



**Asia-Pacific
Economic Cooperation**

APEC REGIONAL TRENDS ANALYSIS

February 2022 Update

Multiple headwinds derail recovery

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KEY MESSAGES

- APEC GDP grew at a slower pace of 4.2 percent in Q3 2021 following a strong rebound of 10.1 percent in Q2 2021, reflecting the impact of the Delta variant that prompted a re-imposition of movement restrictions amid a surge in infections. This translated into disruptions in supply chains and reduced consumption, slowing down economic activity.
- For the whole year 2021, the APEC region is estimated to have expanded by 5.8 percent, lower than the 6.0 percent forecast in the November 2021 APEC Regional Trends Analysis (ARTA). APEC is expected to moderate further to 4.2 percent in 2022 and 3.8 percent in 2023 as multiple challenges derail global economic recovery. Growth within APEC will remain uneven due to disparities in pandemic management and vaccine uptake as well as narrowing fiscal space and adjustments in monetary policy support.
- The emergence of the more contagious Omicron variant has exacerbated supply chain disruptions and sustained fears of new mutations. Compounding these concerns is rising inflation as supply shocks combine with strong pent-up demand. Higher inflation has already driven some economies to tighten monetary policy settings, which could have a dampening effect on economic activity. The moderation in China's growth could also adversely affect its economic partners within the APEC region.
- As challenges multiply, priority should remain focused on boosting health systems and ramping up vaccination rates. Widening access to vaccines, tests and treatments must go hand in hand with increasing the capacity of economies to ensure proper storage, efficient distribution, and availability of medical workers and supplies to sustain vaccination programmes. It is also imperative to address vaccine hesitancy through public information campaigns that focus on protection and correcting misinformation.
- Whereas the fiscal policy measures implemented at the onset of the pandemic were comprehensive, a shift toward a calibrated and targeted approach is warranted given the narrowing fiscal space and inflationary pressures. Support packages should thus be directed at vulnerable households and viable businesses. At the same time, monetary policy needs to be communicated clearly to anchor inflation expectations, while remaining agile and able to immediately deploy tools at its disposal to rein in inflation.
- Global and regional cooperation mechanisms continue to play an important role in recovering from the chaos wreaked by the pandemic and rebuilding stronger economies.
- The APEC region's Aotearoa Plan of Action (APA) is the right vehicle that comes at the right time. The APA implements the Putrajaya Vision of 'an open, dynamic, resilient and peaceful Asia-Pacific community by 2040, for the prosperity of all our people and future generations' by setting out individual and collective actions under three economic drivers: trade and investment; innovation and digitalisation; and strong, balanced, secure, sustainable and inclusive growth.

Advancing Free Trade for Asia-Pacific Prosperity

APEC Member Economies: Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Philippines; Russia; Singapore; Chinese Taipei; Thailand; United States of America; and Viet Nam.

Recovery slows as challenges multiply

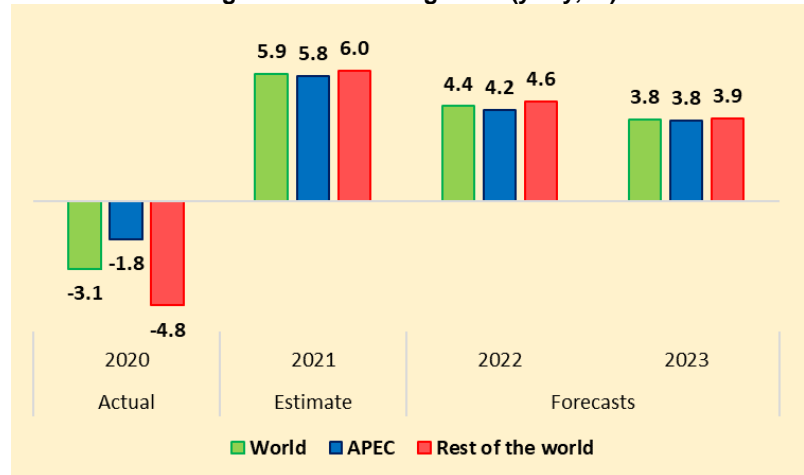
Advance estimates show that the APEC region expanded by 5.8 percent in 2021, which is lower than the 6.0 percent gross domestic product (GDP) forecast in the November 2021 ARTA. Near-term projections reveal a further moderation in APEC GDP growth to 4.2 percent in 2022 and 3.8 percent in 2023, as the global economy faces a multitude of risks that threaten recovery (Figure 1).

