
Japan	0.0	0.5	0.3	0.1	0.4	0.7	0.7	0.7
Korea	3.3	2.6	2.7	2.9	3.1	3.1	3.1	3.0
Laos	7.4	7.0	7.4	7.4	7.4	7.3	7.3	7.3
Malaysia	6.0	5.0	4.4	4.8	4.8	4.9	5.0	5.0
Mexico	2.3	2.5	2.5	2.6	2.8	2.9	3.1	3.1
Mongolia	7.9	2.3	0.4	2.5	5.7	7.9	10.5	7.2
Myanmar	8.7	7.0	8.6	7.7	7.8	7.6	7.7	7.7
New Zealand	3.0	3.4	2.0	2.5	2.5	2.2	2.3	2.4
Papua New Guinea	8.5	9.0	3.1	4.4	1.4	3.2	3.2	3.3
Peru	2.4	3.3	3.7	4.1	3.6	3.5	3.5	3.5
Philippines	6.1	5.8	6.0	6.2	6.3	6.4	6.5	6.5
Russia	0.7	-3.7	-1.2	1.0	1.0	1.5	1.5	1.5
Singapore	3.3	2.0	1.8	2.2	2.5	2.7	2.8	2.8
Chinese Taipei	3.9	0.7	1.5	2.2	2.4	2.8	2.8	2.9
Thailand	0.8	2.8	3.0	3.2	3.1	3.1	3.1	3.0
United States	2.4	2.4	2.2	2.5	2.4	2.1	2.0	2.0
Vietnam	6.0	6.7	6.3	6.2	6.2	6.2	6.2	6.2

	2014	2015	2016	2017	2018	2019	2020	2021
Asia-Pacific	3.6	3.4	3.4	3.5	3.5	3.6	3.6	3.7
Emerging	5.7	5.5	5.6	5.5	5.5	5.6	5.6	5.7
Advanced	2.1	2.0	1.9	2.1	2.1	2.0	1.9	1.9

Table 2: CPI Inflation

	2014	2015	2016	2017	2018	2019	2020	2021
Australia	2.5	1.5	2.1	2.4	2.5	2.5	2.5	2.5
Brunei Darussalam	-0.2	-0.4	0.2	0.1	0.0	0.1	0.1	0.0
Cambodia	3.9	1.2	2.1	2.8	3.0	2.9	3.2	0.2
Canada	1.9	1.1	1.3	1.9	2.0	2.0	2.0	2.0
Chile	4.4	4.3	4.1	3.0	3.0	3.0	3.0	3.0
China	2.0	1.4	1.8	2.0	2.2	2.6	3.0	3.0
Colombia	2.9	5.0	7.3	3.4	3.0	3.0	3.0	3.0
Ecuador	3.6	4.0	1.6	0.2	0.4	0.8	0.2	0.4
Hong Kong, China	4.4	3.0	2.5	2.6	2.7	2.8	2.9	3.0
India	5.9	4.9	5.3	5.3	5.5	5.3	5.0	4.9
Indonesia	6.4	6.4	4.3	4.5	4.4	4.3	4.1	4.0
Japan	2.7	0.8	-0.2	1.2	1.0	0.9	1.0	1.2
Korea	1.3	0.7	1.3	2.2	2.1	2.0	2.0	2.0
Laos	5.5	5.3	1.5	2.3	2.7	3.1	3.3	3.1
Malaysia	3.1	2.1	3.1	2.9	3.0	3.0	3.0	3.0
Mexico	4.0	2.7	2.9	3.0	3.0	3.0	3.0	3.0
Mongolia	12.9	5.9	1.9	4.3	6.4	6.4	6.5	6.4
Myanmar	5.9	11.5	9.6	8.2	7.5	7.0	6.6	6.4
New Zealand	1.2	0.3	1.5	1.9	2.0	2.0	2.0	2.0
Papua New Guinea	5.3	6.0	6.0	5.0	5.0	5.0	5.0	5.0
Peru	3.2	3.5	3.1	2.5	2.5	2.5	2.5	2.5
Philippines	4.2	1.4	2.0	3.4	3.5	3.5	3.5	3.5
Russia	7.8	15.5	8.4	6.5	5.0	4.0	4.0	4.0
Singapore	1.0	-0.5	0.2	1.3	1.9	1.9	1.9	1.9
Chinese Taipei	1.2	-0.3	0.7	1.1	1.3	1.5	1.8	2.2
Thailand	1.9	-0.9	0.2	2.0	1.8	2.1	2.3	2.5
United States	1.6	0.1	0.8	1.5	2.4	2.5	2.3	2.2
Vietnam	4.1	0.6	1.3	2.3	2.9	3.4	3.8	4.0

	2014	2015	2016	2017	2018	2019	2020	2021
Asia-Pacific	2.5	1.5	1.6	2.1	2.5	2.6	2.7	2.6
Emerging	3.6	3.3	2.9	3.0	3.0	3.2	3.4	3.4
Advanced	1.9	0.4	0.8	1.6	2.1	2.2	2.1	2.0

