



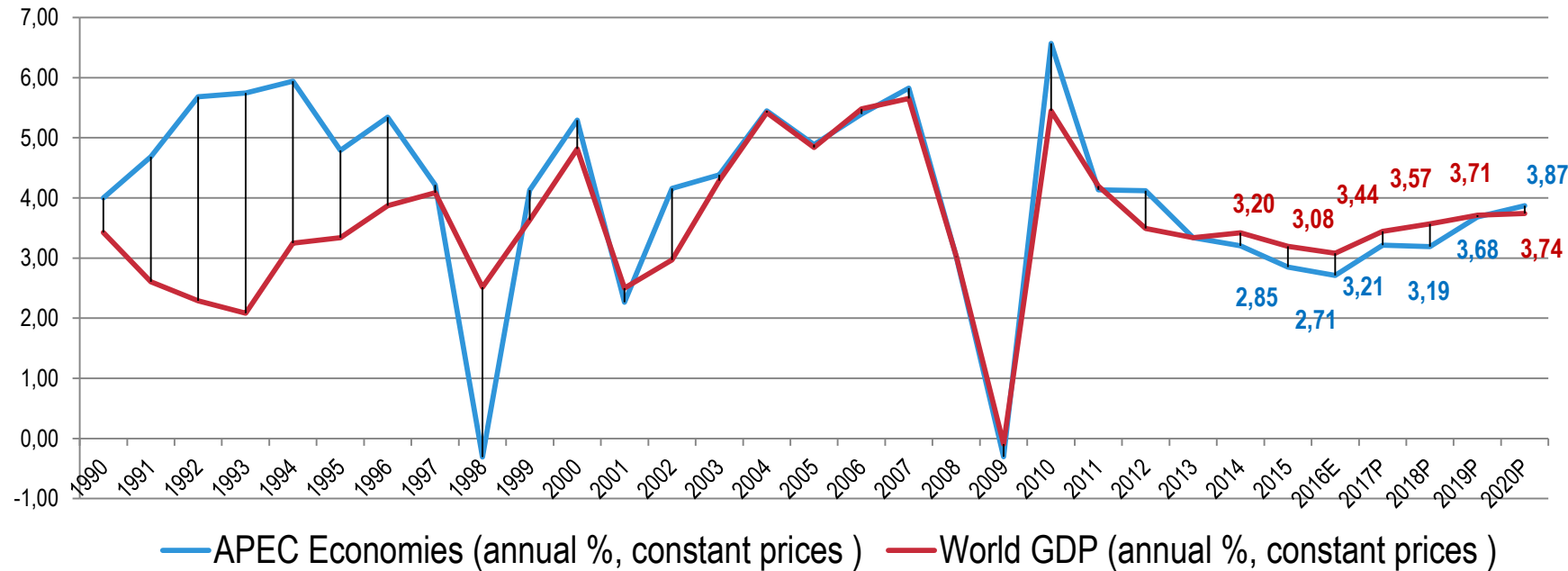
CHALLENGES AND OPPORTUNITIES FOR ECONOMIC GROWTH AND TRADE IN THE APEC REGION: *undisclosed potential*



