



Asia-Pacific
Economic Cooperation

APEC REGIONAL TRENDS ANALYSIS

July 2020 Update

Deeper Contraction Calls for Decisive Action

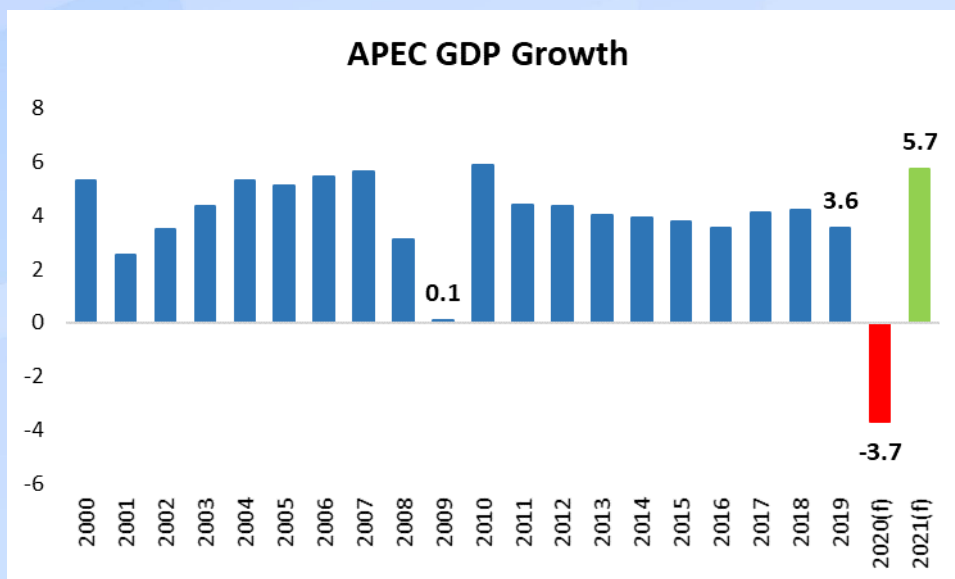
By Rhea C. Hernando

KEY MESSAGES

- The APEC region is now projected to contract by 3.7 percent in 2020 or an output loss of around USD 2.9 trillion due to the negative economic impact of COVID-19.
- In 2021, APEC is expected to rebound to a growth of 5.7 percent, but extreme uncertainty surrounds the near-term outlook.
- The strength of economic recovery hinges on the development of vaccines and treatments, prevention of further waves of the pandemic, continued fiscal and monetary support, and the resolution of trade conflicts.
- Regional cooperation plays an important role towards ensuring that APEC economies are future-ready and regional economic growth is inclusive, sustainable, and resilient.

Downturn and slower recovery in the near-term

The APEC region is expected to contract by 3.7 percent in 2020, equivalent to an estimated output loss of USD 2.9 trillion due to the economic fallout from the COVID-19 pandemic. This represents a deeper contraction compared to the -2.7 percent economic outlook in the May 2020 *APEC Regional Trends Analysis* (ARTA) report.¹ The downturn in the region reflects the growing severity of the crisis as world economic growth is projected at -4.9 percent in 2020.



Source: IMF WEO (June 2020 Update) and Economy sources.

¹ <https://www.apec.org/Publications/2020/05/APEC-Regional-Trends-Analysis---What-Goes-Around-Comes-Around>