Table 3: Growth of Exports of Goods and Services

	2014	2015	2016	2017	2018	2019	2020	2021
Australia	6.7	6.1	5.9	5.4	4.3	3.5	3.1	2.9
Brunei Darussalam	-0.1	2.9	2.7	3.3	7.1	17.5	11.7	8.4
Cambodia	13.9	12.3	15.3	12.9	12.3	11.6	12.4	10.2
Canada	5.3	3.0	2.1	3.3	3.8	4.0	4.0	4.0
Chile	1.1	-1.9	0.0	2.9	3.7	4.3	4.5	4.6
China	4.8	-2.1	1.2	1.8	2.6	2.9	3.3	3.6
Colombia	-1.7	-3.8	2.4	6.9	2.6	3.9	3.8	4.5
Ecuador	6.9	2.5	9.1	2.1	1.8	1.1	1.2	1.2
Hong Kong, China	0.9	-1.5	2.6	2.5	2.5	2.5	2.5	2.5
India	4.4	2.4	3.4	6.1	7.9	7.9	7.5	7.5
Indonesia	0.7	-1.3	3.4	6.3	8.0	9.2	8.7	9.3
Japan	8.3	2.7	0.6	2.1	2.1	2.1	2.5	2.5
Korea	2.8	0.4	2.0	2.5	3.0	3.2	3.2	3.2
Laos	7.0	6.7	10.5	4.7	8.0	6.5	0.6	5.9
Malaysia	5.6	4.5	2.7	3.1	5.3	5.0	4.8	5.0
Mexico	7.0	9.0	7.6	7.4	6.7	7.1	5.5	5.3
Mongolia	33.6	-18.7	-25.1	-6.2	-2.2	8.7	15.4	-4.0
Myanmar	22.6	0.9	15.8	21.3	13.0	11.0	10.5	14.7
New Zealand	3.0	6.7	2.2	2.2	3.0	2.5	2.3	2.7
Papua New Guinea	48.6	35.9	0.1	7.0	-0.2	1.1	0.7	0.7
Peru	-1.0	1.5	6.0	7.4	6.7	4.8	3.8	2.9
Philippines	11.6	-0.1	4.5	6.0	6.0	5.9	5.7	5.9
Russia	-1.7	-4.1	-0.5	3.5	2.1	3.8	3.7	1.3
Singapore	4.3	2.5	1.8	4.8	4.8	4.8	4.9	4.9
Chinese Taipei	5.6	1.5	2.4	4.2	4.7	5.1	5.2	5.2
Thailand	0.0	1.6	-0.8	1.7	2.1	2.5	2.8	3.0
United States	3.4	1.1	0.4	2.7	3.9	4.1	4.1	3.4
Vietnam	14.9	18.2	16.9	12.1	13.4	13.5	13.6	13.7

	2014	2015	2016	2017	2018	2019	2020	2021
Asia-Pacific	4.3	1.0	1.9	3.3	3.8	4.1	4.1	3.9
Emerging	4.3	0.5	2.6	3.6	4.2	4.6	4.6	4.6
Advanced	4.3	1.5	1.4	3.0	3.5	3.6	3.7	3.4

Table 4: Growth of Imports of Goods and Services

	2014	2015	2016	2017	2018	2019	2020	2021
Australia	-1.6	1.0	1.1	1.5	2.8	3.2	3.7	3.6
Brunei Darussalam	-22.9	0.0	-2.3	3.2	2.5	12.7	6.7	5.8
Cambodia	7.2	9.6	9.7	11.8	9.6	-0.8	9.3	8.3
Canada	1.8	0.1	-1.4	2.8	3.6	3.9	3.9	3.9
Chile	-5.7	-2.8	0.9	3.3	3.7	4.0	4.2	4.2
China	5.4	2.0	2.3	2.1	3.1	3.3	3.3	3.3
Colombia	9.2	-5.2	-6.8	-1.1	2.8	3.1	3.2	3.1
Ecuador	6.4	-9.0	-6.4	-4.0	0.5	0.3	-1.1	0.2
Hong Kong, China	1.0	-1.8	2.7	2.6	2.6	2.7	2.7	2.7
India	6.7	10.9	8.0	6.5	6.5	7.2	7.5	7.5
Indonesia	-1.1	-4.9	9.3	5.2	6.5	8.2	8.8	7.9
Japan	7.2	0.2	0.6	2.6	2.0	2.6	2.4	2.4
Korea	2.1	3.0	2.6	3.1	3.7	4.0	4.1	4.1
Laos	2.5	-1.0	1.7	8.0	7.3	3.7	2.8	-0.5
Malaysia	4.2	2.0	4.1	2.9	5.1	4.7	4.4	4.4
Mexico	6.0	5.0	5.8	6.3	7.5	7.9	6.6	5.0
Mongolia	-4.1	-29.0	-1.4	6.5	5.0	5.8	0.7	-9.9
Myanmar	26.3	15.5	14.3	16.4	13.3	13.2	10.5	9.9
New Zealand	7.9	3.7	2.1	2.5	3.9	4.2	4.3	4.0
Papua New Guinea	-2.5	-4.7	-3.9	2.0	2.0	2.0	2.0	2.0
Peru	-2.0	0.5	0.9	2.2	3.5	3.2	2.9	2.4
Philippines	14.7	13.9	10.2	2.6	4.4	4.6	5.3	5.6
Russia	-4.5	-28.3	-13.0	2.6	3.7	3.4	5.4	6.4
Singapore	5.2	6.8	6.6	3.7	4.7	4.8	5.2	5.5
Chinese Taipei	5.2	4.4	0.8	4.5	4.8	5.0	5.2	5.2
Thailand	-5.4	0.7	0.7	3.3	3.4	3.7	3.9	4.0
United States	3.8	4.9	3.5	5.2	5.2	5.3	5.4	4.8
Vietnam	13.8	22.2	17.6	10.6	12.3	12.2	12.9	12.7

	2014	2015	2016	2017	2018	2019	2020	2021
Asia-Pacific	3.9	2.6	2.8	3.8	4.3	4.5	4.6	4.4
Emerging	4.1	1.9	3.2	3.6	4.7	4.9	4.9	4.8
Advanced	3.7	3.0	2.5	3.9	4.1	4.3	4.4	4.2