Prepared by Russian APEC Study Center:
Ksenia Proka, Nikita Pyzhikov

■ ECONOMIC GROWTH SLOWDOWN

APEC economies' and global GDP growth



Source: IMF World Economic Outlook database, October 2016

APEC Economies

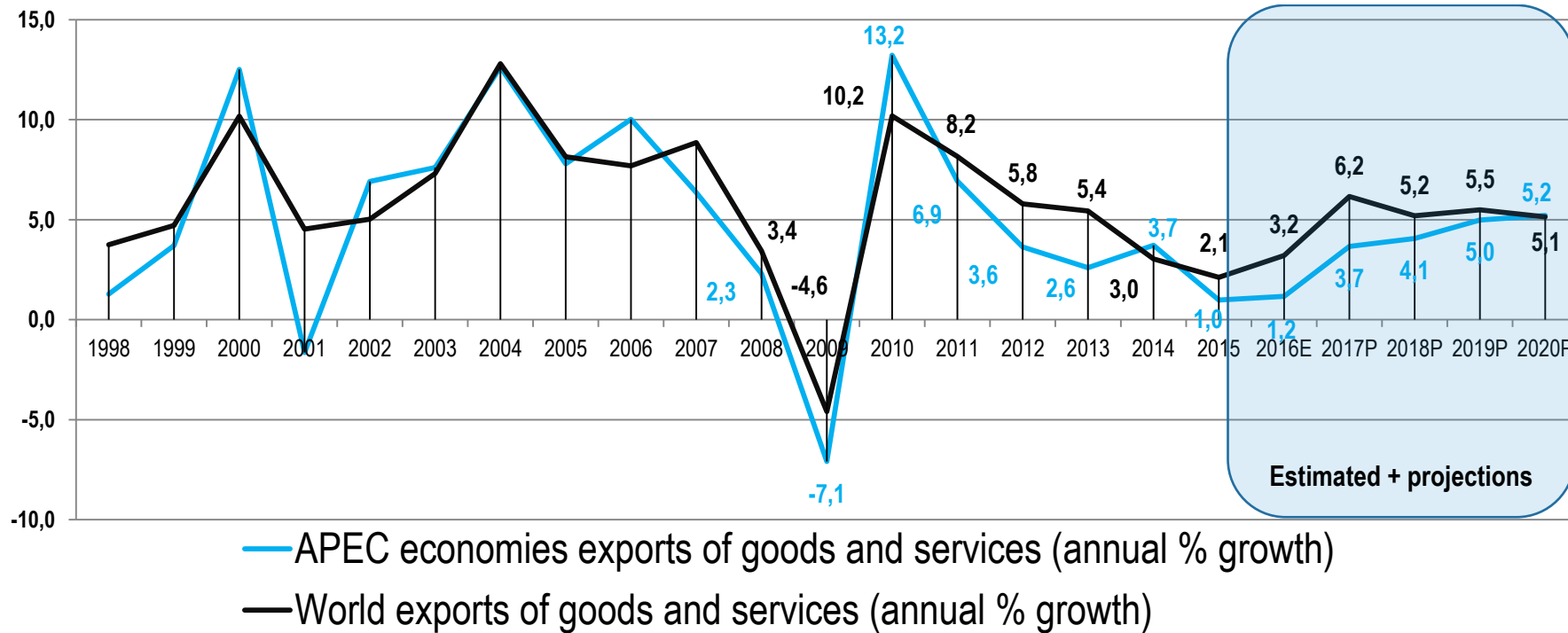
APEC economies suffer from a sharper economic growth decline – **2.71 per cent in 2016**

World

Global economic growth is estimated to have **fallen to 3.08 per cent in 2016** which is the weakest performance since the global financial crisis

TRADE SLOWDOWN

APEC economies' and global exports of goods and services



Source: IMF World Economic Outlook database, October 2016

APEC Economies

As to the APEC region, in 2015 the growth rate of member economies exports **reached its lowest level since the financial crisis and amounted for 1 per cent.**

World

Since 2012 world trade **has been growing at a significantly lower rate than during the pre-crisis period - about 3% per year**

■ Why international trade has been growing at a slower pace recently?

CYCLICAL FACTORS: economic crises may severely influence trade growth and such influence may go well beyond crisis periods (Abiad et al, 2014)

CHANGE IN INCOME-TRADE RELATIONSHIP: in 1990-s, the growth of global real GDP by 1 per cent contributed to the growth of international trade by 2.4 per cent, in 2000-s the same GDP growth caused only 1.2 per cent of trade growth. Possible cause - *the slowdown of international fragmentation process* (Constantinescu, Mattoo, Ruta, 2015).

THE RISE OF UNCERTAINTY IN THE WORLD: there is strong correlation between uncertainty in importer markets and countries' exports to these markets even when controlling for potentially confounding factors such as financial constraints and reductions in wealth. After a certain threshold the marginal increase in uncertainty has greater negative effects on trade (Taglioni and Zavacka, 2013)

■ Slower trade growth: new normal?

