



Asian Bureau of Economic Research

# An agenda for Shared Prosperity

Strategically positioning APEC for the post-2020 world

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**Abstract**

APEC is a substantial international asset. It builds the confidence, trust and political certainty that underpin economic prosperity and security in our region. But APEC is at a critical juncture. In 1994, APEC economies agreed to the Bogor Goals of free and open trade and investment in the Asia Pacific by 2020. With that deadline fast approaching, the international order which APEC helped create is challenged by more uncertainties and perils than at any other time since its creation. The question for this paper is how APEC can be used strategically to harness the opportunities of the post-2020 world, address the big challenges it faces and steer the region towards a Shared Prosperity. The paper outlines APEC's progress on achieving free and open trade and investment by 2020. Such a goal, of course, is never complete. But underscoring APEC's significant progress is critical to highlighting its value. The major trends shaping the post-2020 environment are set out: from the structural underpinnings of the current backlash to globalisation to demographic changes; urbanisation; advances in technology; the shifting nature of trade and investment and the transformation of energy markets and a changing climate. The paper outlines a strategic post-2020 vision for APEC. At its core, this vision stresses the importance of an agenda which is inclusive—sharing the benefits of technological advances and trade, achieves strong political buy-in, engages the United States, China and all APEC members and addresses the major challenges of the post-2020 environment. The agenda is centred on an Infrastructure Vision to 2040, an investment facilitation initiative, a modern APEC trade agenda and an energy ministers initiative on governance reform, technology and carbon abatement.

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## **An agenda for Shared Prosperity:**

### **Strategically positioning APEC for the post-2020 world**

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#### **Executive summary**

APEC is a substantial international asset. It builds the confidence, trust and political certainty that underpin economic prosperity and security in our region. APEC provides a framework for implementing a common economic agenda based on cooperation, open economies and free markets. It has been critical to advancing prosperity in the region.

APEC is at a critical juncture. In 1994, APEC economies agreed to the Bogor Goals of free and open trade and investment in the Asia Pacific by 2020. With that deadline fast approaching, now should be a time to celebrate APEC's achievements, which have been substantial. But the international order, which APEC has helped create, is challenged by more uncertainties and perils than at any other time since its creation.

The US-China trade and technology war continues to escalate. It is undermining trade and investment flows, damaging supply-chains and is causing long-run damage to the rules-based trading system and the confidence and predictability that underpins cross-border commerce. The grass-roots anti-globalisation movement strikes at the core of APEC's mission and objectives. The cause is deep, structural inadequacies of domestic policy frameworks and safety nets. This threatens the pillars on which regional prosperity and security has been built: trade, investment, the movement of people and multilateral cooperation.

Technology will continue to advance at astonishing speed. The digital age and advances in artificial intelligence require a rethink of education and training, labour policy, competition policy, financial regulation, macroeconomic policy and social security, as well as international economic policies.

Two areas that will continue to be profoundly shaped by technological change are trade and energy. Technology will radically change what is being traded, the entities doing the trading and how trade is organised. The energy landscape will be shaped by America's shale revolution, increased energy demand from the emerging markets, the shift of China and others from a resource and energy-intensive-led economies to more service-led economies and the global need to create low-carbon energy systems to address climate change.

APEC's populations post-2020 will be larger, older and working longer. More of them will be living in cities. They will be more empowered and connected than ever before. Inflexible labour markets, weak social security systems and inefficient tax systems will see living standards decline as demographics shift. Reducing barriers to the economic participation of women and other marginalised groups will be critical. Without investment, existing stocks of infrastructure will buckle as urbanisation grows.

By 2030, Asia is forecast to surpass North America and Europe combined in terms of global power, based upon GDP, population size, military spending, and technological investment. But more than ever before, the post-2020 success of APEC economies will be shaped by domestic reforms. It will depend on the policy settings adopted by APEC economies, made more difficult by a problematic external environment.

How can APEC be used strategically to harness the opportunities of the post-2020 world, address the big challenges and steer the region towards economic prosperity and security? APEC is not limited to dialogue and initiative within its membership. The flexibility of APEC and its ability to connect with other global and regional frameworks equips it well to reposition and address new strategic issues.

An agenda of ‘Shared Prosperity’ can help deliver APEC economies’ aspirations. It must be a targeted agenda with top-level political buy-in, focused on a few issues that resonate with leaders and their communities and which are critical to the post-2020 world. It must be focused on sharing the benefits of globalisation and mitigating its costs. It must engage all members in areas of common interest, while standing resolutely against attacks on the rules-based open international economic order.

A 20-year infrastructure agenda should sit at the core of this agenda: Infrastructure Vision 2040. Already the region includes some of the best managed, most modern internationally-connected infrastructure in the world. The ambition is to achieve this APEC-wide. A formal infrastructure ministers process should be established with the goal of ‘40 by 40’: a commitment to increase annual public and private infrastructure investment in the Asia Pacific by 40 per cent above that implied by the current average by the year 2040. Infrastructure ministers can open a dialogue on achieving greater standardisation in contracts and project preparations and directing more global finance into infrastructure. Infrastructure Vision 2040 can engage East Asia and all the ASEAN+6 economies.

Second, APEC’s long-term goal should be an international framework on investment facilitation. The focus should be on fostering a transparent, predictable and efficient regulatory and administrative framework for investment that maximises the benefits to the host economy. The framework for trade in intellectual property and technology trade needs to be a central element. APEC should begin by agreeing on common principles, policies and actions to deliver this ambition. Over time, each member would commit to put these principles in place, providing a benchmark for APEC economies and a focal point for investors in assessing an economy’s investment environment.

Third, APEC should adopt a modern trade agenda, centred on structural reform, digital trade, cross-border data flows and engaging small and medium-sized enterprises. Readily achievable gains from better connectivity far exceed those which come from getting rid of all remaining traditional border barriers to trade. Given many of today’s trade barriers relate to domestic regulatory regimes, APEC economies should commit to undertake root and branch reviews of their competition laws and policies to identify critical reforms to help liberalise markets and industries.

On digital trade, APEC should focus on developing a leader-level dialogue to agree on the principles around digital trade and data flows. It should expand work of the APEC Electronic Commerce Steering Group on interoperability beyond the EU's policies. Economies should finalise their participation in the APEC cross-border privacy rules and seek a common approach to these critical issues. Enhanced digital trade is the critical way to engage SMEs in global trade and better distributing the benefits of trade throughout the community. APEC should complement this with an SME international trade advisory council to better identify the barriers to SME engagement in the trading system.

A modern trade agenda does not mean existing trade issues should be abandoned. APEC should continue to push for further reductions in tariffs (particularly those recently introduced), further liberalisation in agriculture and a rationalisation of the current noodle-bowl trading system through RCEP, TPP, FTAAP and a combination of all three. There is opportunity to work with China, the United States, Japan, ASEAN and other APEC members to lay the ground for strategic dialogue on how to come to grips with the big digital trade, intellectual property and investment issues that currently confront policymakers at leaders' level now.

There is an opportunity for APEC to lead the discussion on cross border issues with global implications. APEC's agenda should continue to include initiatives that can be implemented among members and then in global forums like the WTO. It can also lead the reforms of rules and norms at the international level in areas like intellectual property protections, investment facilitation and dispute avoidance and settlement.

Rising and shifting energy demand and the global energy transformation in shale gas, renewable energy and technology makes regional cooperation more important than ever. Though they open many new opportunities, there is a risk that these transformations strain regional markets and relationships. APEC should establish an Energy Ministers group to work with the G20 in reforming global energy governance to include the major emerging market economies with a modern approach to global energy security. On regulatory frameworks, the focus should be on better coordination and transparency around the energy policies of APEC members, including domestic energy security policies. There is much to be gained from having a better understanding of what works in the region to deliver low-cost energy and energy security. On technology, sharing policies and experiences on how to best harness and manage these technologies will help APEC economies ensure low cost energy and energy security.

By celebrating success on the Bogor Goals while strategically positioning itself and its agenda for the post-2020 world, APEC can remain at the forefront of regional cooperation.

## 1. Introduction

APEC is a substantial economic and security asset. It builds the confidence, trust and political certainty that underpin security in our region. APEC is a political framework for implementing a common economic agenda based on cooperation, open economies and free markets. It has been a critical institution in the region's prosperity.

At its core, APEC is a strategic instrument. Used effectively, it has demonstrated its ability to achieve substantial outcomes. APEC was responsible for paving the way for China's engagement in the global economic order and facilitated China's trade liberalisation on the way to entry into the WTO. APEC was critical to securing a host of international agreements, from the Information Technology Agreement (and the deeply integrated production networks in Asia that it spawned) to the Environmental Goods Agreement.

APEC has helped steer reforms that have produced the most dynamic region in the world, accounting for 88.5 per cent of the world's reduction in extreme poverty and improved prosperity across its member economies.<sup>1</sup> It brings the leaders of the United States, China and 19 other economies in the region together once a year. It is built on a foundation of an increasingly wide and deep interaction between the policy community of its members. APEC has enormous private sector engagement. It has underpinned the development of numerous bilateral relationships, particularly that between Japan and China.