Table 5: Current Account Balance (US$ billions)

	2014	2015	2016	2017	2018	2019	2020	2021
Australia	-43.8	-56.2	-43.4	-44.6	-40.2	-42.8	-46.6	-48.7
Brunei Darussalam	4.7	0.9	-0.6	0.1	0.9	2.4	3.1	3.2
Cambodia	-2.0	-2.0	-1.6	-1.7	-1.7	-1.8	-1.8	-1.7
Canada	-40.6	-51.4	-51.7	-45.6	-43.7	-42.2	-40.9	-41.2
Chile	-3.3	-4.8	-4.9	-6.6	-7.9	-8.9	-9.3	-9.6
China	219.7	293.2	296.4	252.6	193.4	136.8	106.7	93.5
Colombia	-19.6	-19.0	-15.2	-12.0	-12.9	-13.9	-15.3	-15.9
Ecuador	-0.6	-2.8	-2.2	-0.2	-0.3	-0.3	0.8	-0.2
Hong Kong, China	3.8	9.4	10.1	10.7	11.8	12.4	13.7	14.7
India	-26.7	-26.2	-34.5	-51.8	-58.7	-69.8	-82.2	-94.7
Indonesia	-27.5	-17.8	-24.3	-29.1	-33.7	-35.7	-39.0	-43.5
Japan	24.4	137.5	167.5	165.5	167.1	167.1	174.2	179.1
Korea	84.4	105.9	108.9	101.9	96.9	94.9	92.7	90.6
Laos	-2.7	-2.9	-2.8	-2.8	-2.7	-2.6	-2.6	-2.7
Malaysia	14.5	8.7	7.2	6.6	7.0	7.1	7.4	8.5
Mexico	-24.8	-32.4	-27.7	-29.8	-36.4	-37.9	-36.9	-35.2
Mongolia	-1.4	-0.6	-1.2	-2.1	-2.6	-2.7	-1.9	-1.5
Myanmar	-3.7	-5.9	-6.2	-6.6	-7.0	-8.3	-9.1	-8.8
New Zealand	-6.2	-5.2	-6.3	-6.5	-6.1	-5.9	-6.1	-6.2
Papua New Guinea	-0.7	0.4	0.1	0.6	0.3	0.2	0.0	-0.1
Peru	-8.1	-8.4	-6.9	-6.2	-5.9	-5.8	-5.7	-5.1
Philippines	10.8	8.4	8.1	8.4	8.6	8.7	8.6	8.6
Russia	59.5	65.8	48.0	64.3	81.9	92.3	99.4	103.8
Singapore	53.2	57.6	62.3	62.3	62.0	62.3	62.8	62.7
Chinese Taipei	65.4	76.2	76.2	75.7	76.6	78.7	81.8	85.5
Thailand	15.4	34.8	32.6	24.6	18.1	13.0	9.7	7.0
United States	-389.5	-484.1	-540.6	-639.1	-697.1	-758.1	-817.5	-877.6
Vietnam	9.3	2.8	1.1	0.4	0.7	1.3	1.6	2.7

Table 6: GDP & CPI Weights (%)

	2014	2015	2016	2017	2018	2019	2020	2021
Australia	3.08	2.66	2.54	2.53	2.52	2.50	2.47	2.43
Brunei Darussalam	0.04	0.03	0.02	0.02	0.02	0.02	0.03	0.03
Cambodia	0.04	0.04	0.04	0.04	0.04	0.04	0.05	0.05
Canada	3.80	3.37	3.10	3.07	3.03	2.98	2.92	2.85
Chile	0.55	0.52	0.50	0.49	0.48	0.48	0.47	0.47
China	22.24	23.84	24.11	24.61	25.31	26.10	27.10	28.06
Colombia	0.81	0.64	0.54	0.56	0.60	0.65	0.69	0.70
Ecuador	0.22	0.21	0.20	0.18	0.17	0.17	0.16	0.15
Hong Kong, China	0.62	0.67	0.68	0.68	0.67	0.66	0.66	0.65
India	4.36	4.54	4.85	4.99	5.17	5.37	5.57	5.78
Indonesia	1.90	1.86	1.98	2.06	2.11	2.13	2.17	2.26
Japan	9.80	8.95	9.35	9.06	8.66	8.36	8.06	7.73
Korea	3.01	2.99	2.80	2.77	2.72	2.68	2.63	2.57
Laos	0.02	0.03	0.03	0.03	0.03	0.03	0.03	0.03
Malaysia	0.72	0.64	0.66	0.69	0.73	0.76	0.80	0.84
Mexico	2.77	2.48	2.29	2.34	2.33	2.32	2.32	2.32
Mongolia	0.03	0.03	0.02	0.02	0.02	0.03	0.03	0.03
Myanmar	0.14	0.15	0.16	0.16	0.17	0.18	0.18	0.19
New Zealand	0.42	0.37	0.36	0.36	0.35	0.35	0.35	0.34
Papua New Guinea	0.04	0.03	0.03	0.03	0.03	0.03	0.03	0.04
Peru	0.43	0.42	0.38	0.38	0.38	0.38	0.38	0.38
Philippines	0.61	0.63	0.66	0.69	0.73	0.76	0.80	0.83
Russia	4.33	2.88	2.40	2.54	2.57	2.59	2.57	2.54
Singapore	0.65	0.64	0.62	0.61	0.59	0.58	0.57	0.55
Chinese Taipei	1.13	1.14	1.08	1.05	1.03	1.00	0.98	0.96
Thailand	0.86	0.86	0.87	0.86	0.84	0.83	0.81	0.80
United States	37.00	38.96	39.31	38.71	38.22	37.55	36.72	35.96
Vietnam	0.40	0.42	0.43	0.44	0.45	0.46	0.47	0.48