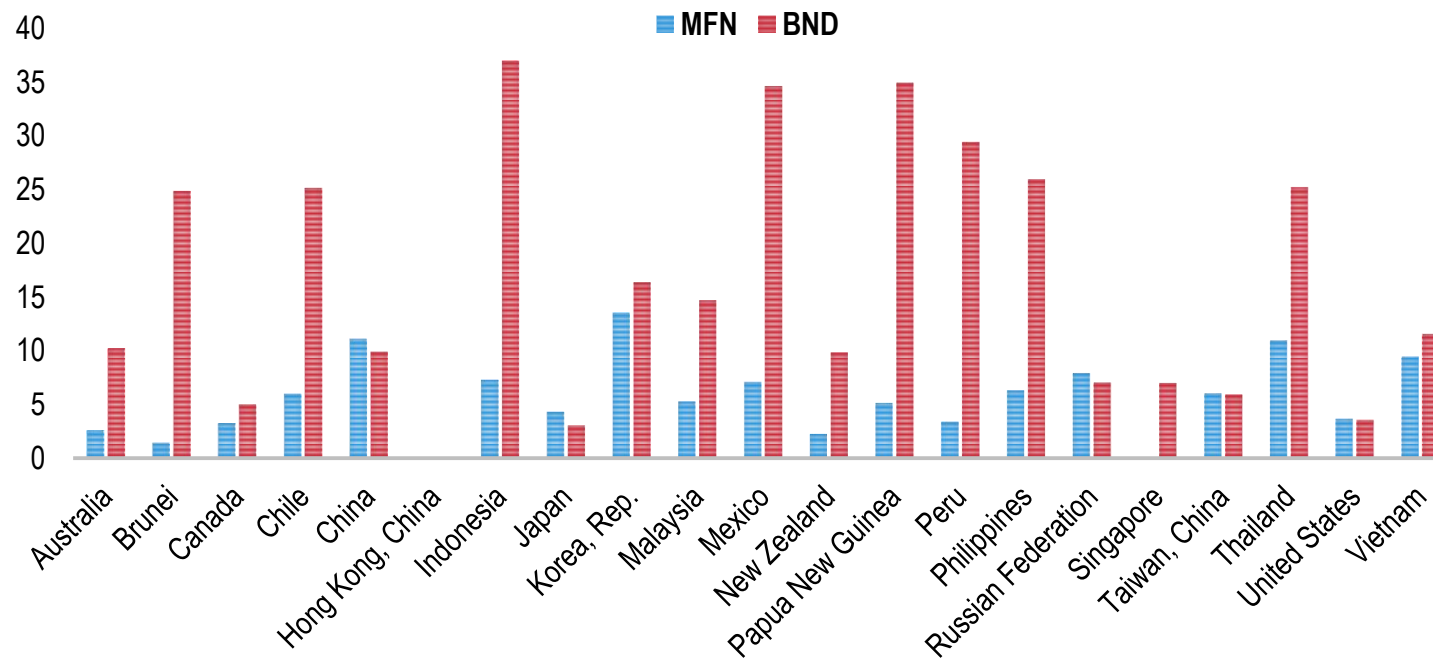
PAUL KRUGMAN: faster growth of trade in the past was caused by several factors

- Since 1950 up to 1970 it was simply that global trade was returning to the levels of trade relative to output that prevailed before World War I
- High levels of long-term elasticity of trade to income is a result of structural changes that took place after World War II: two waves of liberalization and formation of global value chains
 - While it may be true, one may hardly argue that there is lack of potential for future liberalization
 - Although there is no direct evidence of protectionists measures being a reason for international trade slowdown, the data suggests there was little liberalization during post-crisis period. **Tariff and non-tariff barriers remain**



TARIFF PROTECTION

Average applied MFN tariffs and tariff bindings in APEC, by country (2015)