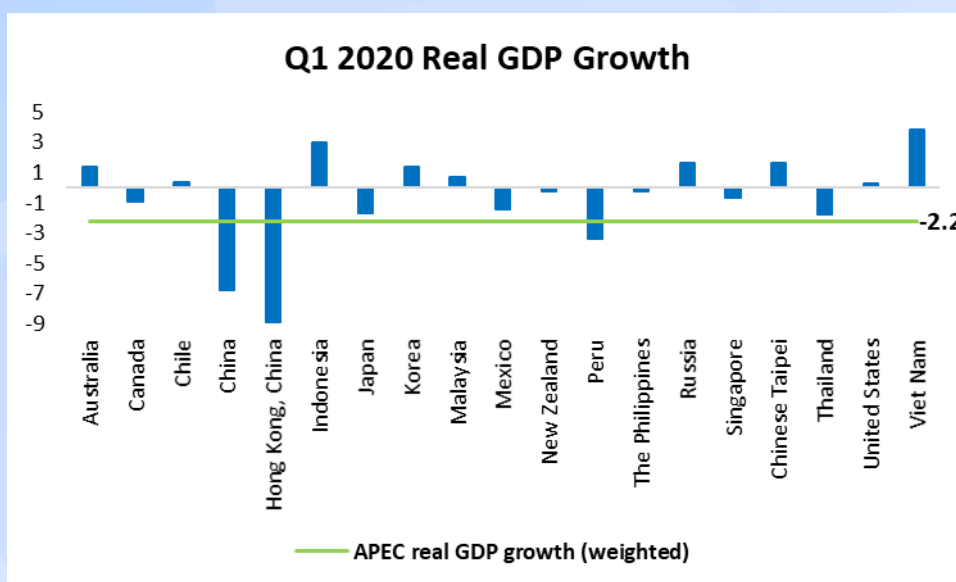
A slower economic recovery is projected for 2021, with APEC growing by 5.7 percent in tandem with the world at 5.4 percent, from the previous GDP growth forecasts of 6.3 percent and 5.8 percent, respectively. Extreme uncertainty remains, with economic growth hinging on various upside and downside risks. On the upside, the rapid development of vaccines and treatments could mean a faster and firmer recovery, supported by a return in consumer and business confidence. Downside risks could stem largely from further waves of the COVID-19 outbreak, which could necessitate a pause in economies' reopening or prolonged area lockdowns for others, severely hampering economic recovery. In addition, the winding down of fiscal and monetary stimulus measures could push people into poverty and businesses into bankruptcies, delaying the return to recovery. Continued economic stress could also translate into a tightening of financial conditions as vulnerabilities come to the fore with liquidity risks, profitability pressures, and debt issues.

In the near-term, APEC economies should intensify efforts towards containing the pandemic to prevent further waves and ensuring continued fiscal and monetary stimulus measures to preserve livelihoods. Furthermore, the resolution of trade and technology tensions could provide a much-needed boost to trade and investment activity.

It is also high time for economies to allocate resources towards economic digitalization, including building or boosting technological infrastructure, equipping workers with digital skills, and modernizing business and governance models to ensure efficiency and sustainability of processes. Human-centered digitalization should contribute in making economies more innovative and dynamic, while expanding access and opportunities for all.

GDP, trade and investments contract in Q1 2020

Key economic indicators for Q1 2020 lend support to an unfavorable economic outlook for 2020. The APEC region contracted by 2.2 percent in Q1 2020, as the impact of travel restrictions and the start of widespread lockdown measures impinged on economic activity via consumption, trade and investments.

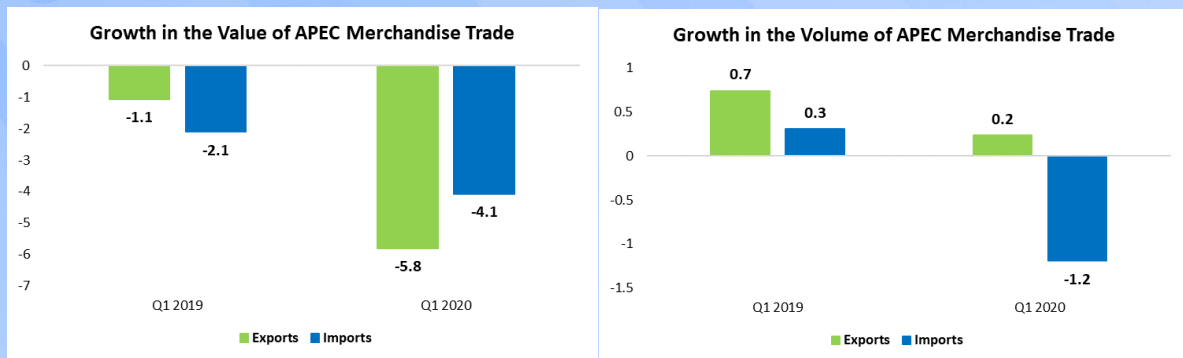


Note: Data not available for Brunei Darussalam and Papua New Guinea.