Table 7: Export Weights ( )

	2014	2015	2016	2017	2018	2019	2020	2021
Australia	2.5	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Brunei Darussalam	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Cambodia	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Canada	4.8	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Chile	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
China	22.4	23.8	23.8	23.8	23.8	23.8	23.8	23.8
Colombia	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Ecuador	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Hong Kong, China	5.4	5.7	5.7	5.7	5.7	5.7	5.7	5.7
India	4.1	3.9	3.9	3.9	3.9	3.9	3.9	3.9
Indonesia	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Japan	7.3	7.3	7.3	7.3	7.3	7.3	7.3	7.3
Korea	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Laos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Malaysia	2.4	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Mexico	3.6	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Mongolia	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Myanmar	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
New Zealand	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Papua New Guinea	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Peru	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Philippines	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Russia	4.8	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Singapore	4.8	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Chinese Taipei	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Thailand	2.4	2.6	2.6	2.6	2.6	2.6	2.6	2.6
United States	19.8	20.4	20.4	20.4	20.4	20.4	20.4	20.4
Vietnam	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6

Table 7: Import Weights (%)

	2014	2015	2016	2017	2018	2019	2020	2021
Australia	2.5	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Brunei Darussalam	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cambodia	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Canada	4.8	4.9	4.9	4.9	4.9	4.9	4.9	4.9
Chile	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
China	19.9	19.7	19.7	19.7	19.7	19.7	19.7	19.7
Colombia	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Ecuador	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Hong Kong, China	5.6	5.8	5.8	5.8	5.8	5.8	5.8	5.8
India	4.9	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Indonesia	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Japan	8.3	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Korea	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Laos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Malaysia	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Mexico	3.6	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Mongolia	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Myanmar	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
New Zealand	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Papua New Guinea	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Peru	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Philippines	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Russia	3.5	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Singapore	4.3	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Chinese Taipei	2.7	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Thailand	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
United States	19.8	20.4	20.4	20.4	20.4	20.4	20.4	20.4
Vietnam	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6

ANNEX B RESULTS OF ASIA-PACIFIC POLICY COMMUNITY SURVEY

This annex presents the findings of a survey of the Asia-Pacific policy community conducted by the Pacific Economic Cooperation Council from 1 August to 9 September 2016. The survey was disseminated through PECC member committees, the APEC Business Advisory Council, the APEC Policy Support Unit and the Asia-Pacific Services Coalition. Panelists were identified on the basis of their knowledge of the Asia- Pacific region.

This is not a survey of public opinion but rather, a survey of those whose views influence policymaking, especially at the regional level. As some of the questions tend to be technical, they require a relatively deep knowledge of developments at regional level. This is by no means a reflection of the general views of a population within any sub-region or even economy. However, we do believe that those surveyed include those who are responsible for influencing and often making decisions on various aspects of their economy's positions within different regional groups.

The guidance for identifying panelists is as follows:

GOVERNMENT

Panelists should be either decision-makers or senior advisors to decision-makers. As a guide, the government respondents in previous years included a number of former and current Ministers, Deputy and Vice-Ministers, Central Bank Governors and their advisors for Asia- Pacific issues, current APEC Senior Officials, and a number of former APEC Senior Officials.

BUSINESS

Panelists should be from companies who have operations in a number of Asia-Pacific economies or conduct business with a number of partners from the region. This might include each economy's current ABAC members as well as past ABAC members. In last year's survey, these included CEOs, vice presidents for Asia-Pacific operations, and directors of chambers of commerce.

NON-GOVERNMENT: RESEARCH COMMUNITY/CIVIL SOCIETY/MEDIA

Panelists should be well-versed in Asia-Pacific affairs, being the type of people governments, businesses, and the media would tap into to provide input on issues related to Asia-Pacific cooperation. These included presidents of institutes concerned with Asia-Pacific issues, heads of departments, senior professors, and correspondents covering international affairs.