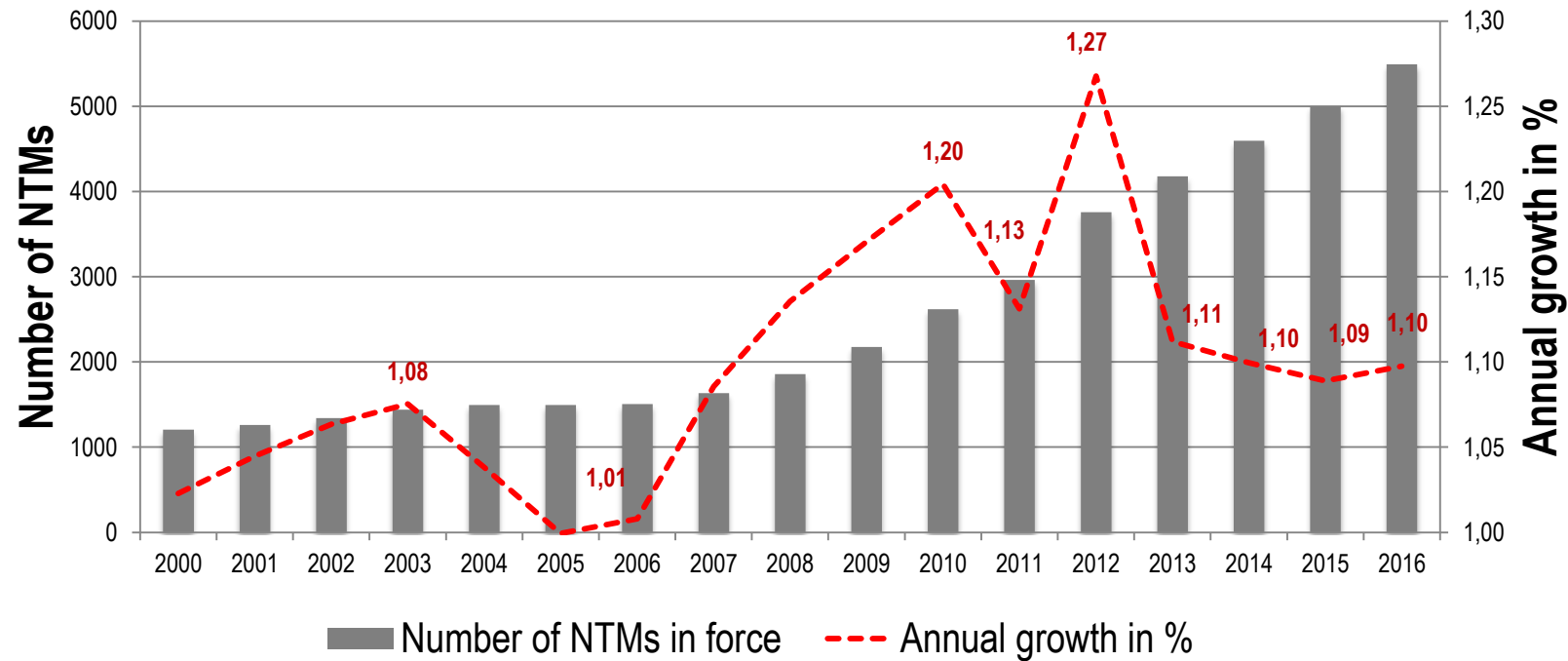


Source: WITS Database

While the average level of applied tariff by APEC economies is not high, one of the factors that may impede intra-APEC trade is a **high level of tariff overhang**. Uncertainty caused by high levels of overhang has a negative impact on exports (Handley, 2014) while **the elimination of tariff overhangs increases the probability of exporting by 12 percent** (Osnago et al, 2015)

- Increasing role of non-tariff barriers (trade in goods)