Growth in APEC is anticipated to remain uneven in the near term due to disparities in pandemic management, including vaccination coverage and health sector capacity, available fiscal space and monetary policy support. The moderation in China's economic growth, marked by a decline in private consumption, could also adversely affect its economic and trade partners in the APEC region.

COVID-19, carrying with it health and economic consequences as well as the risk of new variants that could potentially be more contagious, continues to pose a significant threat to economic recovery. The re-imposition of lockdown measures in response to higher caseloads has given rise to significant supply-side constraints. Shortages in labour and production inputs, longer delivery times and higher storage and shipping costs combined with a strong pick-up in demand have resulted in elevated inflation.

Global commodity prices went up in 2021 from 2020 and even compared to the pre-pandemic levels in 2019. Energy prices soared, with West Texas Intermediate (WTI) crude oil increasing by around 73 percent to USD 66.50 per barrel and Brent crude oil rising by 67 percent to USD 70.44 per barrel in 2021 compared to year-ago levels. Food prices were also on an upward trend, notably maize, wheat, sugar, beef and chicken (Figure 2). Higher energy and food prices contributed to the doubling of APEC's inflation rate to an estimated average of 3.0 percent in 2021 from 1.5 percent in 2020 (Figure 3).

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



Source: International Monetary Fund (IMF) World Economic Outlook (October 2021 and January 2022 Update); member-economy sources; APEC Policy Support Unit (PSU) staff calculations.

Figure 2. Prices of global commodities (y-o-y, %)

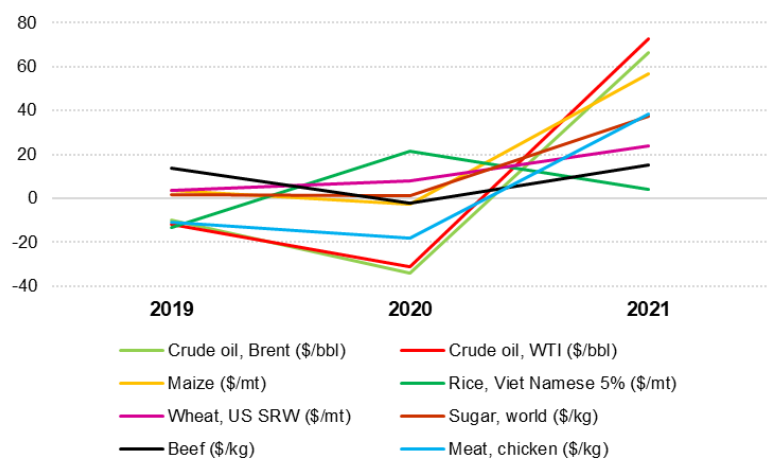
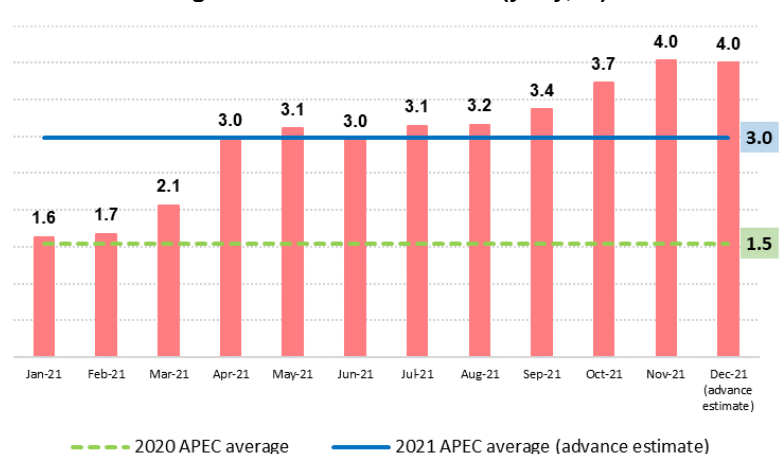


Figure 3. APEC inflation rate (y-o-y, %)



For Figures 2 and 3:

Source: World Bank commodity prices data for global commodities; member-economy sources for inflation rates.

