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Economic Cooperation

Advancing
Free Trade for Asia-Pacific
Prosperity

Connectivity in APEC

International PECC Symposium on "Connecting the Connectivities in Asia Pacific" on Sept. 27, 2016 - Yangzhou

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Outline

1. Introduction: GVCs in APEC
2. APEC Connectivity Blueprint, 2015-2025
3. Supply Chain Connectivity Action Plan, 2010-2015
4. Global Outlook

Global Value Chains

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- Twenty years ago, 60% of world trade was between developed countries (North–North), 30% was between developed and developing countries (North–South) and 10% was South–South. By 2020, we are expecting it to be split equally three ways, so the relative weight of North–North trade will have been halved in just 30 years or so.
- Interestingly, almost 60% of trade in goods is now in intermediates, i.e. goods used as inputs in the production process.

[Pascal Lamy, "Future of Trade", 18 December 2013]

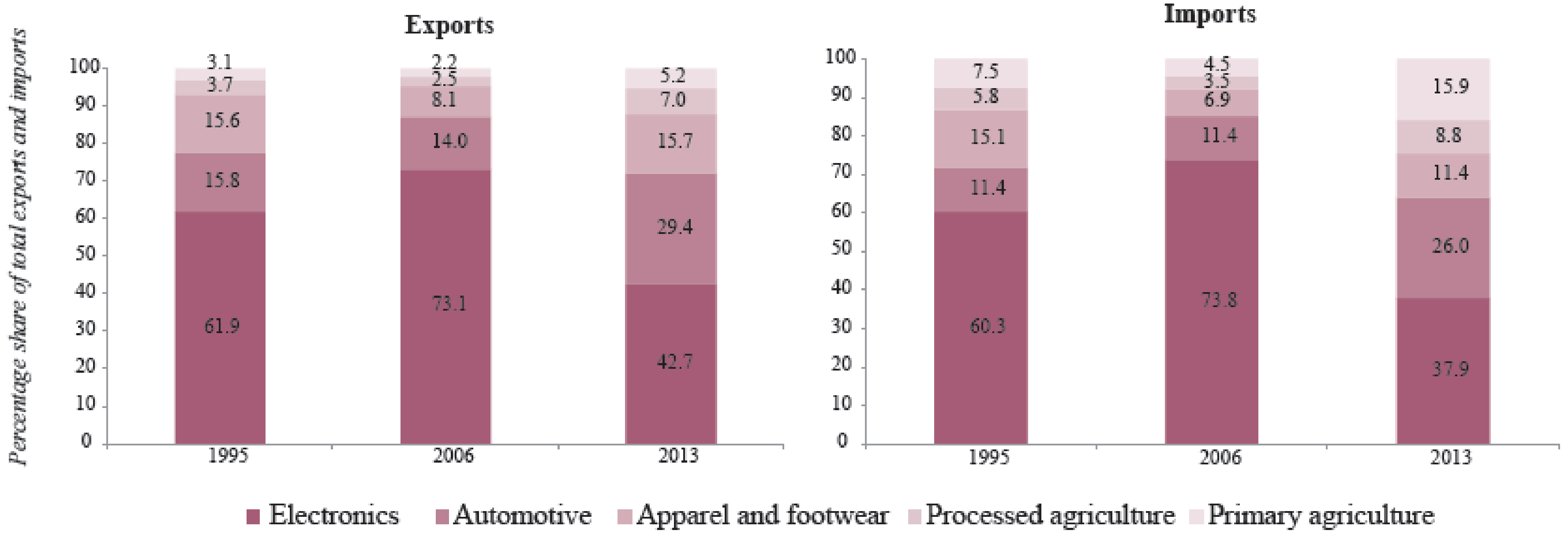
Table 1. World trade in intermediates

	Values (billion US$)			*Percentages*		
	Avg. 1993/94	*Avg. 2007/08*	*2009*	*Avg. 1993/94*	*Avg. 2007/08*	*2009*
North-North	780.7	2 387.2	1 704.2	58	41	40
North-South	254.5	1 222.3	922.4	19	21	22
South-North	191.3	1 074.3	758.5	14	19	18
South-South	125.8	1 098.6	887.5	9	19	21

Source: UNCTAD 2013

Structure of Intermediate Trade

Structure of intermediate trade by Asia Pacific economies, 1995-2013

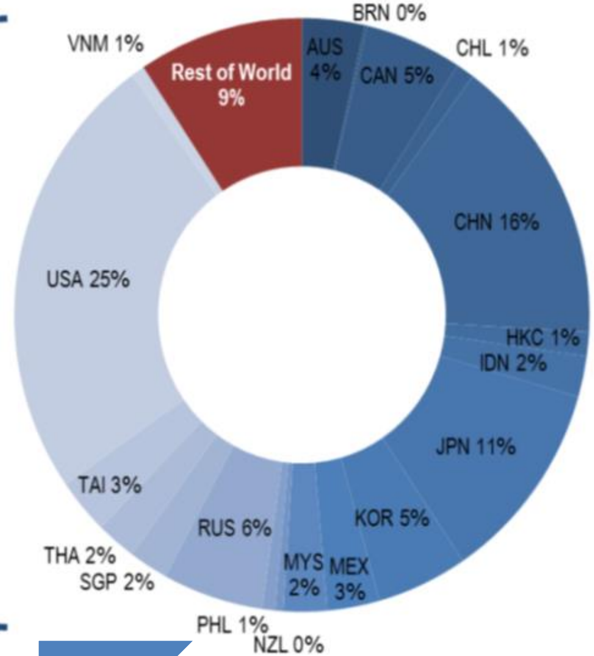


Source: Asia-pacific Trade and Investment Report 2015, UNESCAP.