Number of NTMs applied by APEC members

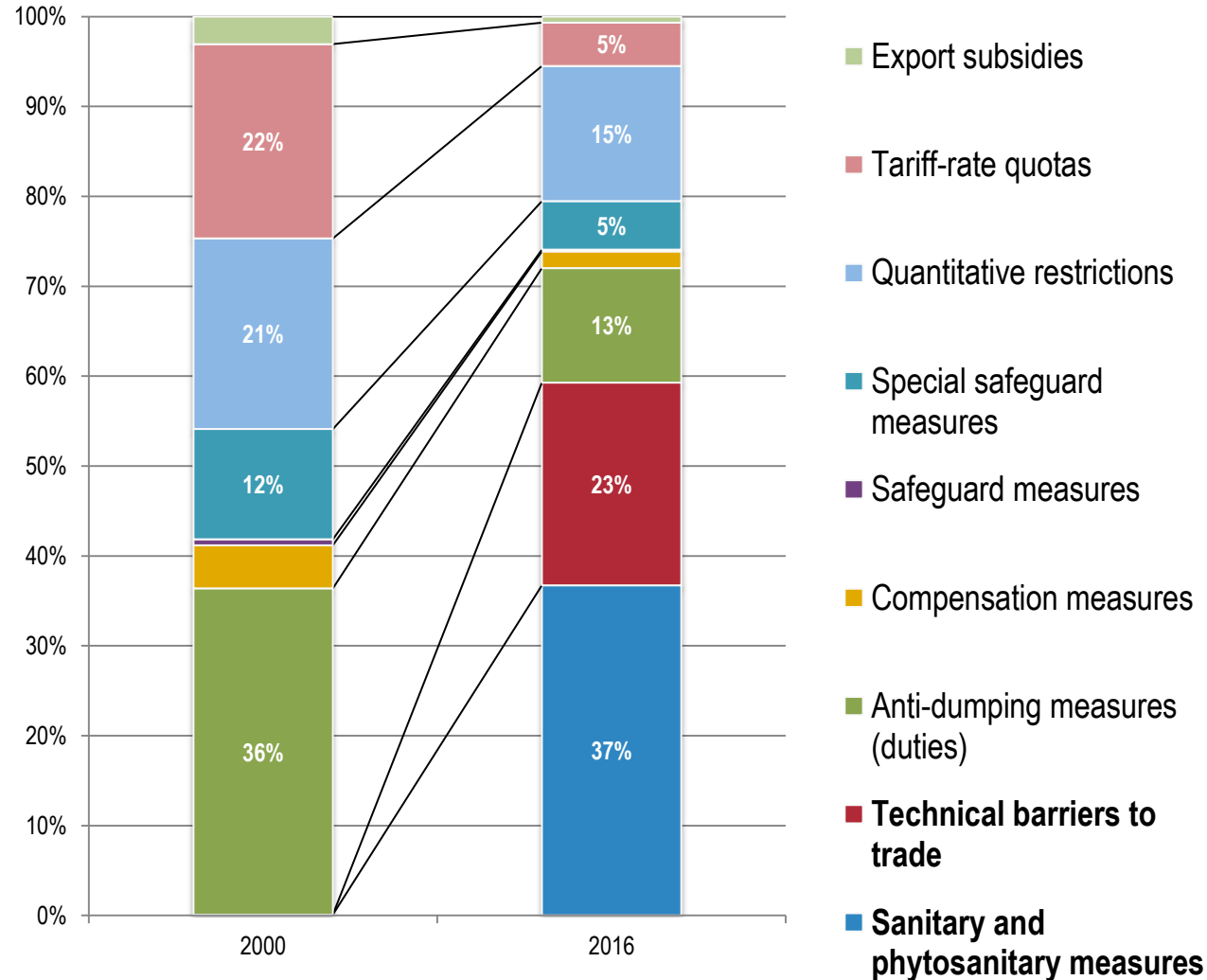


Source: Integrated Trade Intelligence Portal (I-TIP) Goods

The number of NTMs applied by WTO members in merchandise trade has increased **from 3.2 to 10.4 thousand measures** from 2000 to 2016. According to the New Zealand Institute of Economic Research, the weighted average ad valorem equivalent (AVE) of NTMs applied to merchandise trade in the APEC region accounts for 9.7 per cent. or **790 billion dollars per year**

Increasing role of non-tariff barriers (trade in goods)

Changes in the structure of NTMs applied by APEC economies

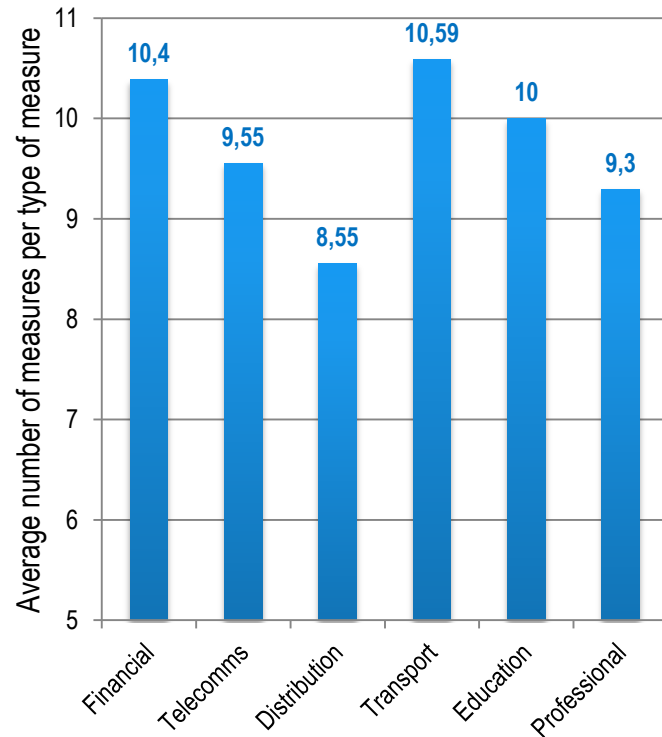


The average annual number of technical barriers to trade applied by APEC economies during the period of 2005-2010 amounted for 45 units, while during the period of 2011-2016 it **sky-rocketed up to 160 units**. The same is true for the SPS measures, which number **increased sharply from 127 units to 187 per year** respectively