To prevent elevated inflation from becoming entrenched, some economies have already tightened their monetary policy settings as a pre-emptive measure. In its 25–26 January 2022 meeting, the US Federal Open Market Committee signalled that it will raise interest rates and reduce the monthly pace of its net asset purchases, eventually ending such purchases in early March 2021, given that the US inflation rate has already breached the 2 percent target while labour market conditions have also strengthened.

Similarly, in a departure from its practice of monetary policy meetings every April and October, the Monetary Authority of Singapore raised slightly the rate of appreciation for the S\$NEER policy band on 25 January 2022, while maintaining the width of the

policy band and the level at which it is centred. Other APEC economies also moved to increase their monetary policy rates, including Chile; Korea; New Zealand; Peru; and Russia.

In contrast, China decided to reduce its benchmark lending rates for households and corporates to 3.7 percent from 3.8 percent to boost its economy amid real property issues and slowing private consumption. Other APEC economies have adopted a wait-and-see stance by keeping their interest rates unchanged as of end-January 2022 (Figure 4).

Inflation could decline in 2022, hinged largely on well-anchored inflation expectations, particularly supported by clear communication of monetary policy intentions, as well as the stabilisation of global

Figure 4. Monetary policy rate (%)

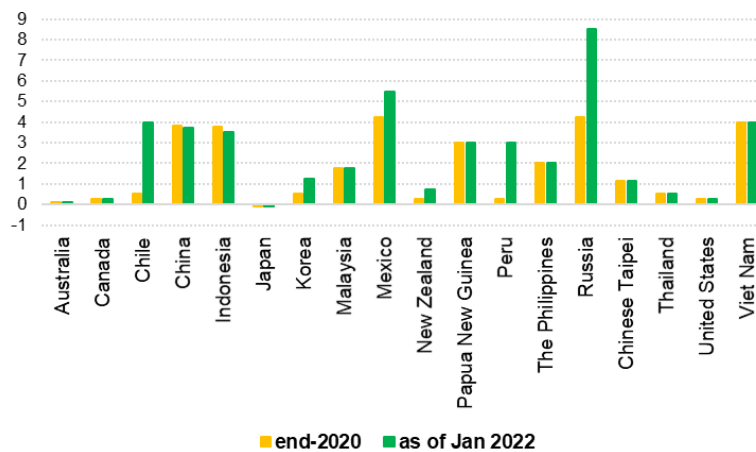
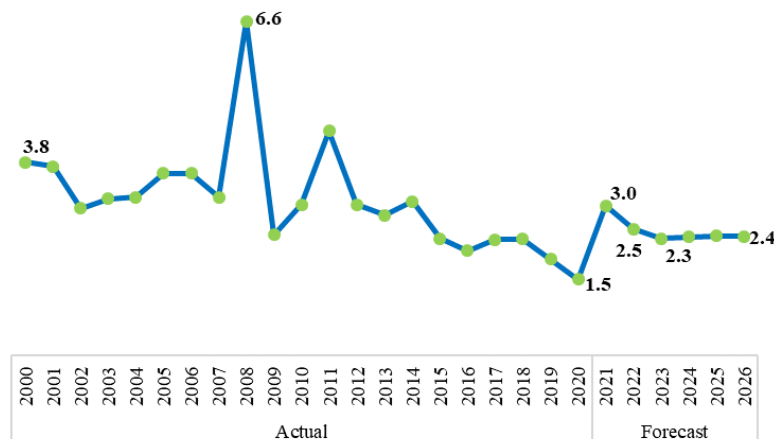


Figure 5. APEC inflation rate (actual and forecast, %)



For Figures 4 and 5:

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

Source: Member-economy sources; IMF World Economic Outlook (October 2021 and January 2022 Update).

supply–demand conditions. In APEC, inflation is expected to moderate to 2.5 percent in 2022, with a further decrease to 2.3 percent by 2023 (Figure 5).