Value added in APEC Exports

Figure 3.1: Value-Add of APEC Exports by Source

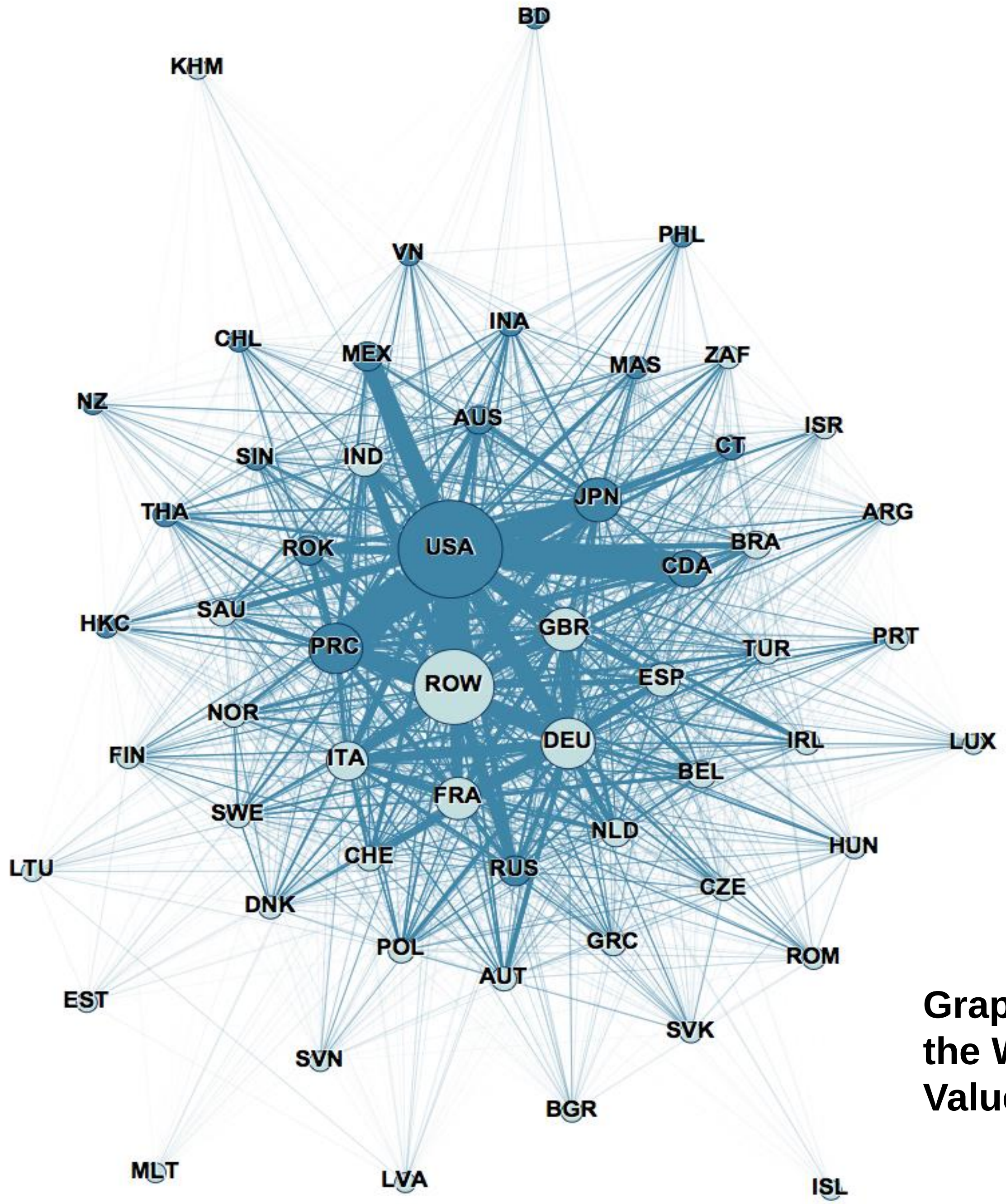
90.7% of Value-Add in APEC Exports Originated within APEC in 2009



Source: OECD-WTO TiVA Database and authors' calculations

Intra-APEC trade accounts for around two-thirds (67%) of APEC's total merchandise trade (exports and imports)

Source: World Bank 2014.



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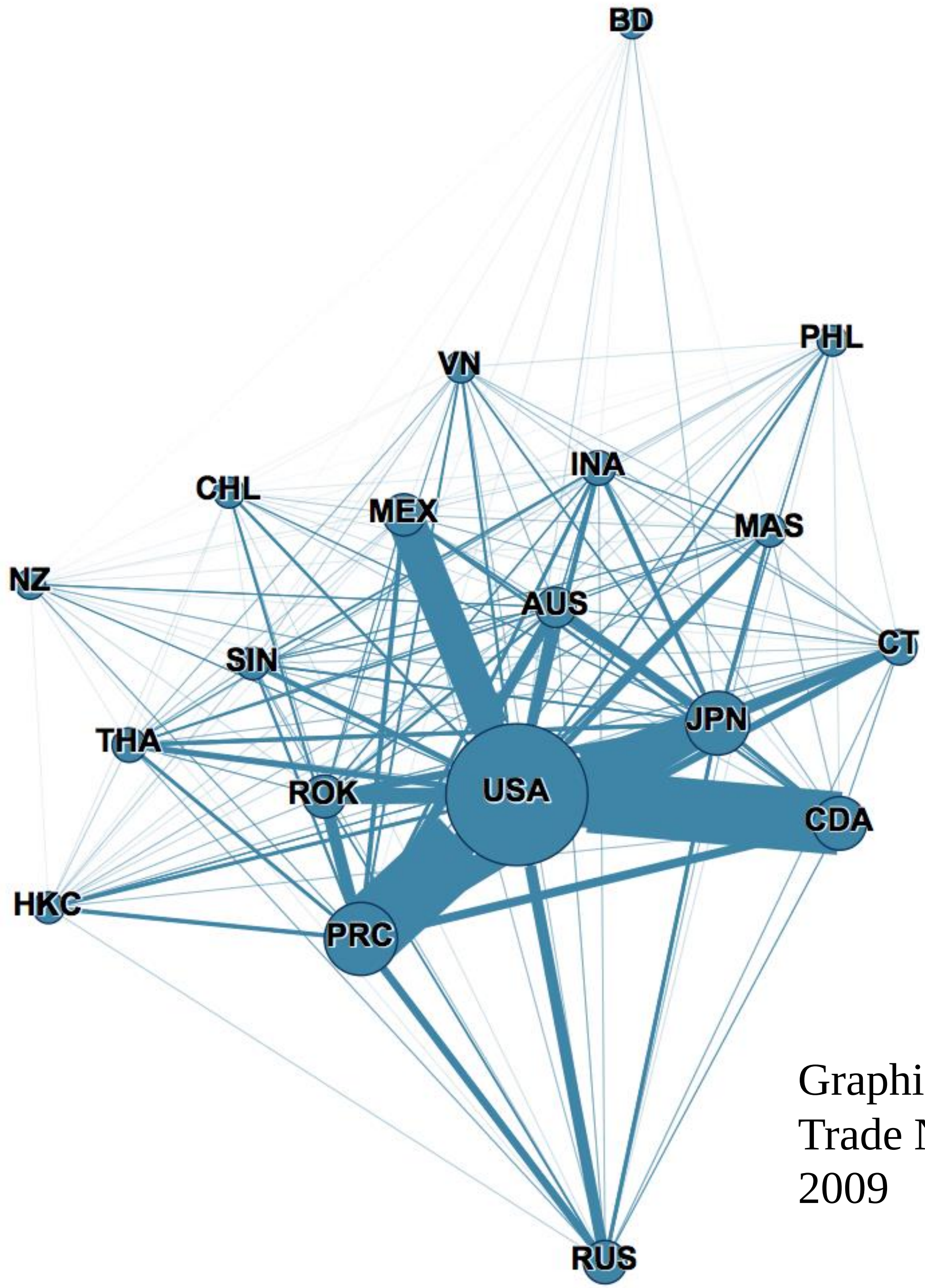
Graphical Representation of the World Trade Network in Value Added Terms, 2009