Source:
Integrated Trade
Intelligence
Portal (I-TIP)
Goods

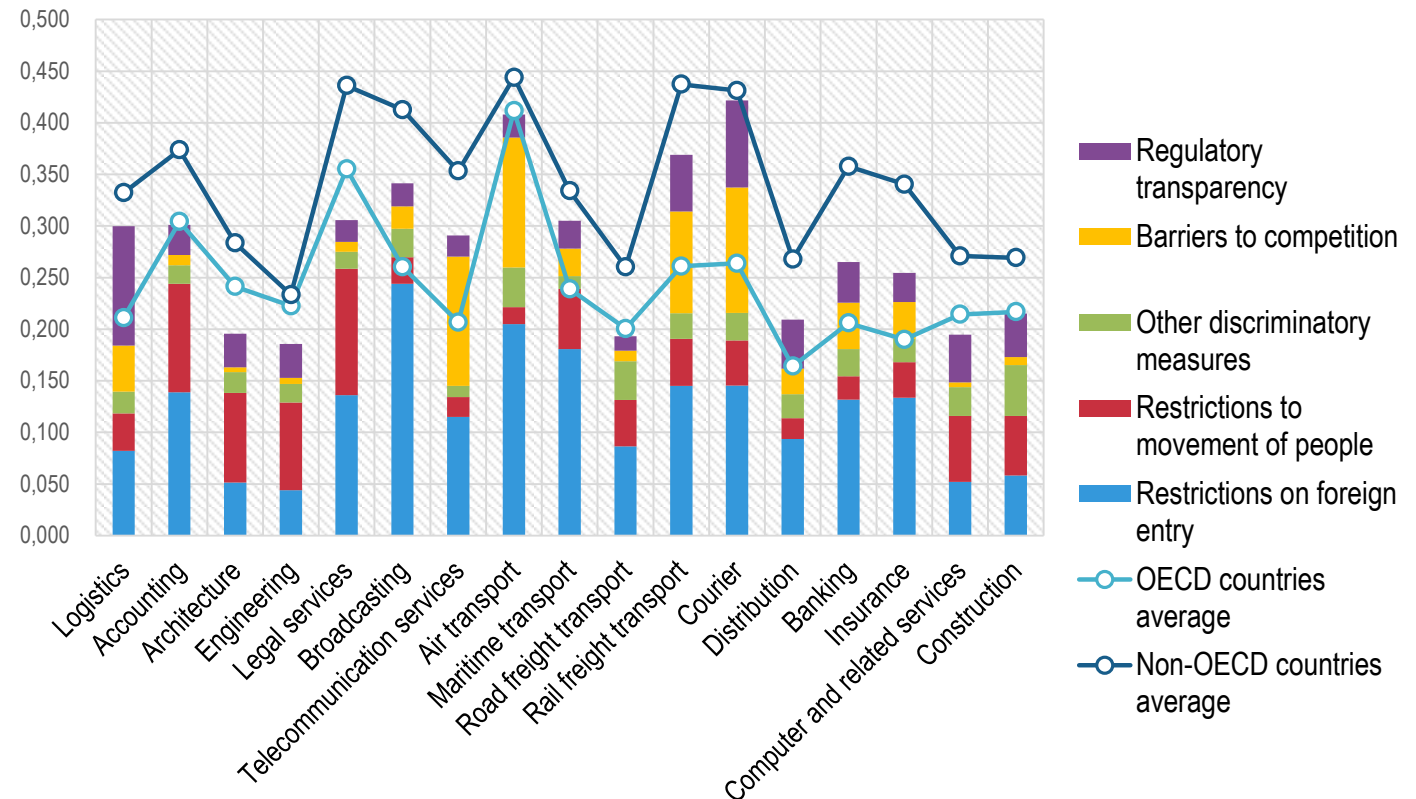
Increasing role of non-tariff barriers in services

Average number of measures per type of measure, by service sectors (in APEC)



Source: APEC Collective Strategic Study on Issues Related to the Realization of the FTAAP

Average number of measures per type of measure, by service sectors (in APEC)