Meanwhile, the massive fiscal response to mitigate the health and economic repercussions of COVID-19 has resulted in higher debt. In the APEC region, the average general gross debt incurred by governments rose to around 65 percent of GDP in 2020, significantly higher than the pre-pandemic 10-year average of 49 percent of GDP. In the near-term period, gross government debt could increase again to 66–67 percent of GDP.¹

Narrowing fiscal space amid rising debt necessitates a targeted approach to continue to provide support to vulnerable households and viable businesses. However, the combination of scaled-back fiscal support and tighter monetary policy amid rising debt and inflation could have a dampening effect on consumption and overall economic activity.

Economic growth and trade activity in Q1–Q3 2021

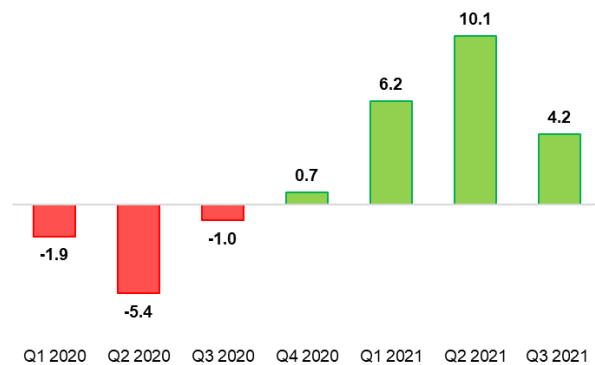
The APEC region continued to grow in Q3 2021, but at a slower pace of 4.2 percent compared to the GDP expansion of 10.1 percent in Q2 2021 and 6.2 percent in Q1 2021 (Figure 6).

The moderation of economic growth in Q3 2021 reflects the impact of the Delta variant that prompted economies to re-impose movement restrictions amid a surge in infections. This translated to disruptions in supply chains and reduced consumption, slowing down economic activity.

Despite rising infections that contributed to supply chain disruptions and production shortages, trade performance in APEC surged, with double-digit growth seen. The volume of merchandise exports and imports during January–September 2021 went up from year-ago levels by 14 percent and 16 percent, respectively (Figure 7).

The value of merchandise trade in APEC expanded even more, by 28.2 percent for exports and 27.3 percent for imports during the same comparable period (Figure 8). Supply

Figure 6. Quarterly GDP growth (y-o-y, %)



Note: Quarterly data on GDP growth are not available for Papua New Guinea.

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

Figure 7. Volume of merchandise trade (y-o-y, %)

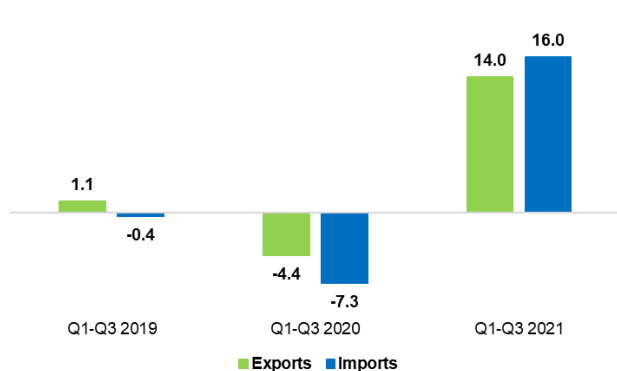
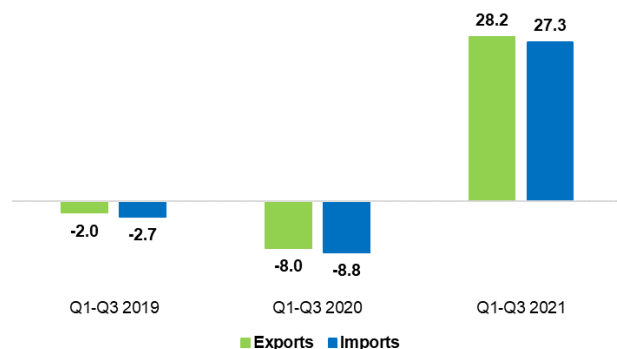


Figure 8. Value of merchandise trade (y-o-y, %)



For Figures 7 and 8:

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

Source: World Trade Organization (WTO); APEC PSU staff calculations.