APEC is at a critical juncture. In 1994, APEC economies agreed to the Bogor Goals of free and open trade and investment in the Asia Pacific by 2020. With 2020 approaching, now should be a time to celebrate APEC's achievements, which have been substantial. But the international order appears more uncertain and perilous than ever.

The forecasted negative GDP impacts of the US-China trade war are significant, but fail to grasp the long-term damage being done to the rules, confidence and predictability that businesses and households rely upon for cross-border investment, trade, finance and commerce. This damage will be felt for decades to come. The current wave of anti-globalisation sentiment sweeping across the world threatens the very core of APEC. Technological change will influence, if not radically reshape, every part of APEC's agenda. The nature of trade is changing dramatically. Energy markets are transforming, with often uncertain geopolitical implications. Demographics, urbanisation and social challenge present new challenges across multiple policy fronts. Key APEC economies are undertaking difficult economic transitions that will shape the region, a region which is itself in transition as power shifts and the very nature of power changes.

The critical question for this paper is how APEC can be used, and strategically positioned, to harness the post-2020 world, address these challenges and steer the region in the right direction. APEC must embrace and benefit from change, rather than merely reacting to it.

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<sup>1</sup> APEC Secretariat, APEC Policy Support Unit (2017). APEC Regional Trends Analysis (Globalisation: The Good, The Bad, and the Role of Policy). Singapore. May 2017.

APEC is not bound by its membership. The flexibility of APEC and its ability to connect with other frameworks and institutions makes it perfectly suited to this role.

The paper is structured as follows. Section 2 begins by exploring APEC's success in its pursuit of the Bogor goals of free and open trade and investment in the Asia Pacific by 2020. While the goal of achieving 'free and open trade in the Asia Pacific' is never complete, substantial progress has been made, significantly driven by APEC.

Section 3 explores major trends which will present both opportunities and challenges for APEC: the trade war, the structural underpinnings of the anti-globalisation wave sweeping the world, the impacts of technological change, the changing nature of trade, the global transformation of energy markets and the impacts of climate change, economic transitions and shifts in global power, and changing demographics, urbanisation and social change.

Section 4 draws this analysis together. It considers the role of APEC in addressing the challenges and harnessing the opportunities they present. It highlights core APEC priorities: engaging the United States and China with the rest of APEC, while being resolute against attacks on the global rules-based system; ensuring an inclusive, more focused agenda aimed at better sharing the benefits of technological advances and trade; developing a modern trade agenda; achieving political buy-in for a cohesive infrastructure agenda; focusing on investment facilitation and driving the transformation of new energy markets, energy governance and ensuring better consistency between energy markets.

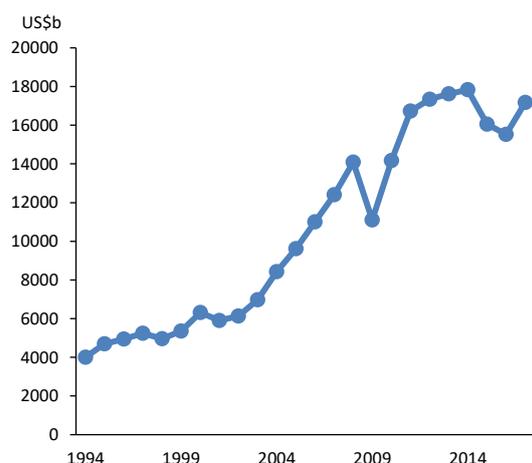
## **2. The Bogor goals: mission accomplished or a work in progress?**

In 1994, APEC set the goal of free and open trade and investment in the Asia Pacific by 2020. By its nature, achieving this is a goal is never complete. There is always more that can be done. But APEC economies should pause to take-stock of, and celebrate, its success on the Bogor goals. While there is more to be done, pausing to reflect on the success of APEC will not only underscore the importance of the forum, but also underscore the cost of protectionism, nationalism and unilateralism.

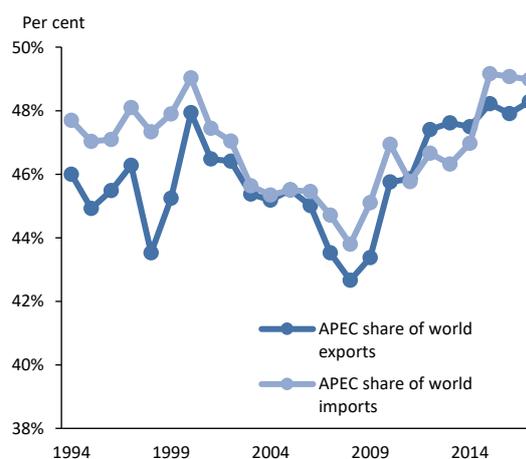
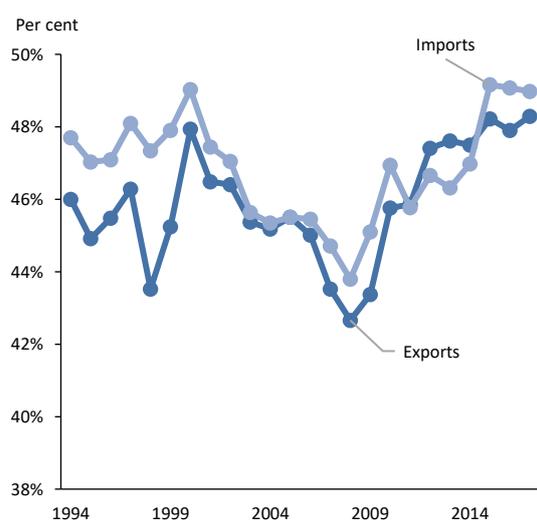
### ***2.1 Trade***

Since the Bogor goals were first articulated in 1994, total trade by APEC economies with the world has increased by more than four-fold (Figure 1). APEC economies now represent almost 50 per cent of total world trade (Figure 2).

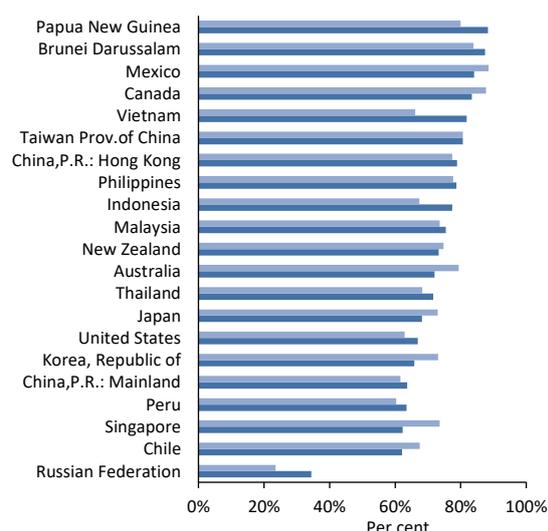
Reflecting their deep economic integration and relatively low trade barriers, more than two-thirds of the trade by APEC economies is with other APEC economies (Figure 3). Some economies are more integrated within APEC than others. Almost 90 per cent of Papua New Guinea's exports go to APEC economies compared to just 35 per cent for Russia (Figure 4).

**Figure 1 Total trade by APEC economies**

Source: IMF, *Direction of Trade Statistics*, 2018

**Figure 2 APEC's share of world exports****Figure 3 Share of APEC economies' trade that is with other APEC economies**

Source: IMF, *Direction of Trade Statistics*, 2018

**Figure 4 Share of APEC economies' trade that go to other APEC economies (by economy)**

The nature of trade within APEC economies has changed dramatically since the Bogor goals were established in 1994. Reflecting the growth in regional value chains, 50 per cent of goods trade is now in intermediate goods, and over 70 per cent of services trade is in intermediate services.<sup>2</sup> The most heavily traded products between APEC economies are electronic integrated circuits, electrical applications for telephony, motor vehicles, crude petroleum and other commodities.<sup>3</sup>

The role of services has increased substantially. Trade in services by APEC economies has grown 6-fold since 1994. It represents 20 per cent of total trade on a value-added basis (Figure 5). On average, services represent 60 per cent of APEC economies' GDP, ranging from 23 per cent for Papua New Guinea to 92 per cent for Hong Kong (Figure 6).

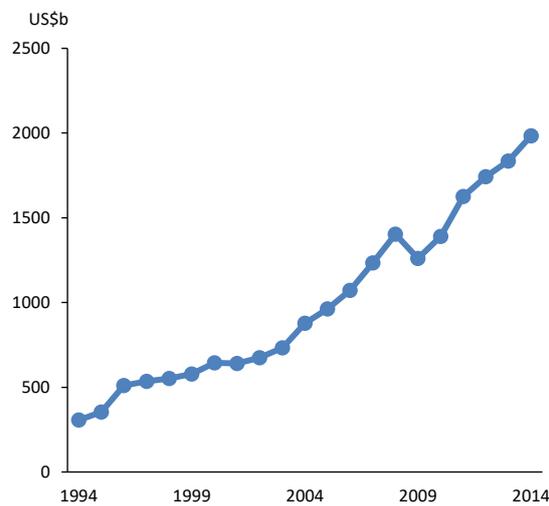
<sup>2</sup> OECD. (2012). *Mapping Global Value Chains*. Paris. TAD/TC/WP/RD (2012) 9

<sup>3</sup> APEC Policy Support Unit (2017). *APEC in Charts 2017*. Singapore, 2017.