Graphical Representation of the APEC Trade Network in Value Added Terms, 2009

APEC Trade Connectedness

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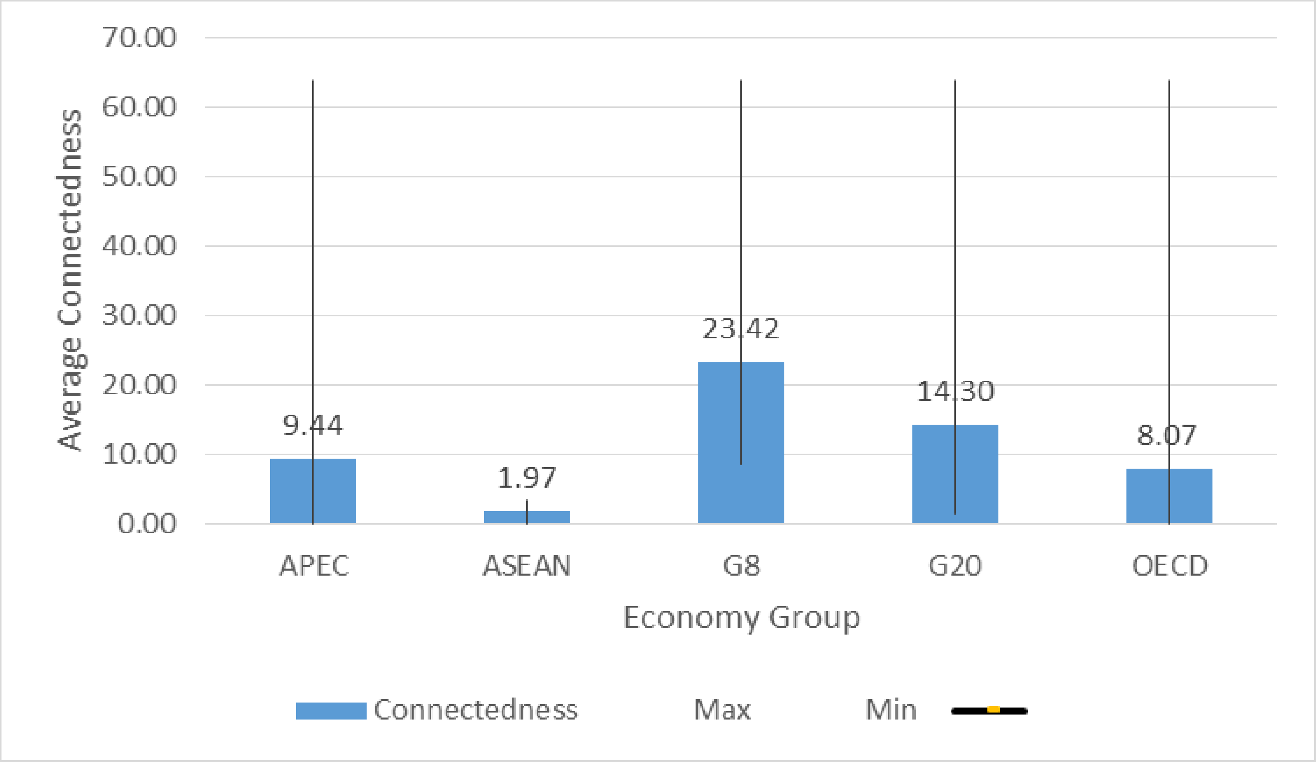
Simple Average Connectedness Score for Total Value Added Trade, by Economy Group



Source: PSU

The Vision of APEC Connectivity in 2025

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“Strengthen physical, institutional, and people-to-people connectivity by taking agreed actions and meeting agreed targets by 2025.”

The APEC Connectivity Blueprint

- Contains existing connectivity-related initiatives
- Encourages reviving initiatives that require further progress
- Proposes future initiatives for more efficient flows of goods, services, capital and people

Physical Connectivity

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Physical Connectivity

- improving the investment climate, enhancing infrastructure financing through public private partnerships (PPP)
- further establish dedicated PPP centers with a view to developing a regional network of PPP centers to share good practices
- develop, maintain and renew quality infrastructure, including energy, ICT and transport infrastructure and seek to increase the quality and sustainability of APEC transport networks
- increase broadband internet access; promote sustainable energy security; and build resiliency into the energy infrastructure
- facilitate the efficient and effective operation of maritime transportation and shipments
- strengthen air transportation cooperation to boost robust trade and people-to-people connections

Institutional Connectivity

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Institutional Connectivity

- addressing issues of trade facilitation, structural and regulatory reforms as well as transport and logistics facilitation
- modernize customs and border agencies and enable a whole-of-government approach
- develop APEC Single Window system by 2020 and encourage efforts to promote international interoperability between Single Window systems
- strengthen the initiatives under the APEC Supply-Chain Connectivity Framework Action Plan (SCFAP) by systematically improving supply chain performance
- further explore using internet-based tools to strengthen the implementation of good regulatory practices
- strengthen the conduct of public consultations on proposed regulations in the Internet era
- expand the application of secure and trusted ICT and e-commerce environment by 2025
- to build a strategy to tackle the policy challenges raised by the Middle-Income Trap (MIT)

People to People Connectivity

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People-to-people Connectivity

- strive to facilitate the movement of people across borders, and to facilitate the exchange of innovative ideas
- continue expanding the number of holders of the APEC Business Travel Card (ABTC) and to improve the efficiency and effectiveness of ABTC scheme
- to improve cross-border education (CBE) cooperation to promote economic development through knowledge and skills transfer
- implement measures to ease visa restrictions for tourists as well as initiate programs to facilitate immigration processing
- to achieve 800 million APEC tourist arrivals by 2025
- commit to establishing an APEC-wide Code of Conduct for Travel Providers in order to reduce travelers' costs and uncertainties relating to tourism
- advance work on cross-border science, technology, and innovation exchanges
- welcome initiatives to benchmark qualifications in the transport and logistics industry
- importance of timely and accurate information on skills gaps and labor market imbalances

Yearly Review of ACB (2015)

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PHYSICAL CONNECTIVITY

- **Brunei Darussalam**: completing the Brunei International Airport Modernization Project .
- **Canada and Indonesia**: project on Accelerating Sustainable Public-Private Investments for Infrastructure Renewal to support the flow of private capital into infrastructure development in Indonesia and improving the institutional, legal and regulatory framework.
- **China**: working to improve the telecommunication of Asia Pacific region between Europe and Africa by developing the China-Myanmar International optical cable system that connects Yunnan, China and Ngwe Saung in Myanmar.
- **Japan**: enhancing road connectivity in the Mekong region of Southeast Asia by creating the Mekong Development Roadmap.
- **Malaysia**: enhancing its physical connectivity with the neighbouring economies through several high-impact projects: The KL-Singapore High Speed Rail; Melaka-Pekanbaru Power Interconnection Project and Sarawak-West Kalimantan Power Interconnection.
- **Mexico**: building the new international airport in Texcoco, Mexico City which will be the largest in Latin America and serve as a regional hub, lowering transport costs and boosting tourism to Mexico.
- **Peru**: broadband installations for integral connectivity and social development of the respective Apurimac, Ayacucho, Huancavelica and Lambayeque Regions.