¹ See: APEC, “APEC Regional Trends Analysis – Toward a Resilient Recovery: Policies Matter” (Singapore: APEC, November 2021),

<https://www.apec.org/publications/2021/11/apec-regional-trends-analysis-november-2021-apec-s-climate-change-challenge-toward-a-resilient-recovery-policies-matter>

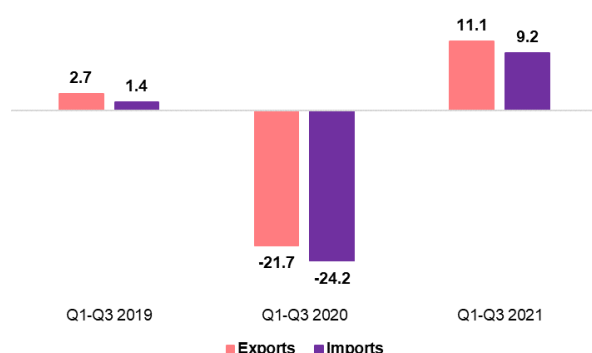
Table 1. Sectoral performance (y-o-y, %)

	Exports			Imports		
	Q1-Q3 2019	Q1-Q3 2020	Q1-Q3 2021	Q1-Q3 2019	Q1-Q3 2020	Q1-Q3 2021
Transport	-0.6	-21.2	38.4	-1.9	-23.5	26.8
Travel	0.4	-62.8	-31.5	-2.7	-61.2	-18.2
Goods-related services	7.5	-24.6	5.4	6.4	-16.2	10.7
Other commercial services	4.5	-1.6	13.3	5.9	-0.1	9.6

Source: WTO; APEC PSU staff calculations.

shocks led to higher shipping and storage costs, which fed into prices of exports and imports, particularly fuel and manufactured products.

The increase in shipping rates coupled with strong consumer demand for goods enabled a rebound in APEC's commercial services by 11.1 percent for exports and 9.2 percent for imports in Q1–Q3 2021 from a year ago (Figure 9). A breakdown of sectoral performance shows that transport services increased by 26.8 percent during January–September 2021 from the year-ago level, while goods-related services rose 10.7 percent and other services 9.6 percent (Table 1). Travel continued to be a drag on services trade – albeit less negative in Q1–Q3 2021 compared to Q1–Q3 2020 – as the recovery of travel and tourism is largely dependent on the full reopening of borders across the world.

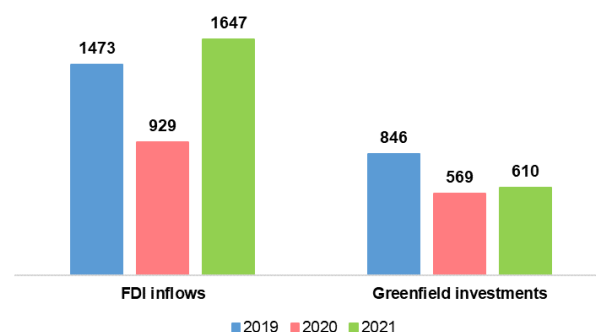
Figure 9. Commercial services (y-o-y, %)

Source: WTO; APEC PSU staff calculations.

Meanwhile, estimates show that global foreign direct investment (FDI) has recovered strongly in 2021 to USD 1.6 trillion, equivalent to a 77.3 percent increase from the exceptionally low level recorded in 2020 and higher by 11.8 percent compared to the 2019 level. However, recovery in FDI is uneven, with year-on-year growth in developed economies at 199 percent but only 30 percent among developing economies, even as the least developed economies recorded a modest growth of 19 percent.

Moreover, the value of announced greenfield investments has not returned to its pre-pandemic

levels; it is still around 30 percent lower than the 2019 level. Investor confidence in industry and global value chains (GVCs) has also remained weak, with new projects in GVC-intensive industries declining further even as the value of infrastructure projects went up by 91 percent in 2021 from its level in 2020.

Figure 10. Global FDI and greenfield investments (USD billion)

Source: United Nations Conference on Trade and Development (UNCTAD) Investment Trends Monitor (January 2022).

The imperative of implementing Putrajaya Vision 2040

The Putrajaya Vision 2040 was adopted by the 21 APEC member economies during Malaysia's turn to host the APEC summit, in 2020. To implement this vision, the Aotearoa Plan of Action (APA) was conceived in 2021, during New Zealand's host year.²

The APA sets out individual and collective actions as well as corresponding progress evaluation metrics to guide the APEC region toward achieving the Putrajaya Vision.