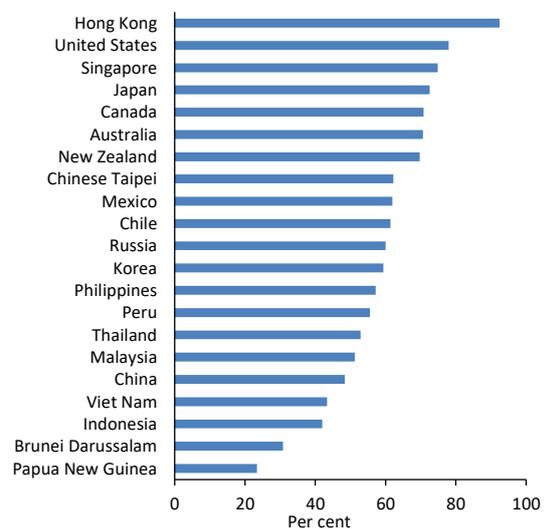
This surge in trade is particularly due to the efforts of APEC economies in reducing their trade barriers. The average MFN (‘Most Favoured Nation’) applied tariff for APEC economies has fallen by almost two-thirds since 1989 (Figure 7). On the downside, progress on tariff reduction has slowed since 2010 and tariffs on agricultural products remain almost twice as high as those on other goods (Figure 8).

The World Bank’s Doing Business database shows progress on non-tariff barriers, too. On average, APEC economies have reduced the number of documents required to import goods and services. They have reduced the cost of exporting or importing a shipping container of merchandise and have reduced the time it takes to export and import merchandise. APEC economies have moved closer to the frontier of best practice for trading across borders, from 78 to 82 (Table 1).

**Figure 5 Total trade in services by APEC economies**

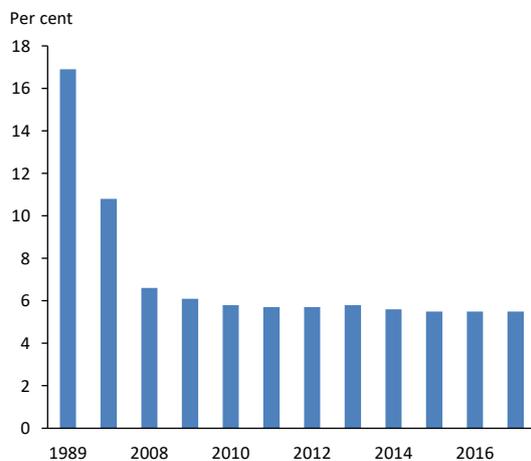


**Figure 6 Services as a per cent of GDP**

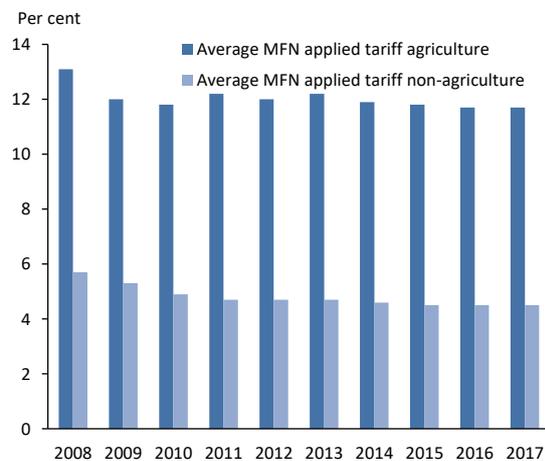


Source: IMF, *Direction of Trade Statistics, 2018*; *World Development Indicators, 2018*

**Figure 7 Average MFN applied tariff among APEC economies**



**Figure 8 Average MFN applied tariff among APEC economies: agriculture and non-agriculture**



Source: APEC Policy Support Unit, *APEC’s Bogor Goals Dashboard, November 2017*

Computing ad-valorem equivalent bilateral trade costs<sup>4</sup>, a more complete measure of trade costs, shows similar results. Bilateral trade costs among APEC economies fell by between 6 and 12 percent between 2010 and 2014 alone, depending on the measure used.<sup>5</sup>

Progress in reducing non-tariff barriers can also be seen in the commitments being implemented by individual members. APEC's Bogor Goals Progress Reports show progress in streamlining customs procedures by providing single online locations, leveraging modern technology and adopting more efficient risk assessment techniques.<sup>6</sup> Legal frameworks on competition policy have been expanded and improved.<sup>7</sup> Restrictions on government procurement have been eased in some economies. Members have reported an increase in the participation of foreign companies in several services sectors.<sup>8</sup> The mobility of business people has been improved, particularly through the APEC Business Travel Card.<sup>9</sup>

**Table 1: The World Bank's Doing Business results, simple average for APEC economies**

	Trading across borders - distance to frontier	Documents to export (number)	Documents to import (number)	Cost to export (US\$ per container deflated)	Cost to import (US\$ per container deflated)	Time to export (days)	Time to import (days)
2006	78	5	7	993	1102	15	15
2007	79	5	6	932	1035	15	15
2008	81	5	6	867	947	15	14
2009	81	5	6	957	1018	14	13
2010	82	5	5	896	935	14	13
2011	83	5	5	879	922	13	13
2012	84	5	5	842	880	13	12
2013	84	5	5	817	842	12	12
2014	82	5	6	916	976	13	13
2015	82	5	6	932	999	13	13

Source: World Bank, *Doing Business*, multiple reports

But these reports show that progress is not consistent across economies and policy areas. APEC's progress also needs to be considered in relative terms. While the average Doing

<sup>4</sup> These calculate all costs involved in conducting transactions across borders, including the direct and indirect costs of fulfilling regulatory import and export requirements, differences in currencies, languages, culture, geographic distance and shipping and logistics costs. See APEC Secretariat, APEC Policy Support Unit (2016). APEC Regional Trends Analysis, May 2016.

<sup>5</sup> If a simple average is used, ad-valorem trade costs have fallen from 96.4 per cent of the value of goods traded in 2010 to 90.7 per cent in 2014. If a trade-weighted average is used, trade costs have fallen from 74.4 per cent in 2010 to 65.8 percent in 2014. As with tariffs, trade costs for agricultural products are almost double that for manufacturing products. See APEC Secretariat, APEC Policy Support Unit (2016). APEC Regional Trends Analysis. May 2016.

<sup>6</sup> APEC Policy Support Unit. (2014). APEC's Bogor Goals Progress Report, August 2014.

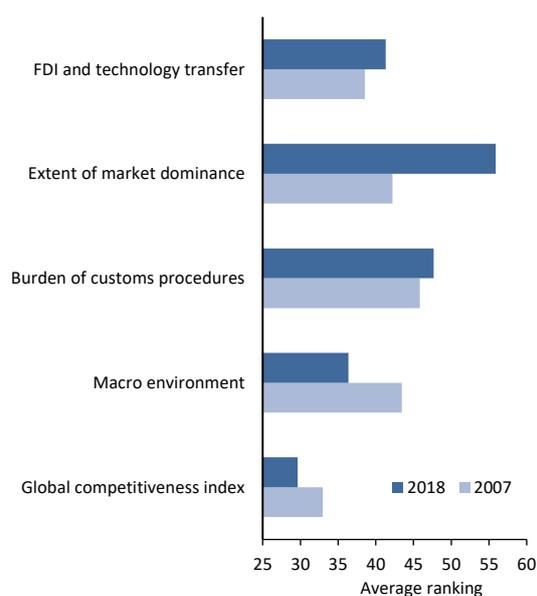
<sup>7</sup> More economies are implementing competition laws and are creating institutions to enforce these laws and develop pro-competition policies, see APEC Policy Support Unit. (2014). APEC's Bogor Goals Progress Report, August 2014.

<sup>8</sup> APEC Policy Support Unit (2015). APEC's Bogor Goals Progress Report, August 2015.

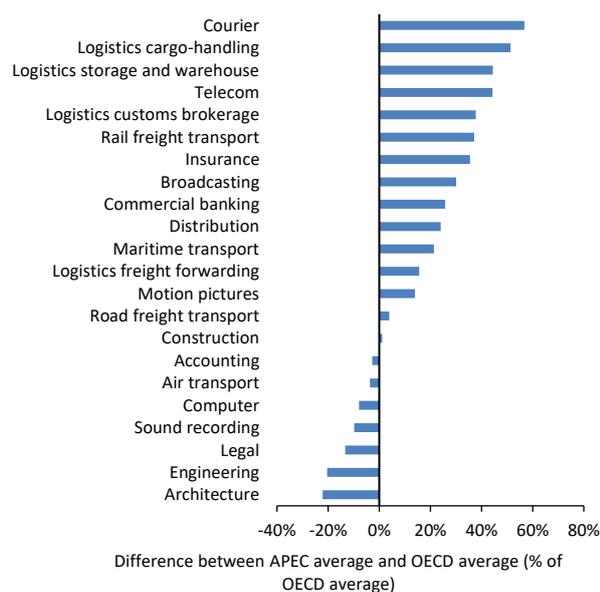
<sup>9</sup> APEC Policy Support Unit. (2015). APEC's Bogor Goals Progress Report, August 2015.