Yearly Review of ACB (2015)

INSTITUTIONAL CONNECTIVITY

- **Economic Committee**: project on promoting competitive transportation markets to identify potential reforms in transport and logistics sectors that have spillover effects across the breath of an economy.
- **Investment Experts' Group**: the Investment Facilitation Action Plan (IFAP) with priorities on i) e-transparency; ii) reducing investment risk and iii) simplifying business regulations.
- **Australia**: project on Harmonisation of Standards for the Movement of Data across APEC Economies which seeks to develop an engagement platform for National Standards Bodies (NSBs), SME representatives, governments and regulators across the APEC region.
- **Brunei Darussalam**: better transparency, connectivity and facilitation for the business people by establishing a National Trade Repository, a single reference point on Brunei's trade and tariff regimes.
- **Canada and China**: sharing of information on best practices and research in the areas of new technologies for logistics, clean transportation, movement of dangerous goods, northern transportation and road safety.
- **Hong Kong and New Zealand**: Project on Promotion of Global Data Standards (GDS) to enhance understanding about the potential costs and benefits of using GDS
- **Korea and Singapore**: member of the Asia Region Funds Passport project, an arrangement to deepen the capital market, strengthen the funds management industry and provide investors with a more diverse range of investment opportunities in the APEC region.
- **Peru**: implementing the Single Window System for Tourism, i.e. a single platform that will facilitate administrative procedures regarding opening tourism-related businesses and investing in tourism.

Yearly Review of ACB (2015)

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PEOPLE TO PEOPLE CONNECTIVITY

- **Counter Terrorism Working Group**: to share knowledge on the security of people-to-people connectivity (Advance Passenger Information/API)
- **Economic Committee**: analysis of the policy approaches to improve incentives for innovation
- **Emergency Preparedness Working Group**: the Application of Big Data and Open Data to Emergency Preparedness to support GSC resilience by enhancing quality of BCP and upgrading safety of tourism business by revealing transparent risk and boost cooperation on critical infrastructure protection.
- **Australia**: a project on Transport and Logistics Occupational Standards Development with China, Indonesia, Viet Nam and the Philippines (warehouse operator, logistics officer, freight forwarder, logistics supervisor and supply chain manager)
- **Canada**: signed a mutual recognition arrangement with AUS and NZ within the APEC Architect Framework which establishes reciprocal fast-track cross-border registration arrangements for senior architects
- **China**: host to the APEC Higher Education Research Center which promotes the mobility of students, teachers and researchers as well as collaboration between universities
- **Japan**: various visa facilitation initiatives including introducing multiple entries visa, relaxation of visa requirements as well as applying visa waiver for APEC economies.
- **Peru**: updating its Legislation and Operating Framework to ensure compliance with the deadlines for pre-clearance and the implementation of the extension of the validity of ABTC.

Supply-chain Connectivity Action Plan 2010-2015 (SCFAP)

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Overall objective: 10% reduction of trading time, cost & uncertainty by 2015

1. Lack of transparent/awareness of the full scope of **regulatory issues affecting logistics**; Lack of awareness and **coordination among government agencies on policies affecting logistics sector**; Absence of single contact point or champion agency on logistics matters;
2. Inefficient or inadequate **transport infrastructure**; Lack of cross border physical linkages;
3. Lack of **capacity of local/regional logistics sub-providers**;
4. Inefficient **clearance of goods at the border**; Lack of coordination among border agencies, especially relating to clearance of regulated goods "at the border";
5. Burdensome procedures for **customs documentation** and other procedures (including for preferential trade);
6. Under-developed **multi-modal transport capabilities**; inefficient air, land, and multimodal connectivity;
7. Variations in **cross-border standards and regulations**; and
8. Lack of regional cross-border **customs-transit arrangements**

SCFAP Self-Assessment Survey (2016)

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Common challenges faced by APEC in meeting SCFAP targets

- insufficient infrastructure
- lack of information and consistency
- institutional and coordination problems

Opportunities

- collaboration and information-sharing
- harmonization/standardization of regulatory practices
- investing in infrastructures
- automation and capitalizing on the rise in cross-border e-Commence

Global Outlook

New normal for GVCs?

- Shrinking global growth / demand
- Lower trade
- Global excess capacity
  - Commodity and manufacturing
  - Global shipping industry: operating at a loss since the end of 2015 (expected to lose about $5 billion this year partly due to an oversupply of vessels)
- Lower productivity and low interest rate: secular stagnation?
  - long term and sustained slow-down in economic growth
  - supply-side secular stagnation—a fundamental decline in the rate of productivity growth
  - changing technological trends

New normal for global trade?

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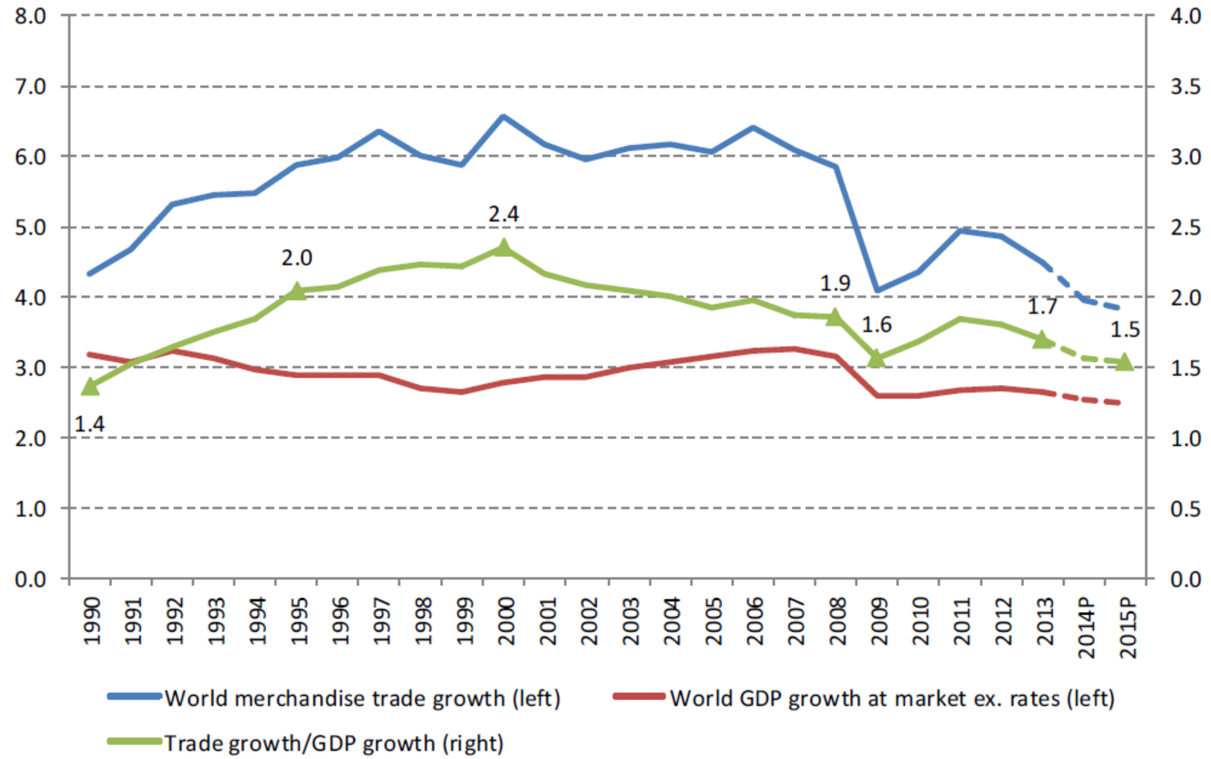
Chart 3: 10-year moving average of world trade, GDP and trade/GDP, 1990-2015 [a]