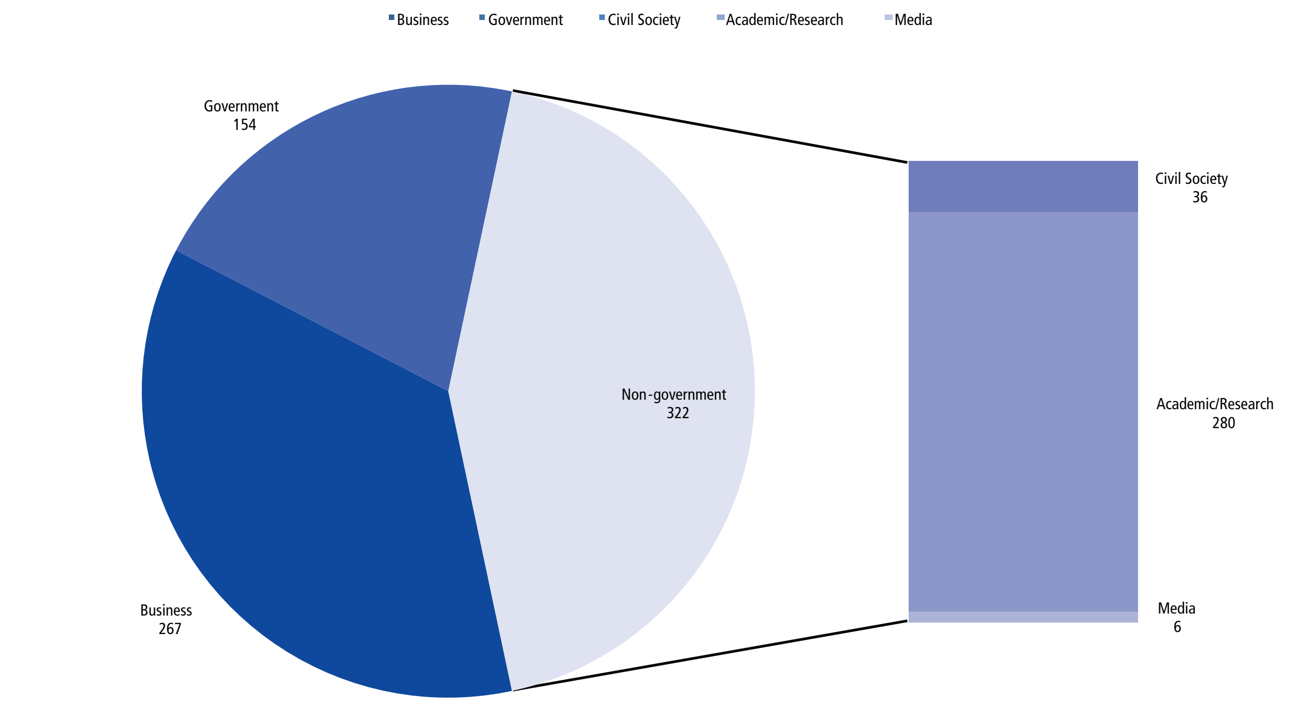
In addition to our member committees, we would like to express our appreciation to the National Center for APEC who also circulated the survey to their members, as well as many others who helped in the effort.

RESPONDENT BREAKDOWN

We do not disaggregate results for each economy but rather by sub-regions – Northeast Asia, North America, Oceania, Pacific South America, and Southeast Asia.

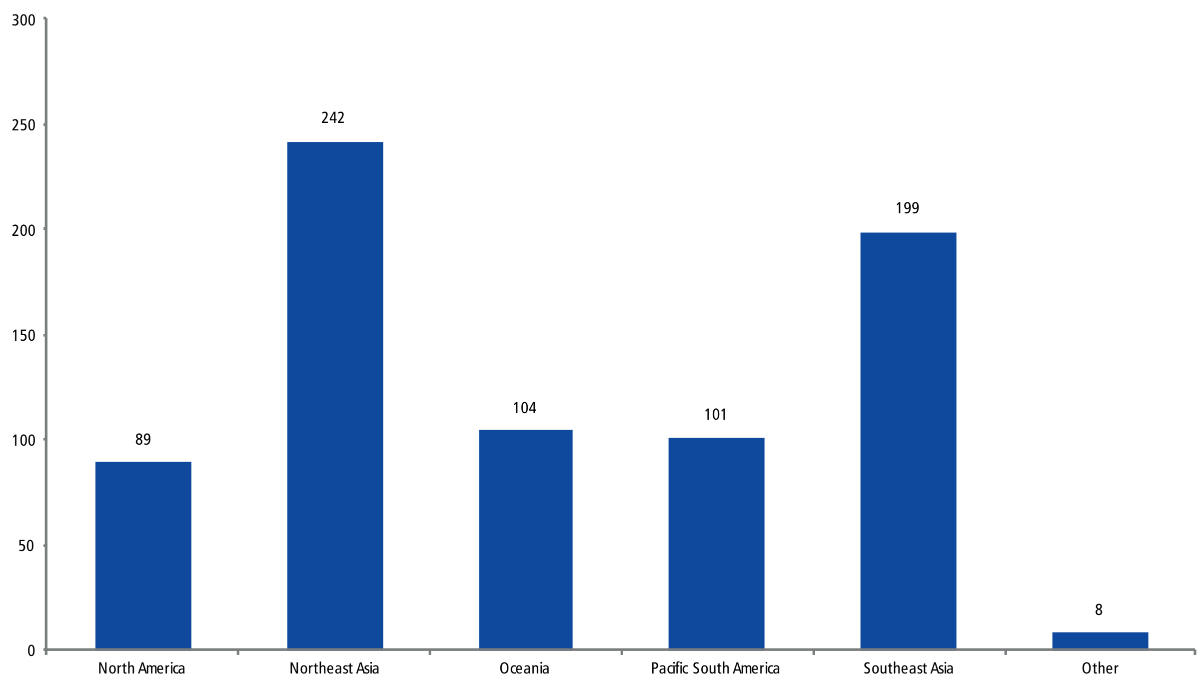
- North America: Canada, Mexico, and the United States
- Northeast Asia: China, Hong Kong (China), Japan, Korea, Mongolia, Russia, and Chinese Taipei
- Oceania: Australia, New Zealand, and Papua New Guinea
- Pacific South America: Chile, Colombia, Ecuador, and Peru
- Southeast Asia: Brunei Darussalam, India, Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam

BREAKDOWN OF RESPONDENTS BY SECTOR



Total number of respondents: 743

BREAKDOWN OF RESPONDENTS BY SUB-REGION



Total number of respondents: 743

1. What are your expectations for economic growth over the next 12 months compared to the last year for the following economies/ regions? Please select/tick the appropriate box.