Business ranking of APEC economies has improved over the last decade, their average ranking has worsened in important areas, including the burden of customs procedures, the extent of market dominance and in FDI and technology transfer (Figure 9). Similarly on services, APEC remains behind the OECD average in the restrictiveness of their services trade in most industries (Figure 10).

**Figure 9 Average ranking of APEC economies in World Bank's Doing Business indicators**



**Figure 10 The average restrictiveness of APEC economies' services sector: the % difference between APEC economies and OECD economies (a larger number means more restrictive)**



Source: World Bank, *Doing Business*, 2017; OECD, *Services Trade Restrictiveness Index*, 2018

## 2.2 Investment

A similar story emerges on the investment-side. Since 2000, capital inflows into APEC economies have increased by two-thirds (Figure 11) and capital outflows have tripled (Figure 12). APEC economies now constitute half of the world's top 10 foreign direct investment recipient economies. Taken together, FDI inflows to those five APEC economies reached US\$710 billion, the equivalent of 46.7 per cent of global FDI flows in 2016.<sup>10</sup> Around 35 per cent of FDI inflows into APEC economies goes into services, 30 per cent into manufacturing and 13 per cent in mining.<sup>11</sup>

APEC economies have, on average, moved closer to the frontier on best practice investment and regulatory policies (Figure 13). They have made it easier to start a business, have improved their taxation arrangements and have marginally improved in contract enforcement (Figure 14). Reviews by the APEC Policy Secretariat show progress in reducing conditions for foreign ownership, offering lower taxes or agreements to avoid

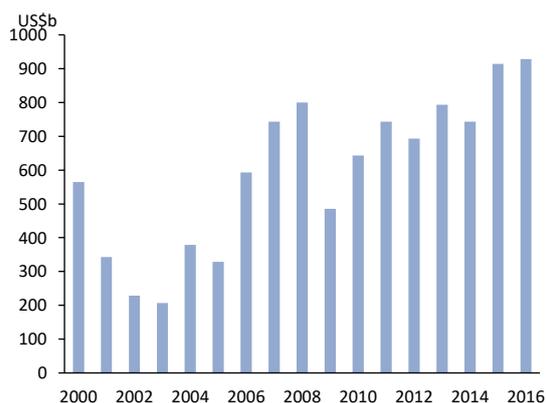
<sup>10</sup> APEC Secretariat, APEC Policy Support Unit (2017). *APEC Regional Trends Analysis (Globalisation: The Good, The Bad, and the Role of Policy)*. Singapore. May 2017.

<sup>11</sup> APEC Policy Support Unit (2017). *IFAP Implementation to Facilitate FDI in APEC: Updates in 2016*. Singapore. May 2017.

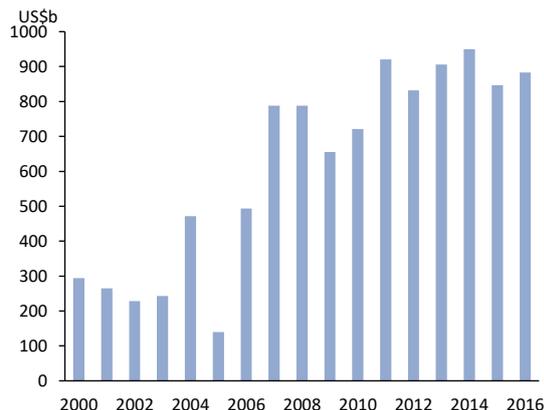
double taxation, establishing single windows, improving dispute resolution, streamlining regulation and licensing systems and improving regulatory transparency.<sup>12</sup>

There is more work to be done. APEC economies have gone backwards in recent years in protecting the rights of minority investors and in the process of registering property. APEC remains behind the OECD average on their overall distance to the frontier, suggesting scope to improve investment environments more generally.

**Figure 11 FDI inflows into APEC (2000-2016)**

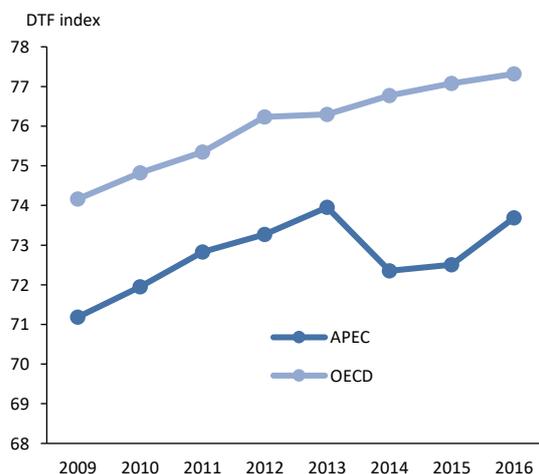


**Figure 12 FDI outflows from APEC (2000-2016)**

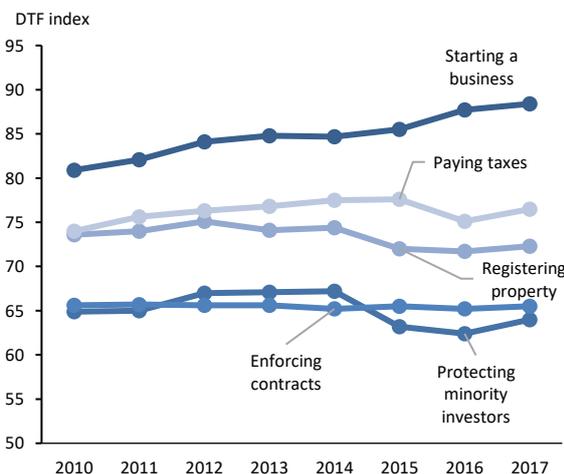


Source: APEC Policy Support Unit, 2017

**Figure 13 Overall distance to the frontier of regulatory best practice (a larger number means closer to the best practice)**



**Figure 14 APEC economies' distance to the frontier on: starting a business, protecting minority investors, enforcing contracts, registering property and paying taxes**



Source: World Bank, *Doing Business*, 2018

These trade and investment results are intimately linked, particularly through global value chains. A reduction of bilateral trade costs by 12 percent to 14 percent has been found to increase bilateral foreign direct investment flows by 16 percent to 20 percent.<sup>13</sup> Causation

<sup>12</sup> APEC Policy Support Unit (2017). IFAP Implementation to Facilitate FDI in APEC: Updates in 2016. Singapore. May 2017.

<sup>13</sup> Duval, Yann and Chorthip Utoktham (2014). Impact of Trade Facilitation on Foreign Direct

can also run in the opposite direction. As discussed in the following section, improving domestic environments for investment plays a critical role in supporting regional value chains which, in turn, boost trade flows between economies.

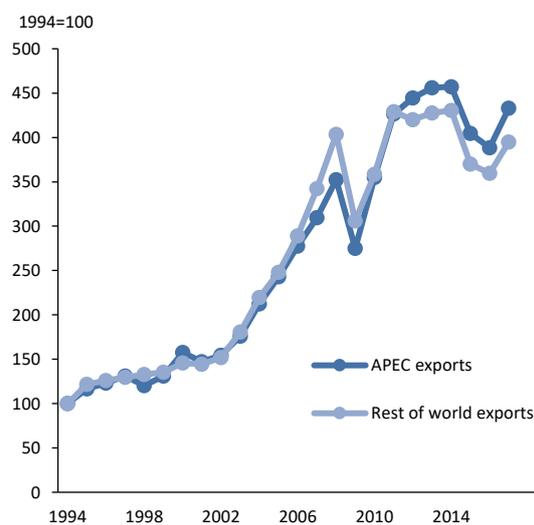
### 2.3 Is there an ‘APEC-effect’?

The critical question is whether the above achievements were the result of APEC or whether they were caused by other factors. The economic characteristics and geographic proximity of APEC economies do, for example, help explain the above results. But they do not explain everything.

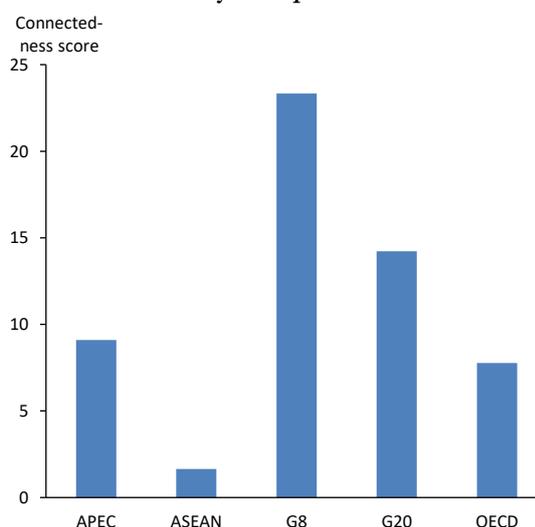
The evidence suggests that there is indeed an ‘APEC effect’ whereby the forum itself increases the integration of economies and influences the domestic policies of its members. There are several ways in which this effect can be observed.