Average annual % change (left) and ratio (right)



a Figures for 2014 and 2015 are projections.

Source: WTO Secretariat.

Near-term economic outlook for APEC points to steady growth in 2016, inching up in 2017-2018, but below world GDP growth

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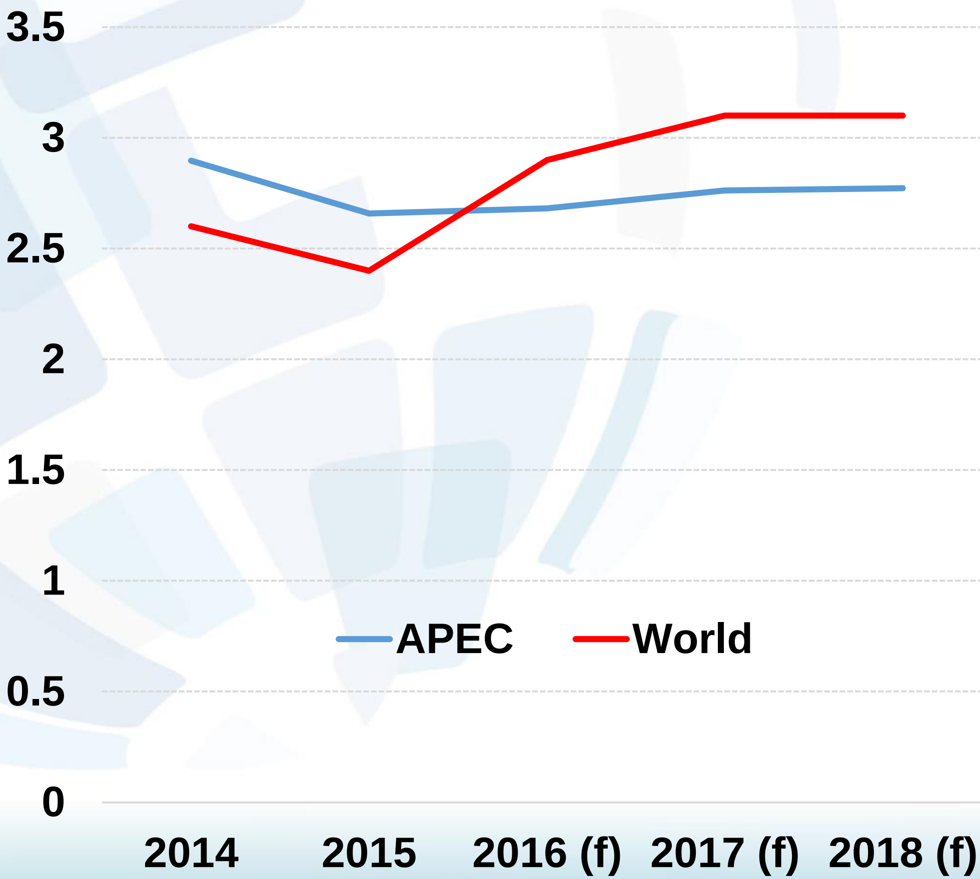

Weighted GDP Growth					
	Actual		Forecasts		
	2014	2015	2016	2017	2018
APEC	2.9	2.7	2.7	2.8	2.8
World	2.6	2.4	2.9	3.1	3.1

Source: PSU calculations for APEC weighted average growth; and the World Bank for World GDP growth using constant 2010 US GDP weights

New normal for global trade?

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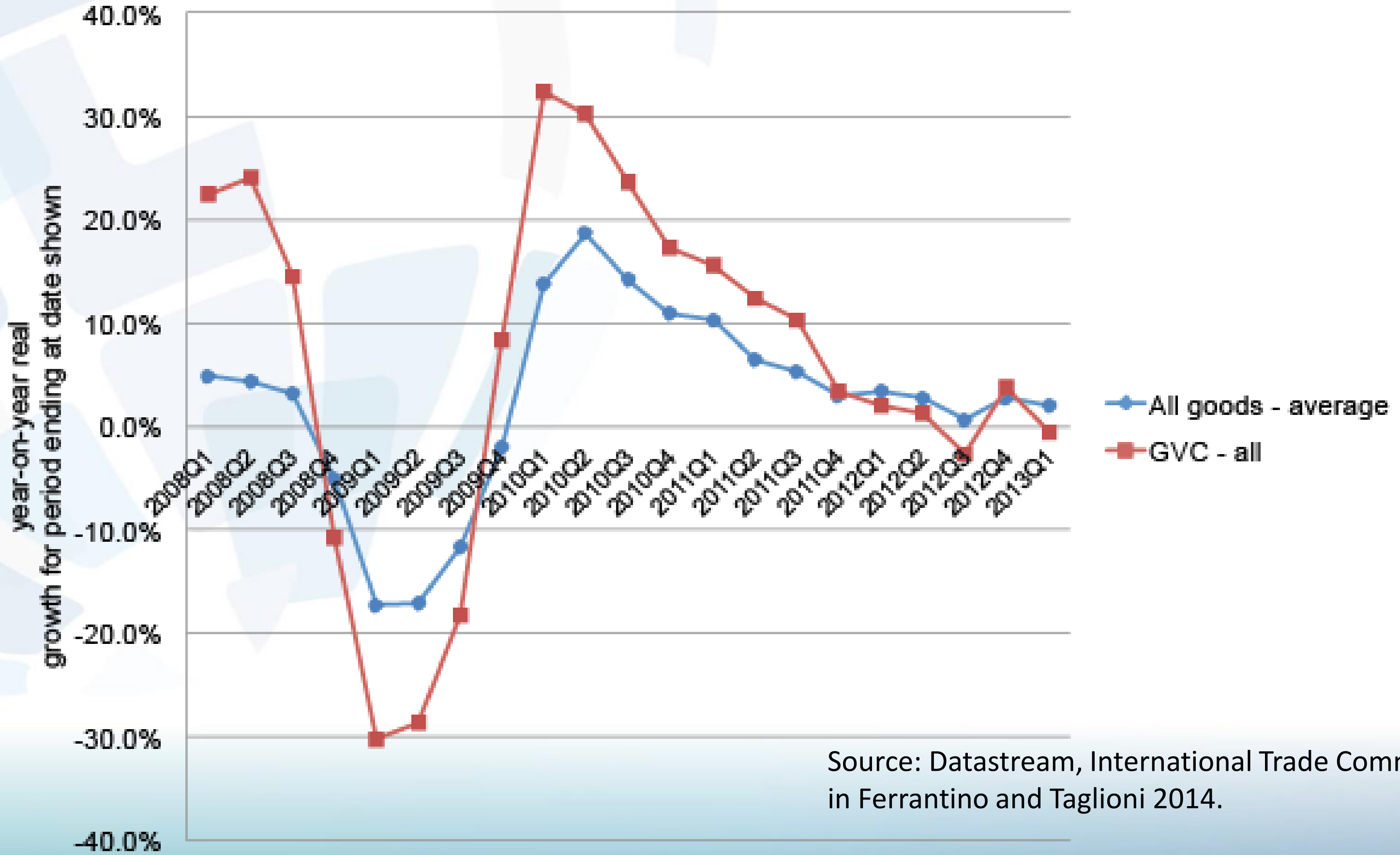
Figure 1. Trade in global value chains has decelarated more rapidly than total trade