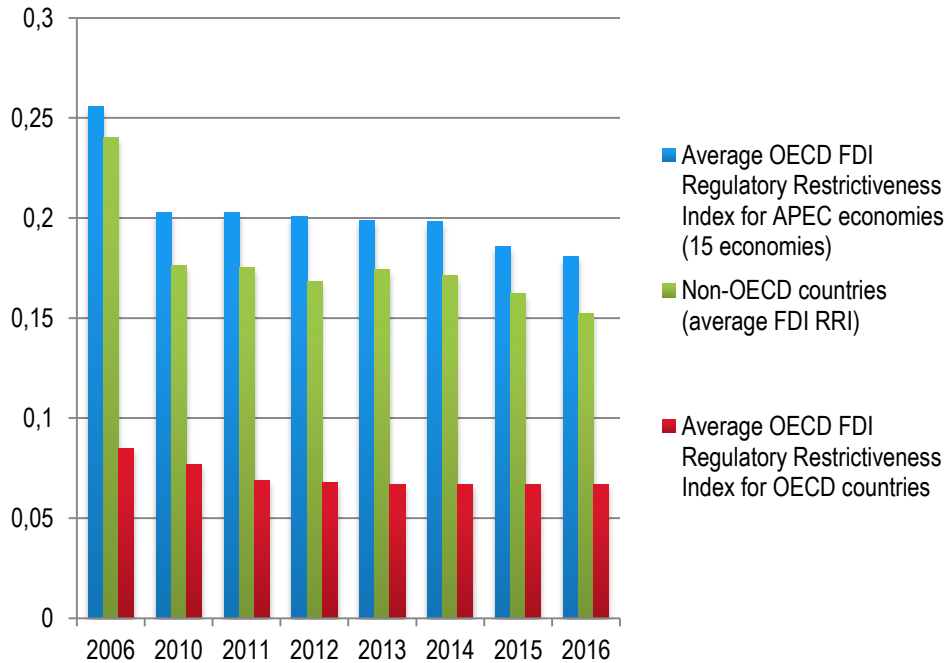


APEC economies have higher STRI scores than the OECD average
 43% of all restrictions in services – **limits on foreign equity**

* Except Brunei, Hong Kong, Papua New Guinea, Chinese Taipei, Singapore, The Philippines, Malaysia, Peru and Thailand.

Increasing role of non-tariff barriers (FDI)

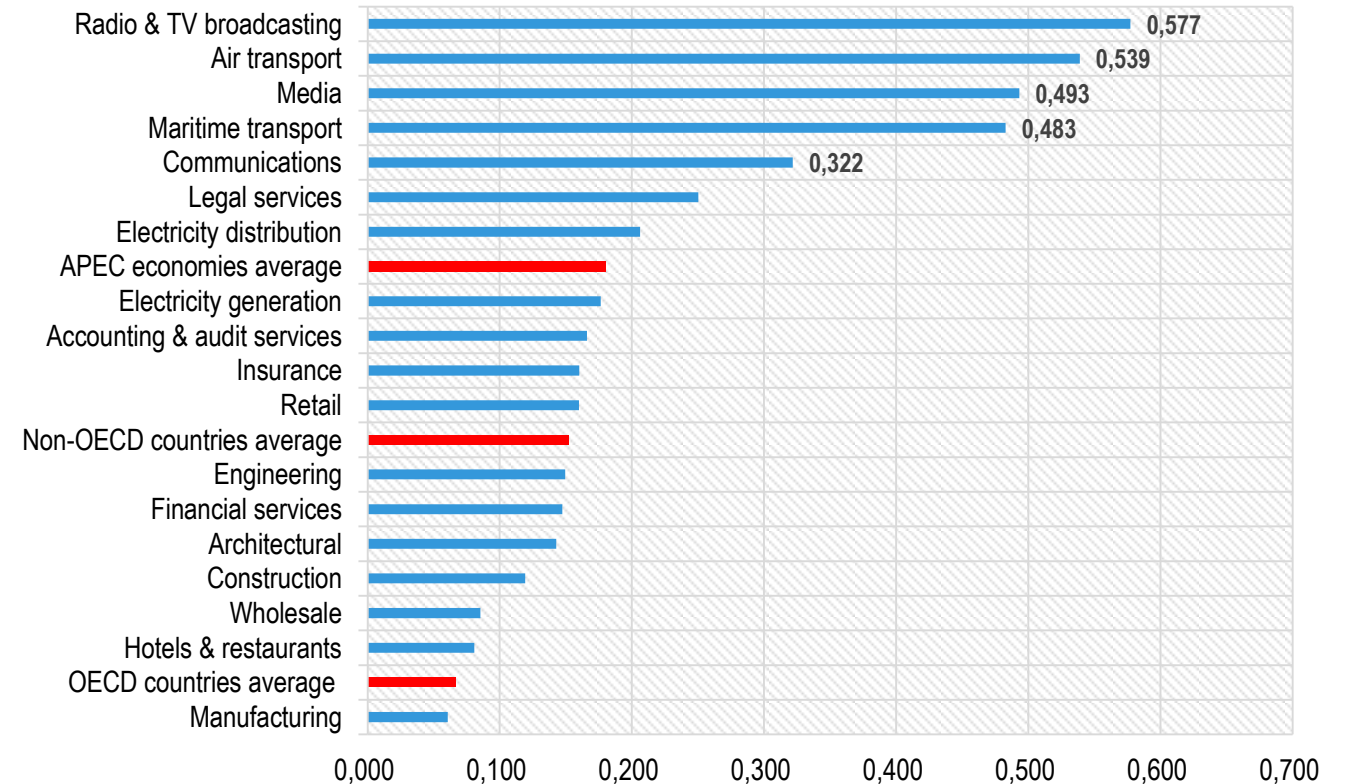
Average number of measures per type of measure, by service sectors (in APEC)