	Much weaker	Somewhat weaker	About the same	Somewhat stronger	Much stronger	Don't know
China	3.9%	45.2%	33.2%	12.7%	3.9%	1.1%
India	0.4%	8.7%	38.8%	41.7%	5.9%	4.5%
Japan	2.4%	27.0%	48.5%	16.8%	2.3%	2.9%
Russia	6.8%	35.3%	34.7%	13.6%	1.8%	7.8%
Southeast Asia	0.9%	12.2%	34.1%	41.2%	10.2%	1.4%
Oceania	0.8%	14.3%	57.5%	13.5%	1.2%	12.7%
The United States of America	0.9%	16.4%	33.1%	43.2%	4.1%	2.3%
The European Union	6.7%	49.5%	31.8%	8.7%	0.7%	2.6%
The world economy	1.8%	32.6%	48.0%	14.2%	1.4%	2.2%

2. Please select the top five risks to growth for your economy over the next 2-3 years. Select ONLY five (5) risks, using a scale of 1-5, please write 1 for the least serious risk, 2 for the next most serious risk, 3 for the next third highest risk, 4 for the fourth highest risk and 5 for the most serious risk.

	1 - Least serious	2	3	4	5 - Most serious	Weighted score
A slowdown in the Chinese economy	6.4%	9.7%	11.0%	14.4%	12.4%	1.8
Continued slowdown in world trade growth	8.1%	10.5%	12.0%	10.3%	11.2%	1.6
Failure to implement structural reforms	7.0%	6.6%	7.3%	9.4%	10.2%	1.3
Lack of political leadership	6.3%	5.9%	6.4%	7.4%	12.0%	1.3
A slowdown in the US economy	6.4%	6.2%	7.0%	6.4%	6.6%	1.0
Increased protectionism	4.8%	7.3%	7.6%	7.0%	5.2%	1.0
Global terrorism	5.6%	5.0%	4.5%	4.2%	6.9%	0.8
Corruption	5.3%	5.5%	4.3%	4.5%	5.2%	0.7
Lack of adequate infrastructure	6.4%	5.0%	4.8%	5.6%	3.9%	0.7
Shortage of available talent/skills	5.6%	4.1%	4.1%	5.2%	3.4%	0.6
Sharp fall in asset prices	2.7%	3.5%	3.9%	3.9%	4.5%	0.6
Social instability	6.0%	4.1%	3.8%	4.3%	2.9%	0.6
Unsustainable debt	4.6%	3.9%	3.4%	3.5%	3.6%	0.5
Natural disasters	3.9%	4.2%	3.1%	2.9%	2.8%	0.5
Unfavorable currency realignments	3.6%	4.8%	3.9%	2.9%	1.8%	0.5
The UK leaving the EU	5.2%	3.8%	3.6%	1.8%	1.3%	0.4
Cyber attacks	2.8%	2.7%	1.1%	1.8%	2.4%	0.3
Energy security	1.3%	2.8%	2.5%	1.8%	1.5%	0.3
Food security	3.4%	2.1%	1.4%	1.0%	1.1%	0.2
A slowdown in the Japanese economy	2.1%	1.3%	2.8%	0.7%	0.6%	0.2
A health pandemic	2.5%	1.4%	1.5%	0.8%	0.6%	0.2

3. How important do you think each of the following will be to driving growth in your economy over the next 5 years?

	1-Not at all important	2-Slightly important	3-Moderately important	4-Very important	5-Extremely important	Don't Know/ Unsure	Weighted score
Innovation & Technology	1.2%	4.9%	16.6%	30.9%	43.7%	2.8%	4.0
Trade	0.4%	4.2%	18.7%	43.8%	32.2%	0.7%	4.0
Private Sector Investment	0.6%	3.9%	17.1%	45.5%	31.1%	1.7%	4.0
Institutional Environment (i.e. the pursuit of sound government policies that promote stability & growth)	1.5%	6.2%	18.6%	33.6%	37.0%	3.1%	3.9
Consumption	2.0%	7.2%	28.9%	41.7%	19.3%	0.9%	3.7
Government Investment	1.8%	9.7%	36.9%	32.7%	18.3%	0.7%	3.5

4. Please rate how important each of the following activities by standard industrial classification will be to the growth of your economy over the next 5 years

	1-Not at all important	2-Slightly important	3-Moderately important	4-Very important	5-Extremely important	Don't Know/ Unsure	Weighted score
Digital trade, e-commerce and the internet economy	1.3%	5.3%	21.9%	33.8%	35.2%	2.5%	3.9
Information and communication	0.4%	5.6%	20.5%	39.2%	31.8%	2.5%	3.9
Education	1.3%	7.7%	19.4%	33.8%	35.4%	2.3%	3.9
Financial and insurance activities	1.2%	8.2%	26.3%	38.8%	23.8%	1.8%	3.7
Health	2.0%	7.7%	26.3%	37.9%	24.1%	1.9%	3.7
Manufacturing	2.2%	13.3%	26.8%	34.8%	21.5%	1.3%	3.6
Professional, scientific and technical activities	2.1%	10.3%	28.5%	31.2%	24.5%	3.4%	3.6
Wholesale and retail trade	1.0%	9.7%	37.3%	35.7%	14.5%	1.8%	3.5
Construction	1.3%	10.9%	33.3%	40.4%	12.5%	1.6%	3.5
Transportation and storage	1.0%	11.1%	37.6%	33.1%	14.6%	2.5%	3.4
Urban services	2.4%	11.3%	34.8%	35.3%	13.8%	2.5%	3.4
Power generation	4.7%	14.7%	31.6%	31.6%	14.8%	2.5%	3.3
Accommodation and food service activities	1.9%	19.0%	34.4%	30.8%	11.8%	2.1%	3.3

Real estate activities	3.4%	18.5%	34.6%	30.4%	11.0%	2.1%	3.2
Agriculture, forestry and fishing	11.8%	19.4%	26.0%	24.9%	16.1%	1.8%	3.1
Arts, entertainment and recreation	10.5%	29.7%	36.8%	15.1%	5.6%	2.4%	2.7
Other service activities	3.7%	10.0%	38.7%	23.9%	6.4%	17.3%	2.7
Mining and quarrying	24.2%	26.7%	23.7%	14.7%	8.0%	2.7%	2.5

5. On a scale of 1 to 5, how much of an impediment do you think each of the following are to services trade in the region? With 1 being not at all an impediment and 5 a very serious impediment. Please select 'don't know/unsure' if you are not sure of your answer.