Source: Datastream, International Trade Commission (ITC), World Bank in Ferrantino and Taglioni 2014.

New normal for global trade?

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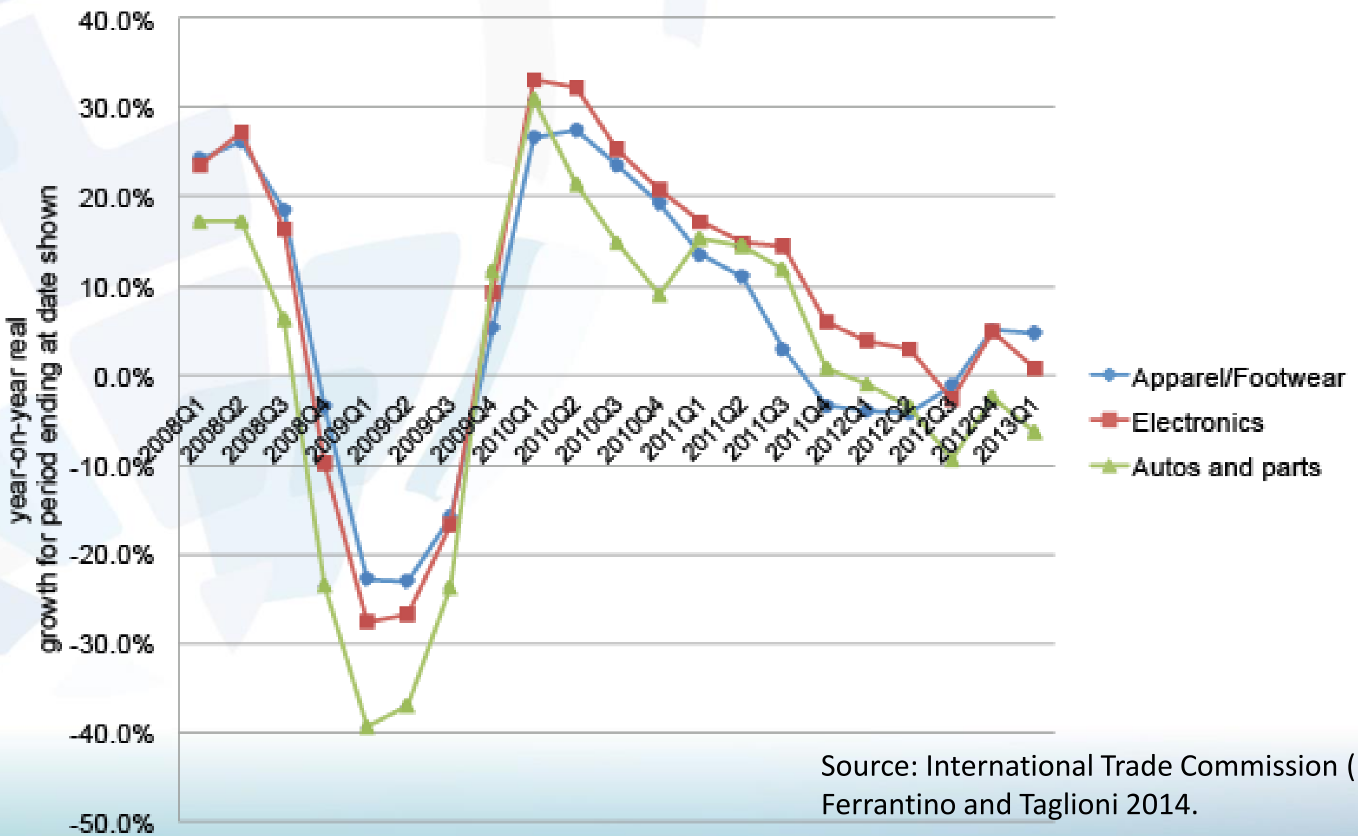
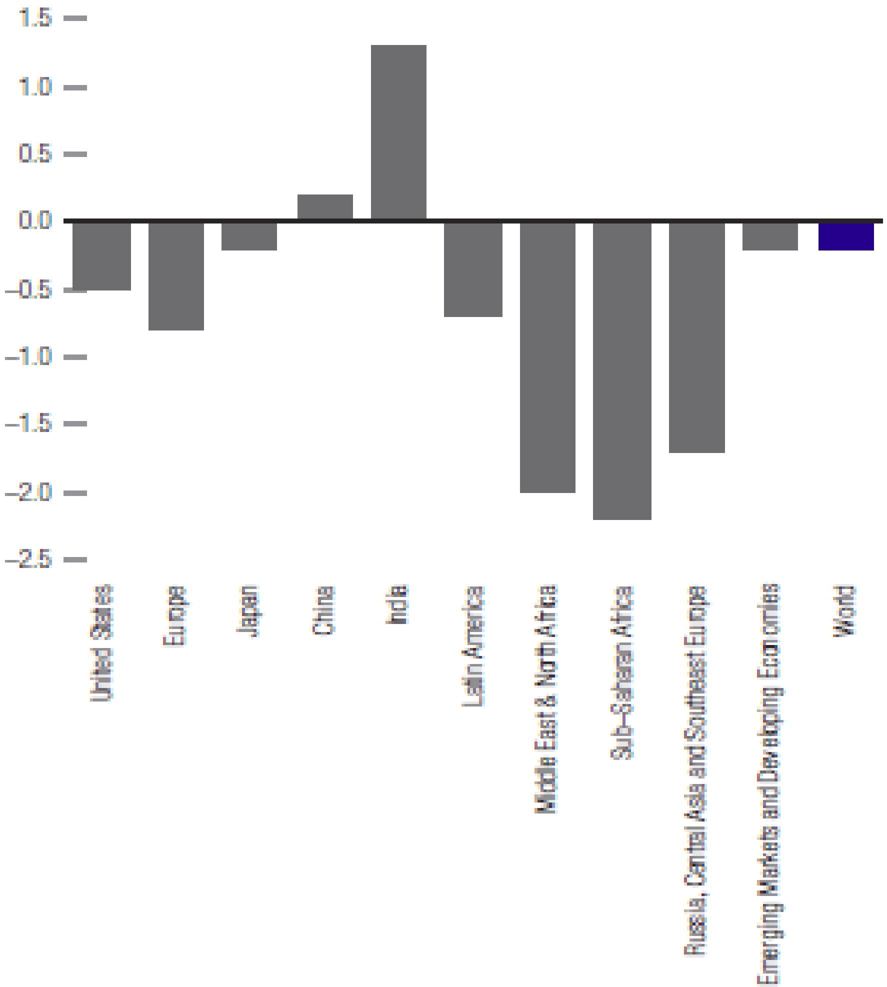
Figure 2. Motor vehicles and parts trade has led the decline in the current and previous slowdowns