One way—suggestive of correlation rather than causation—is to compare what has happened among APEC economies relative the rest of the world. Analysis by the APEC Policy Support Unit, for example, shows that APEC is more connected in terms of total value-added trade than both ASEAN and the OECD (Figure 16). The growth in exports by APEC economies has similarly exceeded those from the rest of the world since 2010 (Figure 15). APEC economies are also much more integrated in global value chains and often have higher levels of intra-regional trade and investment than is the case for most other regions (see Sections 2.1 and 2.2).

**Figure 15** APEC exports compared to the rest of the world



**Figure 16** Simple Average Connectedness Score for Total Value-Added Trade, by Economy Group

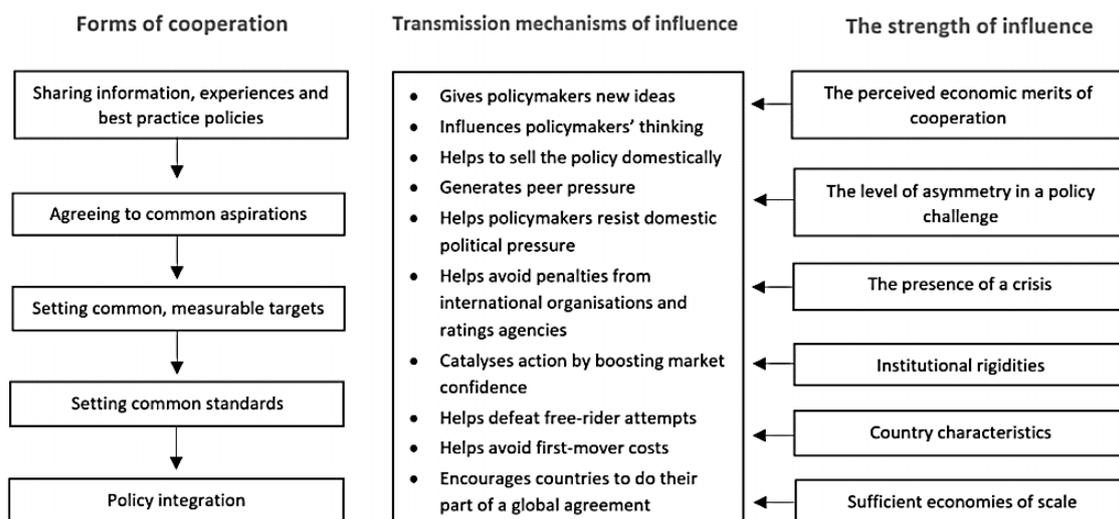


Source: IMF, *Direction of Trade Statistics*, 2018; APEC Secretariat, *APEC Policy Support Unit, Evaluation of Value Chain Connectedness in the APEC Region*, October 2014.

None of this is proof of causation. A better way of establishing an ‘APEC effect’ is to calculate how much we would expect APEC economies to trade given their size, distance and economic structures and assess whether, because of their membership of APEC, they trade more than this.

Undertaking such an exercise<sup>14</sup> found that being a member of APEC is indeed associated with both higher trade volumes, both between APEC members and between APEC members and the rest of the world, even when controlling for factors such as geographic distance and economic structure. It found that so called ‘hard’ institutional arrangements in North America (NAFTA), the EU and Latin America do not have the same globally positive effects. APEC members’ trade is 32 per cent higher against its potential than that of EU members and 10 per cent higher than that of NAFTA members. Importantly, unlike the other regional blocs, they find that APEC creates trade, rather than merely diverting it from other places.<sup>15</sup>

**Figure 17 The influence of non-binding international forums on domestic policies**



Source: Triggs A. (2018). *Do global forums influence macroeconomic policies anymore?* Brookings Institution. *Global Economy & Development. Working Paper 115*. 20 April 2018.

Qualitative research techniques similarly suggest that international forums like APEC play an important role in influencing domestic policies. The results from in-depth interviews with 61 leaders, ministers, central bank governors and officials from across all G20

<sup>14</sup> This involves asking whether APEC’s members achieve more of their trade potential because they are APEC members. In order to assess the performance of trade and FDI between regions, performance is benchmarked by estimating trade and investment frontiers. Using a gravity model of trade and a spatial FDI model, and applying stochastic frontier analysis, frontiers based on the determinants of trade and FDI are estimated. Trade potential can be defined by estimating a frontier determined by the economic size, economic structure and the proximity of economies and looking at how their actual trade stacks up against the benchmark frontier.

<sup>15</sup> Armstrong, S. and Drysdale, P. (2009). The influence of economics and politics on the structure of world trade and investment flows. 33rd Pacific Trade and Development Conference, 6-8 October 2009, Taipei, Taiwan.

economies showed that non-binding forums can have strong influence over domestic policies, including structural, trade, fiscal, monetary and exchange rate policies.<sup>16</sup> This includes preventing protectionism, preventing competitive devaluations of currencies, encouraging new or more ambitious structural reforms and defusing tensions around negative spillovers.

Non-binding forums can help policymakers to sell policies domestically, give policymakers new ideas, influence their thinking on the benefits of open trade and investment, provide them with tools to resist domestic populist pressures and help them defeat free-rider concerns (Figure 17). Along with other factors, emerging market and smaller economies appear to be more influenced by non-binding international forums than larger and advanced economies.

#### ***2.4 Mission accomplished on the Bogor Goals?***

APEC economies have made substantial progress on the Bogor goals and the evidence suggests that the APEC forum itself has played a critical role in delivering these results. APEC economies are trading with the world, and each other, more than ever. They have made substantial progress in reducing tariffs, have been proactive in liberalising their economies and have reduced behind the border barriers. APEC economies are more integrated in value chains than ever before. Cross-border flows of investment are at an all-time high and there is a strong, continuing work agenda on reducing barriers to trade and investment further.

Progress towards achievement of the Bogor goals has been assessed in various years for the 21-member economies. This has included: an analysis of the collective progress attained by the APEC region; brief progress reports per economy with qualitative information drawn from APEC member economies' Individual Action Plans, official sources and international organizations; and dashboards with quantitative indicators drawn from well-known and respected external sources. Significant and measurable progress has been made across the APEC region.

But there is much more to be done. Progress on liberalisation has slowed in recent years. While tariffs have been reduced significantly, there is scope to reduce them further, especially in agriculture where progress has been lagging. There is more work to be done in reforming domestic frameworks to liberalise services sectors, expanding cross-border investment and harmonising regulations and standards.

The world has also changed dramatically since 1994. The critical question is how APEC can continue to make progress given a changing world and the challenging political and economic environment it is currently facing, and will continue to face, post-2020. Understanding the key trends shaping the post-2020 environment is therefore critical.

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<sup>16</sup> Triggs A. (2018). Do global forums influence macroeconomic policies anymore? Brookings Institution. Global Economy & Development. Working Paper 115. 20 April 2018.

### 3. The post-2020 environment

The post-2020 environment and the challenges and opportunities it presents are inherently uncertain. For policymakers who must plan for the future, this advice can appear unhelpful. But acknowledging the inherent uncertainty of the future is critical to designing effective policies that can adapt to changing circumstances.

The most important policy response to uncertainty is flexibility. Building flexibility into economies, labour markets, financial systems, institutions, regulations and policies is critical. This is the value of APEC. APEC is not bound by its membership. The flexibility of APEC and its ability to connect with other global and regional frameworks equips it well to reposition and address new strategic issues. APEC is a flexible institution that, in turn, can help economies build flexibility into their systems. It can help economies adopt the right policy settings and identify and share innovative policy approaches to new challenges. While the future is inherently uncertain, broad trends suggest a complex environment for APEC to manage and harness post-2020.

#### *3.1 The backlash against globalisation*

The current wave of anti-globalisation sentiment strikes at the core of APEC's mission and objectives. While the specific leaders of this anti-globalisation movement are temporary manifestations of this unrest, they have revealed a deep, structural angst in many communities. This angst goes to the core pillars of globalisation and APEC's agenda: free trade, foreign investment, immigration and the value of multilateral cooperation.

The elections in Germany and Austria, the unrest in France, the electoral mood in the United States and continued uncertainty around Brexit suggest that the current wave of anti-globalisation sentiment is yet to crest. Polling by YouGov of 19 economies in 2016 found that less than half of respondents in America, Britain and France believed that globalisation was a "force for good".<sup>17</sup>

Much of this backlash against globalisation is misdirected. There is little evidence that immigration reduces native wages or hurts employment.<sup>18</sup> The size, scale and influence of foreign investment is often dramatically overstated, and its benefits overlooked.<sup>19</sup> The alleged negative effects of trade liberalisation on growth, employment and wages is often confused with the effects of technological automation which replaces workers with

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<sup>17</sup> Only 11 per cent of Americans felt that the world had improved in the preceding year. Some 52 per cent of the French believe their economy should not have to rely on imports, and just 13 per cent reckon that immigration has a positive effect on their country. See *The Economist*, What the world thinks about globalisation. London. 18 November 2018.