APEC is cognisant that, in the immediate period, the priority remains on ensuring that the region's people are healthy so that economies can recover, reopen and rebuild. Central to this is the free and rapid flow of medical supplies across borders to expand vaccination coverage. Widening access to vaccines, tests and treatments must be accompanied with proper storage, efficient distribution, and availability of medical workers and supplies to sustain vaccination programmes. It is also important, to

² The Aotearoa Plan of Action can be accessed at: <http://aotearoaplanofaction.apec.org/>

address vaccine hesitancy, to launch effective public information campaigns that highlight protection and counter misinformation.

Looking ahead, APEC economies are poised to implement a long-term strategy through appropriate domestic policies that strengthen trade and investment, promote innovation and digitalisation, and bring about economic growth that is strong, sustainable and inclusive.

Individual and collective actions set out by the APA correspond to clear-cut strategies that economies can implement where relevant and appropriate. For example, under trade and investment, APEC economies are encouraged to work toward reducing unnecessary barriers, strengthening facilitation and increasing predictability and openness. Collectively, the region will continue to support APEC's role as an incubator of ideas by advancing innovative approaches that help deliver a well-functioning multilateral trading system, with the World Trade Organization (WTO) at its core. Moreover, regional economic integration remains a key APEC objective, particularly through its continuing work toward a Free Trade Area of the Asia-Pacific (FTAAP).

Actions under innovation and digitalisation focus on attaining a twofold objective: implementing sound economic policies and pursuing structural reforms. APEC recognises that effective fiscal and monetary policies are crucial in mitigating the consequences of the COVID-19 pandemic and supporting firmer economic recovery. In particular, economies need to work toward attaining fiscal sustainability and transparency to support long-term development and financing requirements.

In terms of structural reform, efforts should be directed to areas that improve productivity and promote innovation to make growth more resilient and sustainable. A vital component of these reforms include boosting the digital infrastructure, bridging the digital divide to broaden participation in the digital economy, facilitating the flow of data and strengthening consumer and business trust in digital transactions.

Learning from the painful lessons of the COVID-19 pandemic, APEC is also charting a more resilient and inclusive path to growth. This means building on APEC's Action Agenda on Advancing Economic, Financial and Social Inclusion (2017). Essentially, the inclusion agenda aims to advance progress in achieving full, productive and decent work for all, including applying equal pay for equal work; expanding access to banking and financial services

while also improving financial literacy; and empowering all sectors of society, especially vulnerable groups, to help them take advantage of available economic opportunities.³

The pursuit of inclusive growth also requires ensuring quality and equitable health access and outcomes for all, with a view to achieving universal health coverage. Strengthening health systems remain paramount, including sharing knowledge and expertise on pandemic management as well as health-related innovations to enable the region to respond quickly and effectively to health shocks, pandemics and other emergencies.

It is also notable that APEC recognises that growth and prosperity need to be attained through environmentally sustainable approaches. APEC economies are expected to implement environment-related policies consistent with their international obligations and contribute to meeting APEC goals. One of these important environment goals is to accelerate progress toward doubling the share of renewable energy in the APEC energy mix by 2030 (from 2010 levels), including in power generation; and to deliver a plan to reduce aggregate energy intensity by 45 percent by 2035 (from 2005 levels).

There are several actions needed, individually and collectively as a region, to rebuild more resilient, sustainable and inclusive economies. The ongoing pandemic has taught the world many lessons especially that it is never too early to prepare for the next pandemic or crisis. This means building fiscal buffers, strengthening macroeconomic fundamentals, implementing appropriate trade and investment measures, boosting health sector capacities and implementing environmentally sustainable policies, among others. Although the implementation of the strategies spelled out by the APA depends on economies' domestic conditions and resources, the key is to act now by implementing what is relevant, feasible and appropriate.

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³ See "Annex A: APEC Action Agenda on Advancing Economic, Financial and Social Inclusion in the APEC

Region," APEC, 2017, https://www.apec.org/meeting-papers/leaders-declarations/2017/2017_aelm/annex-a

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