Source: International Trade Commission (ITC), World Bank in Ferrantino and Taglioni 2014.

Figure 2: Difference in total factor productivity growth between the 1995–2004 and 2005–14 decades
Percentage points



Source: The Conference Board, *Total Economy Database™* (May 2015).
Notes: Estimated as a Törnqvist index, log change. See https://www.conference-board.org/data/economydatabase/ for more information.

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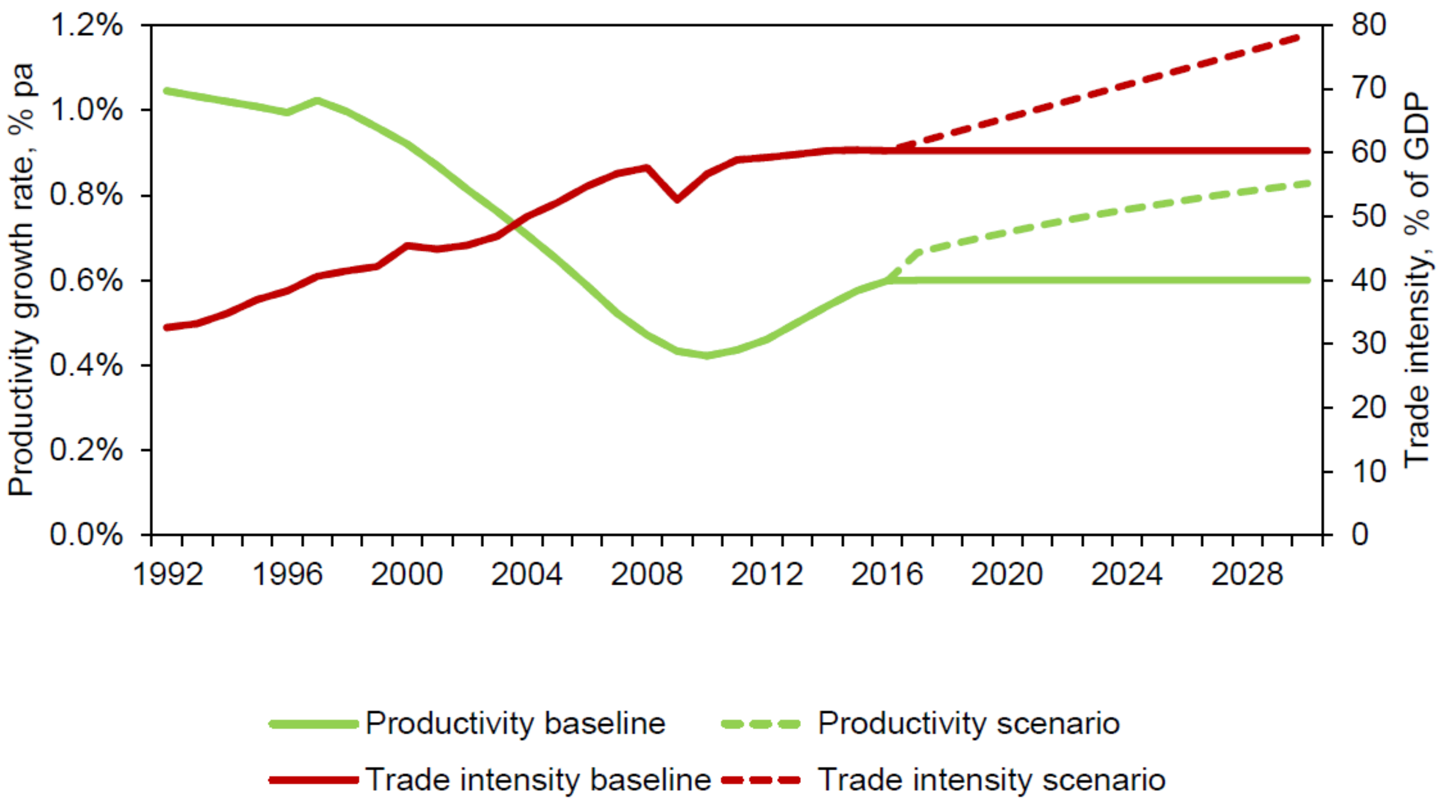
"Slower growth in potential output from the supply side, emanating not just from slow productivity growth but from slower population growth and declining labor-force participation, reduces the need for capital formation, and this in turn subtracts from aggregate demand and reinforces the decline in productivity growth. "

[Robert Gordon, 2015]

[Global Competitiveness Report 2015, WEF]

Trade and Productivity

Figure 3. Policy action to increase world trade intensity would also boost productivity



Source: OECD ECONOMIC POLICY PAPER
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Source of Slowdown

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Table 1. The source of the slowdown appears multifaceted

Percentage point contribution[1.]