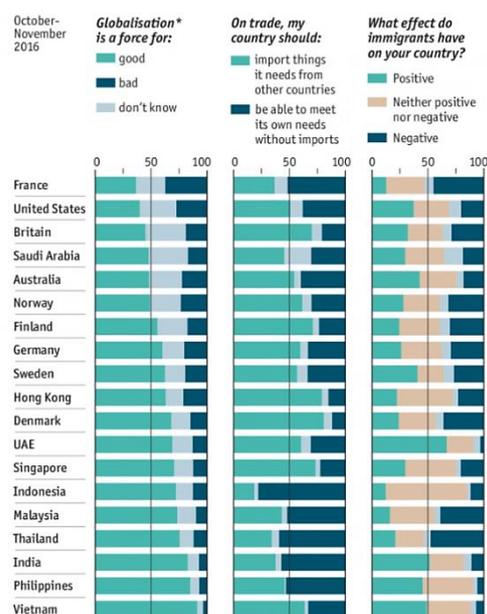
<sup>18</sup> Breunig, B., Deutscher, N. and Thi To, Hang. (2017). The Relationship between Immigration to Australia and the Labour Market Outcomes of Australian-Born Workers. *Economic Record*. Volume 93. Issue 301 June 2017. pp 255-276.

<sup>19</sup> RMIT. (2013). Greens Senator Rachel Siewert's foreign ownership claim overstated. RMIT ABC FactCheck. 3 October 2013.

machines.<sup>20</sup> And for the negative effects that do flow from trade and investment liberalisation, much of this is due to poor domestic policies and weak social safety nets. Economies with strong social safety nets have weathered current transitions well. Those without them have not.<sup>21</sup>

Rising inequality sits behind much of the backlash against globalisation which is fundamentally the result of domestic policy settings.<sup>22</sup> This inequality persists between income cohorts, genders, geographic regions within economies and between economies and country groups.<sup>23</sup> Branko Milanovic's famous 'elephant chart'<sup>24</sup> is often cited as linking this rise in inequality to a rise in anti-globalisation sentiment. Over the period of rapid globalisation from 1988 to 2008, the chart shows big income gains from globalisation at the very top and for those in the middle. But the cohort around the 75<sup>th</sup> and 85<sup>th</sup> percentile – sandwiched between their own country's ultra-rich and the booming middle classes in the emerging market economies – barely benefited at all. This cohort, it turned out, was also pivotal in the election of Trump, the Brexit vote and the rise in European nationalism.

**Figure 18** YouGov polling results on attitudes towards globalisation, 2016



Source: YouGov Polling, see *The Economist*. (2011). *What the world thinks about globalisation*. London. 18 November 2018.

<sup>20</sup> Cocco, F. (2016). Most US manufacturing jobs lost to technology, not trade. *Financial Times*. London. 3 December.

<sup>21</sup> Colford, C. (2016). 'Making the case for trade': Winning voters' trust by strengthening social safety nets. *The World Bank*. Washington, D.C. 15 May.

<sup>22</sup> The rise in income inequality within economies has been exhaustively documented by scholars such as Thomas Picketty, Branko Milanovic, Anthony Atkinson and many others. In Australia, inequality is at a 75-year high. The incomes of the 90<sup>th</sup> percentile have grown three times faster than the 10<sup>th</sup> over the last four decades

<sup>23</sup> In Australia, for example, over four decades, earnings rose by 23 per cent at the 10<sup>th</sup> percentile, 44 per cent at the median and 72 per cent at the 90<sup>th</sup> percentile. Inequality is now at a 70-year high. See Leigh, A. and Triggs, A. (2016). *Markets, Monopolies and Moguls: The Relationship between Inequality and Competition*. *The Australian Economic Review*, vol. 49, no. 4, pp. 389–412.

<sup>24</sup> The chart shows a sloping up, down, then upwards again, like an elephant raising its trunk.

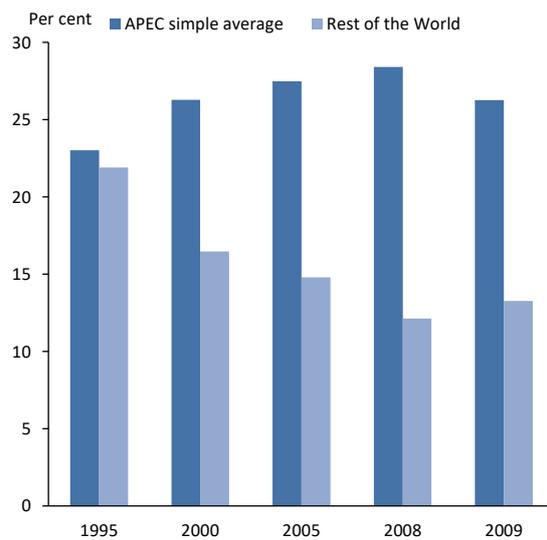
This polling, structural trends and recent political events suggest that the discontent with globalisation in many communities will persist for some time. Addressing the structural challenges behind this anti-globalisation sentiment must be APEC's top priority.

### 3.2 The changing nature of trade

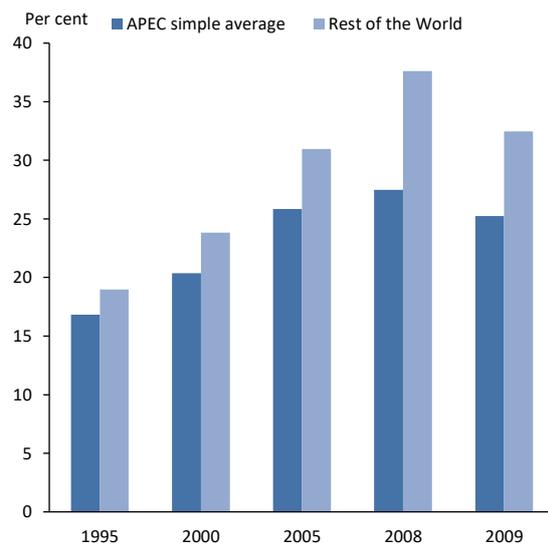
A critical trend for the post-2020 environment will be a continued change in the nature of trade. This includes how trade is conducted, what is being traded, who is doing the trading and the driving forces behind liberalisation.

APEC economies are much more integrated in value chains than the rest of world, but particularly in forward participation where other economies use the exports of APEC economies in their production processes (Figure 19 and Figure 20). The development of value chains has been driven by the market, underpinned by advances in technology and reductions in the cost of trade – both of which are forecast to accelerate rapidly post-2020.

**Figure 19 Average forward participation in value chains by APEC economies**



**Figure 20 Average backward participation in value chains by APEC economies**



Source: OECD, *Trade in Value Database*, May 2013.

Advances in technology are also changing who participates in trade. Historically, trade has been the purview of large corporations. The expansion in access to the internet has opened-up trading opportunities to small and medium-sized enterprises (SMEs). SME's can trade through online platforms, utilising online payment systems and exploiting lower transport costs.<sup>25</sup>

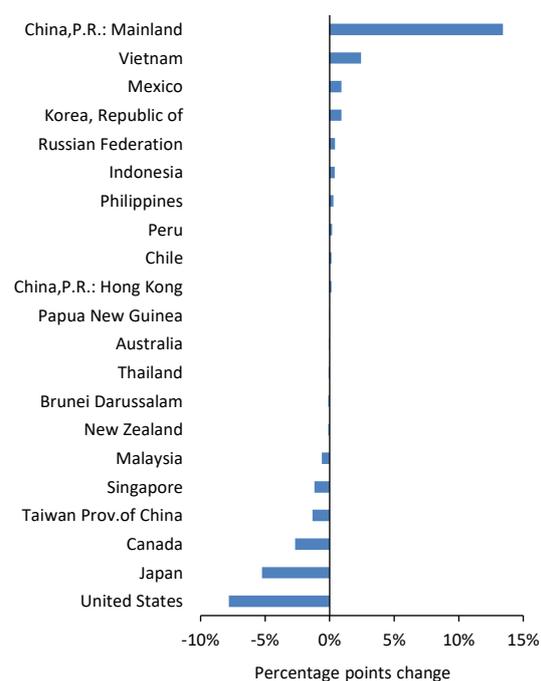
Advances in technology are also changing what is being traded. Services can now be traded more easily online, particularly IT, professional, financial and education services. New

<sup>25</sup> Meltzer, J. (2017). Global digital trade 1: Market opportunities and key foreign trade restrictions. Brookings Institution. Testimony. Washington, D.C. 12 April.