Source: Economy sources and PSU staff calculations.

Merchandise exports and imports in APEC recorded a bigger contraction in Q1 2020, reflecting the combined impact of heightened trade tensions and disruptions in global supply chains due to the pandemic. The temporary restrictions imposed on food and medical supplies amid the pandemic further weakened trade during the first quarter. The sharp moderation in merchandise trade in the region is in line with the projection by the World Trade Organization (WTO) of a 13 percent drop in

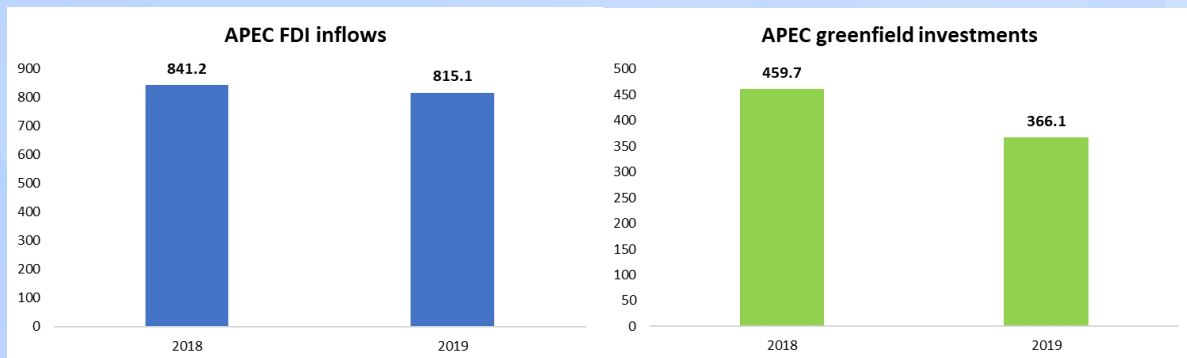
world trade for 2020.² The International Monetary Fund (IMF) also forecasts a fall in trade of 11 percent in 2020.



Note: Data not available for Brunei Darussalam and Papua New Guinea.

Source: WTO and PSU staff calculations.

Foreign direct investment (FDI) inflows to the APEC region went down by 3.1 percent to USD 815.1 billion in 2019. Greenfield investments significantly slowed down to USD 366.1 billion in 2019 from USD 459.7 billion in 2018, equivalent to a fall of 20.4 percent.



Source: United Nations Conference on Trade and Development (UNCTAD) and PSU staff calculations.

A 40 percent reduction in global FDI flows is projected in 2020, and a further 5-10 percent decrease is expected in 2021.

A positive turnaround in trade growth could occur in 2021 while a rebound in FDI could begin in 2022, depending on the pace of economic recovery and the direction of fiscal, monetary and trade policies.

Responding through regional cooperation

The ongoing pandemic, with real fears of further waves should containment measures and health capacities prove inadequate, necessitate that APEC economies work together to ensure a firmer footing towards regional recovery. This means maintaining fiscal and monetary stimulus measures for as long as they could to help businesses recover and preserve jobs and household incomes. APEC economies should exert efforts to keep open communication lines and supply chains to ensure the free flow of information and essential medical and food products. APEC can also develop a regional pandemic policy toolkit that incorporates today's health and economic lessons to prepare for future pandemics.

² The 13-percent fall in the volume of world trade constitutes an "optimistic" projection by the WTO; a pessimistic scenario is a more significant contraction of 32 percent. See:

https://www.wto.org/english/news_e/pres20_e/pr858_e.htm

The outlook is highly uncertain, with the protracted duration of the pandemic translating into severe personal and economic losses across the globe. Aggravating the health and economic crisis is the ongoing trade and technology tensions. The COVID-19 pandemic has made it more urgent for APEC to re-assess its regional priorities. Resolving trade and technology tensions remains imperative, and so does re-focusing on digital inclusion, social protection, and developing a regional pandemic preparedness toolkit. APEC should take on this challenge of doing what it does best: boosting regional cooperation on all fronts. This requires a decisive step in implementing meaningful reforms to make the APEC region future-ready and achieve economic growth that is inclusive, sustainable, and resilient.

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