	World Trade Intensity[2.]	Total Explained	Constant	GVC[3.]	Trade Policy Liberalism[4.]	Output gap[5.]	Investment[6]	China[7.]
1991-1999	3.6%	3.7%	-0.5%	1.3%	0.9%	-0.3%	1.6%	0.7%
2000-2007	3.8%	3.9%	-0.5%	0.8%	-0.3%	0.2%	1.5%	2.2%
1991-2007	3.7%	3.8%	-0.5%	1.1%	0.3%	-0.1%	1.5%	1.4%
2009	-8.8%	-8.3%	-0.5%	0.1%	-0.3%	-1.7%	-5.7%	-0.7%
2010	7.8%	6.6%	-0.5%	1.6%	0.9%	-0.9%	1.0%	3.9%
2011-2015	1.3%	1.2%	-0.5%	-0.1%	-0.3%	-0.7%	1.2%	1.7%
2015	0.2%	-0.7%	-0.5%	-1.1%	0.0%	-0.7%	1.3%	0.2%
2011-2015 minus 1991-2007	-2.4%	-2.5%	0.0%	-1.2%	-0.6%	-0.7%	-0.3%	0.2%
2015 minus 1991-2007	-3.5%	-4.5%	0.0%	-2.1%	-0.3%	-0.6%	-0.2%	-1.2%

Source: OECD ECONOMIC POLICY PAPER
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Factor shares in GVCs of manufactures, by region

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Value added in value chains of manufactures	*1995*	*2008*	*2008 minus 1995*
In high-income countries (billion US$)	**$4,863**	**$4,864**	**$1**
By:			
capital (%)	35.9%	38.7%	2.9%
high-skilled labor (%)	16.8%	21.8%	5.0%
medium-skilled labor (%)	33.3%	30.3%	−3.0%
low-skilled labor (%)	14.0%	9.1%	−4.9%
In other countries (billion US$)	**$1,723**	**$3,820**	**$2,097**
By:			
capital (%)	55.2%	58.4%	3.2%
high-skilled labor (%)	5.4%	7.1%	1.7%
medium-skilled labor (%)	15.6%	17.0%	1.4%
low-skilled labor (%)	23.8%	17.5%	−6.3%
Worldwide (billion US$)	**$6,586**	**$8,684**	**$2,098**

Source: Slicing Up Global Value Chains. Author(s): Marcel P. Timmer, Abdul Azeez Erumban, Bart Los, Robert Stehrer and Gaaitzen J.de VriesSource: The Journal of Economic Perspectives, Vol. 28, No. 2 (Spring 2014), pp. 99-118.

Possible scenarios of growth?

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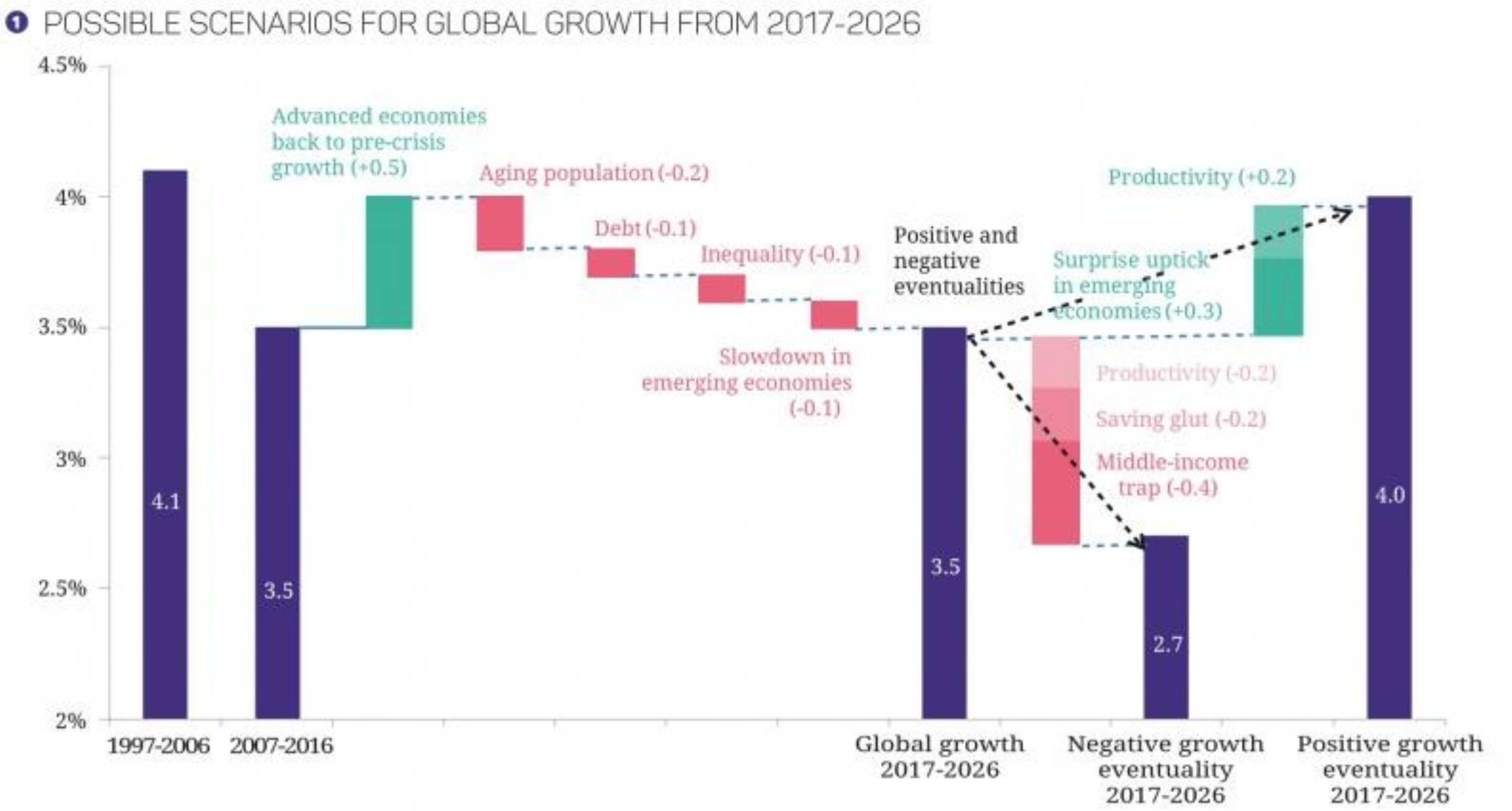

Source : France Stratégie's projections from the World Economic Outlook, January 2016.

Summary

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Physical

- improving the investment climate, enhancing infrastructure financing through PPP
- quality infrastructure, including energy, ICT and transport infrastructure and seek to increase the quality and sustainability of APEC transport networks
- increase broadband internet access; promote sustainable energy security; and build resiliency into the energy infrastructure

Institutional

- trade facilitation, structural and regulatory reforms as well as transport and logistics facilitation
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People

- promote economic development through knowledge and skills transfer
- advance work on cross-border science, technology, and innovation exchanges
- timely and accurate information on skills gaps and labor market imbalances

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