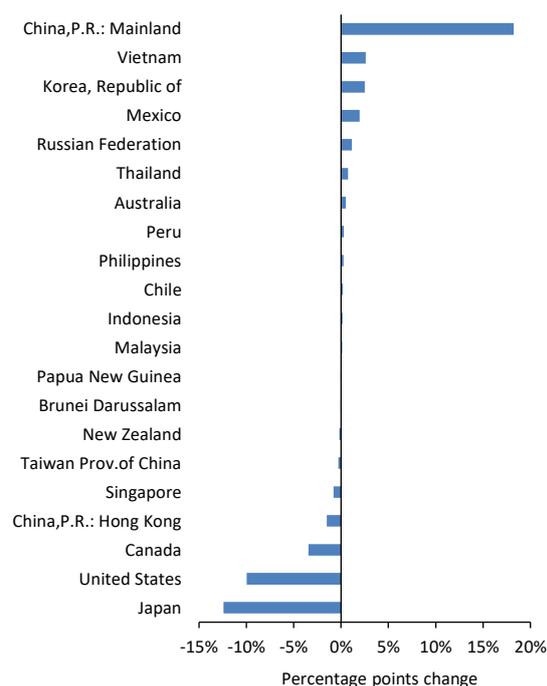
digital services such as cloud computing have also been developed and are becoming crucial business inputs.<sup>26</sup>

While the market is forging links and deepening value chains across the region, trade negotiators have shifted in favour of bilateral trading agreements, more suited to final goods trade than in supporting production networks that span multiple economies. The gap between the approach of the market and the approach of trade negotiators will widen considerably over time.

**Figure 21** Change in the share of APEC exports from 1994 to 2017



**Figure 22** Change in the share of APEC imports from 1994 to 2017



Source: IMF, *Direction of Trade Statistics*, 2018

Finally, the composition of global trade will be profoundly shaped by the policy decisions of APEC economies. Since 1994, the composition of APEC's exports and imports has changed dramatically (Figure 21 and Figure 22). This has contributed to large imbalances in current accounts, fuelling political tensions and potentially destabilising the global financial system.<sup>27</sup> Analysis from the Bank of England shows that these imbalances would be reduced by 40 per cent if the world's major economies achieved the same level of trade liberalisation in services trade as they have in goods trade.<sup>28</sup> Conversely, if the economic rebalancing and financial liberalisation of these Chinese economy falters, or if the United States continues to grow its fiscal debt and deficit, these imbalances could worsen

<sup>26</sup> Meltzer, J. (2017). Global digital trade 1: Market opportunities and key foreign trade restrictions. Brookings Institution. Testimony. Washington, D.C. 12 April.

<sup>27</sup> McKibbin, W. and Triggs A. (2018). Modelling the G20. Centre for Applied Macroeconomic Analysis. CAMA Working Paper 17/2018.

<sup>28</sup> Joy, M., Lisack, N., Lloyd, S., Reinhardt, D., Sajedi, R. and Whitaker, S. (2018). Mind the (current account) gap. Financial Stability Paper No. 43 – January 2018.

considerably.<sup>29</sup> With the GDP of APEC economies more sensitive to trade than ever before,<sup>30</sup> APEC's ability to adapt to a changing trading system will be key.

### ***3.3 Demographics, urbanisation and social change***

By 2050, the global population will increase from 7.3 to 9.7 billion – the equivalent of adding another China and (almost) another India.<sup>31</sup> The population will be older. They will be working longer. More of them will be living in cities. They will be more empowered and connected than ever before. While these trends point to a range of policy challenges for APEC economies, the need for infrastructure investment is at the top of the list.

In 1950, 5 per cent of the world's population was over 65. In 2015, the share was 8 per cent. By 2050, it is expected to be 16 per cent.<sup>32</sup> An ageing population can lead to labour shortages, strains on fiscal, healthcare and immigration systems and macroeconomic rebalancing between savings and consumption. Some warn of slower economic growth, less innovation and 'secular stagnation'.<sup>33</sup> There is also a growing link between ageing and increased inequality.<sup>34</sup>

But an ageing population can be positive, if well-managed. This relies on policies being directed towards turning the over-65's into more active economic participants. This means reforming inflexible labour markets and outdated institutions. Policies aimed at retraining, reskilling and lifelong learning will play a critical role, as will reforms to tax and welfare systems with an eye to long-term sustainability.<sup>35</sup> Policies to increase female workforce participation and broader participation in the economy should play a leading role. This requires a holistic focus on the barriers women face through tax and welfare systems and discriminatory policies.

Urbanisation in APEC's economies will also raise challenges. By 2050, the number of people living in cities will grow from 3.9 billion to 6.3 billion – an increase from 54 per cent to 67 per cent.<sup>36</sup> This growth will come largely from developing economies, particularly in the APEC region. The trend of urbanisation will require careful, forward-looking infrastructure policies from APEC economies and substantial financial support. Authors have warned that many governments in APEC economies are not taking this seriously

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<sup>29</sup> McKibbin, W. and Triggs A. (2018). Modelling the G20. Centre for Applied Macroeconomic Analysis. CAMA Working Paper 17/2018.

<sup>30</sup> According to estimates by Kuriyama and San Andres, in the period 1989–2013, a 10 percent growth in trade in APEC was correlated with a 5.6 percent growth in GDP, while for the rest of the world, a similar increase in trade was associated with a 3.9 percent increase in GDP. See Kuriyama, C. and E. San Andres, 'Trade and economic growth'.

<sup>31</sup> Kharas, H. (2016). Climate change, fertility and girls' education. Brookings Institution. Future Development. Future Development. 16 February.

<sup>32</sup> The Economist. (2017). Getting to grips with longevity. Special Report. London. 6 July.

<sup>33</sup> The Economist. (2017). Getting to grips with longevity. Special Report. London. 6 July.

<sup>34</sup> Across the rich world, well-educated people increasingly work longer than the less-skilled. Some 65 per cent of American men aged 62-74 with a professional degree are in the workforce, compared with 32 per cent of men with only a high-school certificate. See The Economist. (2014). A billion shades of grey. London. 24 April.

<sup>35</sup> The Economist. (2014). A billion shades of grey. London. 24 April.

<sup>36</sup> The Economist. (2014). Roads of redemption. 21 June.

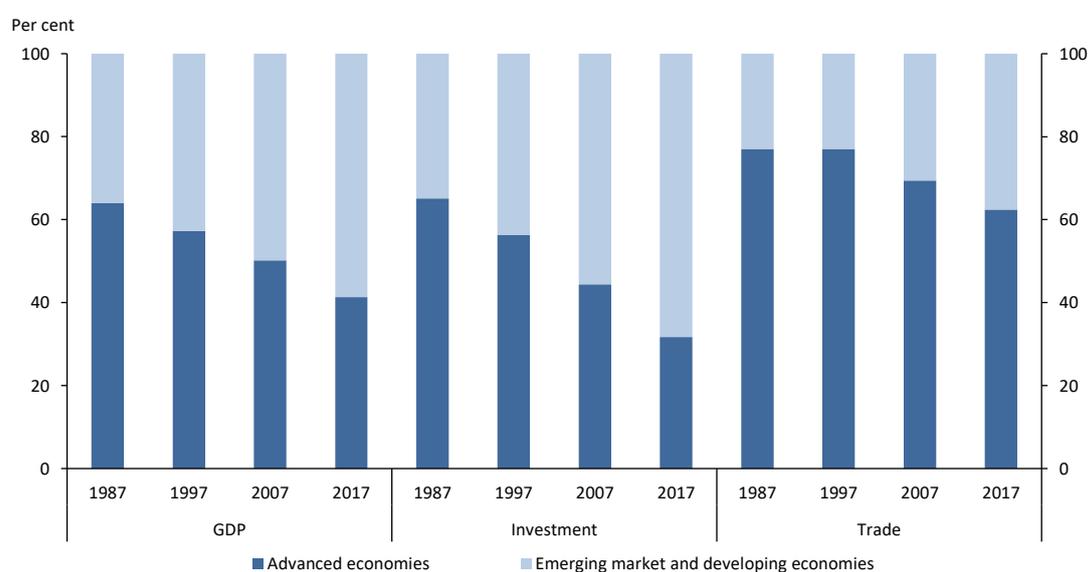
enough by pursuing ineffective policies, such as seeking to restrict land-use, fearing that it encourages further urbanisation and strains on infrastructure.<sup>37</sup>

The effects of demographic shifts, urbanisation and social change trends will have positive and negative implications for APEC's economies, many of which are unknown. The outcomes for APEC economies will, as earlier, depend on the policies adopted by APEC governments.<sup>38</sup>

### 3.4 Economic transitions and the role of the US and China

By 2030, Asia will have surpassed North America and Europe combined in terms of GDP, population size, military spending, and technological investment.<sup>39</sup> Asia will account for two-thirds of global economic growth.

**Figure 23** The changing shares of global GDP, investment and trade held by advanced economies compared to emerging market and developing economies.



Source: IMF, *World Economic Outlook database*, April 2018

The United States, European, and Japanese share of global income is projected to fall from 56 per cent today to well under half by 2030.<sup>40</sup> In 2008, China overtook the United States as the world's largest saver; by 2020, emerging markets' share of financial assets is projected

<sup>37</sup> Angel, S. (2012). *Making Room for a Planet of Cities*. Policy Focus Report. Lincoln Institute of Land Policy. Cambridge. 2011.