	1-Not at all important	2-Slightly important	3-Moderately important	4-Very important	5-Extremely important	Don't Know/ Unsure	Weighted score
Transparency, multiple layers of authority, and predictability of regulations	2.4%	8.4%	22.9%	29.3%	32.9%	4.1%	3.7
Certification and standards issues	3.2%	13.1%	38.3%	25.0%	14.6%	5.7%	3.2
Transfer of technology requirements	4.1%	18.0%	34.1%	25.3%	13.9%	4.5%	3.1
Restriction on data flows	3.8%	17.7%	34.5%	24.0%	14.7%	5.3%	3.1
Complex requirements for visas and permits for foreign employees	5.1%	18.8%	35.3%	24.5%	12.8%	3.5%	3.1
Limitations on firms' operations	4.0%	16.5%	35.8%	25.9%	10.5%	7.3%	3.0
Screening of foreign investments	4.9%	19.0%	33.5%	25.6%	11.0%	6.1%	3.0
Recognition of qualifications for foreign employees	4.8%	20.6%	35.6%	24.8%	9.4%	4.7%	3.0
Quotas on the entry of foreign employees	4.6%	22.1%	35.5%	23.6%	9.7%	4.6%	3.0
Localization requirements	4.4%	18.9%	38.8%	23.3%	8.8%	5.8%	3.0
Foreign equity limits	4.4%	18.4%	38.0%	20.2%	7.8%	11.2%	2.8
Restrictions on land ownership	8.0%	26.7%	34.4%	17.0%	7.1%	6.7%	2.7
Economic needs tests for foreign employees	7.2%	28.4%	34.1%	14.3%	7.6%	8.4%	2.6
Minimum capitalization requirements	6.5%	26.7%	37.4%	15.3%	3.7%	10.4%	2.5

6. For those that you rate 4 and 5 above, what do you think that APEC as a whole should do to address the matter?

	1-Not at all important	2-Slightly important	3-Moderately important	4-Very important	5-Extremely important	Don’t Know/ Unsure	Weighted score
Results withheld for detailed release							

7. Please state the level of agreement you have with each of the following statements.

	1-Strongly Disagree	2-Disagree	3-Neither agree nor disagree	4-Agree	5-Strongly Agree	Don't know	Total
Liberalization of trade in services is on balance good for my economy	1.0%	5.1%	12.3%	46.3%	34.2%	1.1%	100.0%
Reforms in the services sector lowers prices for the users of the services	0.8%	4.1%	15.9%	50.3%	26.1%	2.7%	100.0%
Reforms in the services sector improves the quality of their delivery	0.3%	2.9%	12.4%	50.5%	32.3%	1.6%	100.0%
Liberalization of trade in services will enable higher value-added jobs to be created in my economy	0.8%	3.4%	15.8%	46.0%	32.4%	1.6%	100.0%
Liberalization of trade in services would result in a net job loss in my economy	9.4%	39.0%	24.0%	17.0%	4.5%	6.1%	100.0%
Companies in my economy are not ready to compete with international providers of services	11.2%	30.2%	25.1%	23.5%	7.2%	2.9%	100.0%

8. How important do you think an efficient services sector is to the following in your economy?

	1-Not at all important	2-Slightly important	3-Moderately important	4-Very important	5-Extremely important	Don’t Know/ Unsure	Weighted score
Economic growth	0.3%	0.8%	9.9%	47.5%	41.3%	0.2%	4.3
Generating employment	0.3%	2.6%	12.8%	47.8%	35.9%	0.6%	4.1
Innovation	0.6%	1.1%	15.5%	38.1%	43.6%	1.0%	4.2
Inclusivity	1.6%	6.9%	28.9%	34.9%	23.6%	4.0%	3.6

9. How do you think each of the following have impacted growth in your economy since 2000?

	1-Very negative	2-Negative	3-Neither negative nor positive	4-Positive	5-Very Positive	Don't know	Weighted score
Liberalization of telecommunication services	0.8%	2.6%	14.3%	50.7%	28.8%	2.8%	4.0
Liberalization of financial services	0.8%	4.6%	17.9%	53.3%	21.0%	2.4%	3.8
Liberalization of logistics & transport services (air, water, land)	0.3%	2.1%	20.9%	49.8%	22.7%	4.2%	3.8
Competition policy reforms	1.0%	5.7%	24.9%	43.3%	19.2%	5.9%	3.6
Others: please specify	2.7%	2.7%	13.0%	9.6%	10.3%	61.6%	1.4

10. How do you think each of the following initiatives, if they are achieved, will impact your economy?

	1-Very negative	2-Negative	3-Neither negative nor positive	4-Positive	5-Very Positive	Don't know	Weighted score
ASEAN Economic Community (AEC)	0.5%	3.9%	16.1%	61.6%	13.0%	4.9%	3.7
WTO's Trade Facilitation Agreement (TFA)	0.5%	2.5%	11.9%	56.7%	18.0%	10.4%	3.6
Free Trade Area of the Asia-Pacific (FTAAP)	0.5%	3.4%	11.9%	48.9%	22.2%	13.1%	3.5
Trans-Pacific Partnership (TPP)	2.4%	11.7%	11.9%	44.7%	21.7%	7.5%	3.5
Regional Comprehensive Economic Partnership (RCEP)	0.5%	7.1%	17.8%	45.6%	15.0%	14.1%	3.3
China's Belt & Road Initiative	2.5%	10.4%	20.9%	34.7%	13.0%	18.6%	2.9
Pacific Alliance	0.2%	3.3%	27.3%	35.0%	11.4%	22.8%	2.9
Pacific Agreement on Closer Economic Relations (PACER) Plus	0.3%	3.6%	28.2%	33.8%	5.1%	29.0%	2.5