* - Except Brunei, Hong Kong, Papua New Guinea, Chinese Taipei, Singapore and Thailand

Source: OECD FDI Regulatory Restrictiveness Index

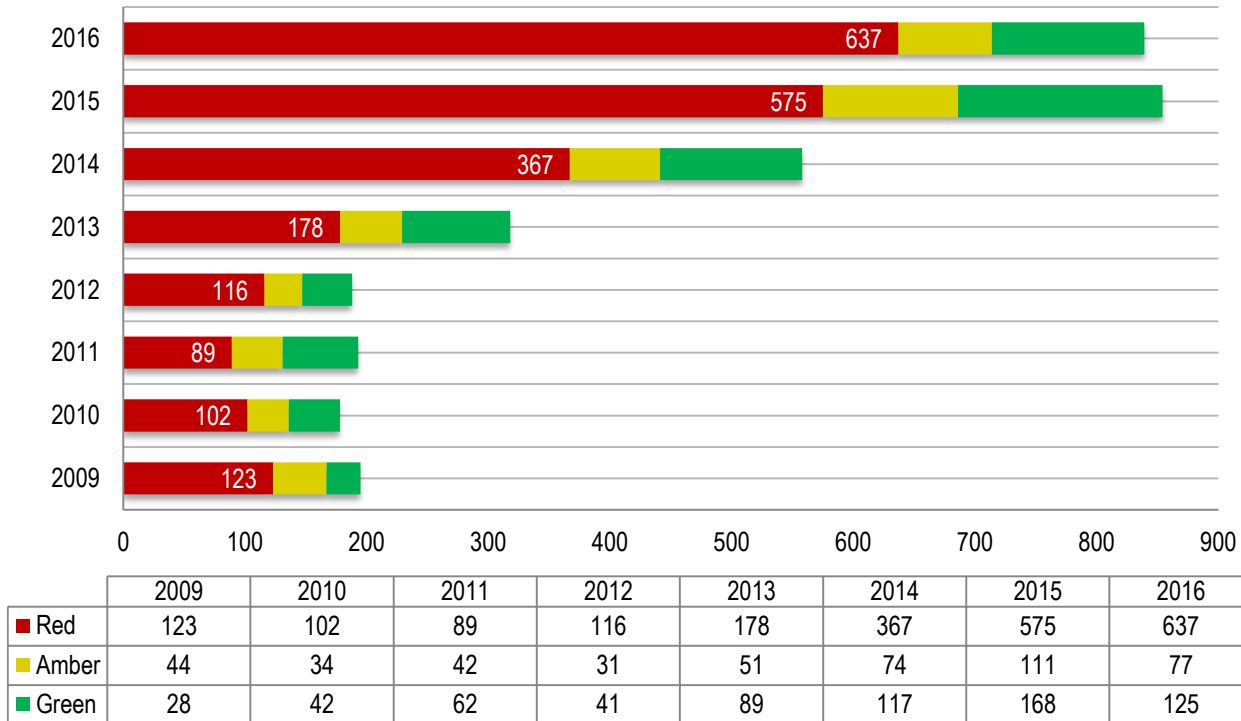
FDI restrictions in APEC economies by sector, 2016



The highest number of restrictions are applied by APEC economies in the following sectors: **radio and TV broadcasting; air transport; media; maritime transport; communications**

■ Increasing role of non-tariff barriers

Number of new protectionism trade measures implemented in the APEC region from 2009 to 2016.



Since 2009 the number of discriminatory trade measures in the APEC has increased 5.2 times and reached 637 in 2016

Source: Global Trade Alert

■ KEY FINDINGS

- 1** Recently, the global economy has not been growing as fast as it used to. The APEC region is not the exception
- 2** While it may be true that international trade growing at a similar rate as global GDP is a “new normal”, there is a potential for future liberalization
- 3** APEC economies continue to apply high non-tariff barriers both in trade in goods and services, as well as in international investments
- 4** The increased focus should be placed on the liberalization of highly-protected agricultural sectors, such as the production of dairy products, cereals, meat and rice
- 5** There is also a high potential for liberalization of services trade by APEC countries, especially in the transportation, logistic and courier services sectors
- 6** Eliminating or reduction of the described non-tariff barriers may well contribute to the increased rates of trade growth among APEC members



Thank you for being attentive!