11. Please indicate your agreement or disagreement with the following statements:

	1-Strongly Disagree	2-Disagree	3-Neither agree nor disagree	4-Agree	5-Strongly Agree	Don't know	Total
APEC is as important or more important today compared to 1989 when it was created	1.5%	11.3%	17.7%	48.6%	19.1%	1.8%	100.0%
APEC should focus its work on trade policy to achieving a Free Trade Area of the Asia-Pacific (FTAAP)	1.6%	6.2%	17.1%	54.4%	18.9%	1.8%	100.0%
APEC should expand its membership	3.1%	15.6%	32.1%	29.6%	14.0%	5.6%	100.0%
APEC is already too large, and a moratorium on new members should be imposed	10.4%	27.6%	33.8%	17.0%	2.5%	8.7%	100.0%

12. How do you assess the political environment for Asia-Pacific freer trade and investment in the coming five years? Please tick the box that best fits your assessment.

	1-Very negative	2-Negative	3-Neither negative nor positive	4-Positive	5-Very Positive	Don't know	Weighted score
	1.9%	22.6%	21.8%	45.6%	5.5%	2.6%	100.0%

13. Please rate each of the following from 1 to 5 on the impact they have on attitudes towards freer trade and investment in your economy with 1 having no impact, 2 a minor impact, 4 a serious impact and 5 a very serious impact. Please select 'Don't know' if you are unaware or not sure of your answer.

	1-No impact	2-Minor impact	3-Somewhat serious impact	4-Serious impact	5-Very serious impact	Don't know	Weighted score
Lack of sustained political leadership	3.1%	10.0%	20.2%	36.3%	27.6%	2.9%	3.7
Failure to communicate benefits of trade and investment effectively	2.3%	9.2%	21.6%	41.5%	22.7%	2.8%	3.6
Slower global economic growth	2.8%	7.6%	28.2%	40.3%	18.2%	2.9%	3.5
Rising income inequality	2.9%	12.7%	25.6%	38.3%	18.5%	1.9%	3.5

14. What do you think should be the top 5 priorities for APEC Leaders to address at their upcoming meeting in Lima?

	1 - most important	2	3	4	5 - least important	Weighted score
Progress towards the Bogor Goals and the Free Trade Area of the Asia-Pacific (FTAAP)	12.7%	6.3%	4.0%	5.0%	5.2%	1.2
The APEC growth strategy	10.3%	6.9%	5.3%	6.3%	6.9%	1.1
Structural reforms	8.1%	6.9%	7.4%	6.3%	4.5%	1.1
The emergence of anti-globalisation & anti-trade sentiments	11.6%	4.8%	3.9%	3.5%	5.0%	1.0
Improvement in regional logistics & transport connectivity	4.8%	5.2%	5.8%	6.8%	4.5%	0.8
Investing in human capital development	4.2%	6.6%	4.8%	3.9%	4.2%	0.7
Climate change cooperation and disaster resilience	5.5%	3.5%	5.3%	5.0%	4.2%	0.7
The modernization of micro, and small and medium enterprises	3.2%	6.3%	5.3%	4.7%	4.0%	0.7
The Trade in Services Agreement (TiSA)	3.2%	4.8%	4.7%	4.2%	3.9%	0.6
Corruption	3.5%	4.8%	3.5%	4.4%	4.7%	0.6
Terrorism	3.2%	3.4%	4.7%	3.2%	4.7%	0.5
Demographics: aging and labor mobility	2.4%	4.7%	3.7%	4.0%	4.0%	0.5
The APEC Roadmap on Services Competitiveness	2.4%	5.2%	3.2%	3.9%	2.6%	0.5
Youth unemployment	2.4%	3.2%	4.0%	3.1%	4.0%	0.5
The development of regional financial systems	2.3%	2.9%	3.5%	4.0%	4.2%	0.5
Progress on the APEC Connectivity Blueprint	1.9%	2.4%	4.4%	3.5%	3.4%	0.4
Cybersecurity	1.5%	2.3%	4.5%	4.2%	3.2%	0.4
The reform of regional institutional architecture	1.9%	2.4%	2.4%	2.6%	3.5%	0.4
Expansion of APEC membership	2.3%	1.9%	1.8%	2.6%	3.9%	0.3
The completion of the WTO Doha Round	2.4%	1.8%	2.6%	2.3%	1.5%	0.3
Developing a major initiative on the internet economy	0.8%	2.9%	2.6%	2.7%	1.9%	0.3
Improving women's full participation in the economy	1.3%	1.9%	2.4%	2.9%	3.1%	0.3
Energy security	1.3%	1.5%	2.7%	2.7%	1.5%	0.3
The impact of the UK leaving the EU	1.0%	1.6%	2.4%	1.6%	4.5%	0.3
Urbanization issues	1.3%	1.9%	1.8%	2.1%	1.3%	0.3
Fostering the regional food system	1.1%	1.5%	1.3%	1.9%	2.7%	0.2
The WTO Bali Package	1.8%	1.3%	0.6%	1.5%	1.0%	0.2
Empowering rural communities	1.5%	1.0%	1.1%	1.1%	1.9%	0.2

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