<sup>38</sup> The International Institute for Applied Systems Analysis in Vienna, for example, shows that improved female education could mean the difference between having an extra 1.8 billion people in Africa alone by 2100, with similar results for Asia. The policy choices of APEC economies will be more important than ever. See Kharas, H. (2016). *Climate change, fertility and girls' education*. Brookings Institution. Future Development. Future Development. 16 February.

<sup>39</sup> National Intelligence Council. (2012). *Global Trends 2030: Alternative Worlds*. National Intelligence Council. December 2012.

<sup>40</sup> National Intelligence Council. (2012). *Global Trends 2030: Alternative Worlds*. National Intelligence Council. December 2012.

to almost double.<sup>41</sup> China, India and the rest of Asia will account for almost 70 per cent of middle class consumption.<sup>42</sup> Almost a quarter of the Fortune Global 500 firms already come from emerging markets. In 1995 it was only 4 per cent.<sup>43</sup>

These transitions will have profound implications for trade, investment and geopolitical links. The roles played by the United States and China, and the relationship between them, will profoundly shape these transitions and what can be achieved by APEC.

Although the United States' (and the West's) decline relative to the emerging markets is inevitable, the degree to which the United States continues to dominate the international system could vary widely depending on the choices it makes and the response by the global community.<sup>44</sup> An attack on the rules-based order may slow the rise of emerging economies, but it will also damage the United States, fracture its alliances and speed-up the relative decline of United States influence. Conversely, constructive engagement in leading reforms to the rules-based system would preserve a strong role for the United States in the future global order.

China's role as a major actor in the region will continue to grow. But the strength of that growth will hinge on the success of its domestic reform agenda. Financial liberalisation, capital account opening and the internationalisation of its currency will shape China's role in the global financial system. Reforms to liberalise its services industries, open its economy to international competition and reorient its economy towards consumption will shape its role in the global trading system. These reforms will alleviate many of the political tensions with the West in trade and finance.<sup>45</sup> But these reforms will be harder to implement in a hostile international environment. The relationship between the United States and China is therefore critical. With both China and the United States in its membership, APEC is uniquely placed to constructively engage both economies.

### ***3.5 Technological change***

It is difficult to think of APEC policy areas that will not be touched, if not radically reshaped, by technological advancements. The advent of the digital age and advances in artificial intelligence requires a rethinking of education and training, labour policy and social

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<sup>41</sup> National Intelligence Council. (2012). Global Trends 2030: Alternative Worlds. National Intelligence Council. December 2012.

<sup>42</sup> National Intelligence Council. (2012). Global Trends 2030: Alternative Worlds. National Intelligence Council. December 2012.

<sup>43</sup> Emerging economies account for 46 per cent of world retail sales, 52 per cent of all purchases of motor vehicles and 82 per cent of mobile phone subscriptions. They still punch well below their weight in commerce and finance, but they are catching up fast. See The Economist. (2011). Power shift. The Economist. London. 4 August.

<sup>44</sup> National Intelligence Council. (2012). Global Trends 2030: Alternative Worlds. National Intelligence Council. December 2012.

<sup>45</sup> Drysdale P., Triggs A. and Wang J. (2017). China's new role in the international financial architecture. Asian Economic Policy Review. Volume 12. Issue 2. pp. 258-277.

security. The rapid pace of technological change will require access to lifelong learning and continuing retooling: a particular challenge for an ageing workforce.<sup>46</sup>

Labour market and social insurance policies will also need to consider the new realities of digital jobs. Workers' wages will no longer necessarily come from corporations or factories located in cities, but from work with multiple clients located across international borders. With the popularity of freelance work, employment precariousness and casualisation will be the important labour issues in a digital age.<sup>47</sup>

Digital technology and its disruptions make regional cooperation in APEC especially essential. The disruptions of digital technology have cross-border implications. Regional cooperation has an important role to play in coordinating policies and regulations as well as information sharing and capacity building. The working relationships among APEC economies will prove valuable in helping economies navigate a fast-changing environment.

The potential threats of automation remain at the forefront of many policymaker's concerns when it comes to technological advances. Panics about 'technological unemployment' have emerged many times before. Each time, technology created more jobs than it destroyed. But in each past instance, the 'creative destruction' of these technological advances required capital and labour to be redeployed to new industries.<sup>48</sup> While capital is highly mobile, particularly in the modern age, labour remains much less mobile. This places a premium on the need to make education and training flexible enough to teach new skills quickly and efficiently and welfare systems which support this process.

### ***3.6 Energy transformation and climate change***

There are several trends shaping the energy landscape for APEC economies post 2020.

The first is America's shale revolution, which has turned the country into the world's biggest combined producer of oil and gas.<sup>49</sup> This is making the United States less reliant on imported oil, with critical geopolitical implications, and has added an abundance of oil and gas to world markets that has benefited energy consumers everywhere.<sup>50</sup>

The second major change is taking place in China as it attempts to move from an energy-intensive economy to a more service-led one. China has made staggering progress in moderating its demand for coal and oil, slowing the rise in electricity consumption, deploying gas and renewable energies and arresting the growth of carbon-dioxide

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<sup>46</sup> APEC Secretariat, APEC Policy Support Unit. (2016). APEC Regional Trends Analysis (Rethinking Skills Development in the Digital Age). Singapore. November 2016.

<sup>47</sup> APEC Secretariat, APEC Policy Support Unit. (2016). APEC Regional Trends Analysis (Rethinking Skills Development in the Digital Age). Singapore. November 2016.

<sup>48</sup> The Economist. (2016). March of the machines. The Economist. London. 25 June.

<sup>49</sup> After decades of declining output since the 1970s, America is now producing as much oil as it has ever done: 10m barrels a day in November last year.

<sup>50</sup> The Economist. (2018). Clean power is shaking up the global geopolitics of energy. Special Report. The Economist. London. 15 March.

emissions.<sup>51</sup> It remains the world's biggest importer of fossil fuels but has the world's most ambitious plans for electric vehicles and is making significant investments in renewables.

These two developments play into the third, longer-term trend: the need to create a low-carbon energy system to fight climate change.<sup>52</sup> The Paris agreement of 2015, though a milestone, still leaves a huge distance to travel before global warming can be stopped. Trillions of dollars will have to be invested in wind and solar energy, batteries, electricity grids and a range of more experimental clean-energy sources. This has set off a global race for the best technologies and raised concerns about access to the rare earths and critical minerals needed to make the necessary hardware.<sup>53</sup>

Finally, the global composition of energy markets is changing dramatically. China is now the world's largest energy consumer and India will be the principal driver of energy consumption within Asia from 2020. According to the International Energy Agency (IEA), global demand for energy will grow to 2035, but 90 per cent of this growth will come from non-OECD economies.<sup>54</sup> Despite this, China, India and the other BRIC economies are excluded from the principal international energy organisation, the IEA. This governance gap will become more severe post-2020 during a time when multilateral cooperation will be vital.

#### **4. Strategically repositioning APEC for the post-2020 world**

The fundamental question for this paper is how APEC can be used, and strategically repositioned, to harness the post-2020 world, address its challenges and steer the region in the right direction. The Bogor Goals have acted as an aspirational focal point which articulated a common economic agenda and common view. APEC should be to take-stock of, and celebrate, its success on the Bogor goals, but a new focal point for the challenging post-2020 environment is required. An agenda of 'Shared Prosperity' can help deliver this. But this agenda needs to satisfy multiple competing demands.

##### ***4.1 Engaging the United States and China***

The most alarming aspect of the anti-globalisation push is that it is significantly coming from the United States Administration, a country whose participation in the global system remains so important to the post-2020 environment. APEC must find ways to engage the

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<sup>51</sup> The Economist. (2018). Clean power is shaking up the global geopolitics of energy. Special Report. The Economist. London. 15 March.

<sup>52</sup> The Economist. (2018). Clean power is shaking up the global geopolitics of energy. Special Report. The Economist. London. 15 March.

<sup>53</sup> The Economist. (2018). Clean power is shaking up the global geopolitics of energy. Special Report. The Economist. London. 15 March.

<sup>54</sup> In 2004, OECD and non-OECD economies respectively used about the same amount of energy, but by 2035 non-OECD demand is projected to be more than double that of OECD economies. See Downie, C. (2015). Global Energy Governance: Do the BRICs have the energy to drive reform? International Affairs. London. Vol. 91. No. 4. pp. 799-812.

United States with China and other APEC members in areas of common interest, while unequivocally opposing its attacks on the rules-based international order. APEC is the best regional institution to do that in a cooperative way with China.

The virtues of APEC should be advertised to the US Administration: a voluntary, non-binding, consensus-driven forum. Economies do not have to sign-up to or agree to anything. The APEC process deliberately avoids impinging on members' sovereignty. A modern, targeted agenda that is focused on issues important to the region, including the United States, will also be a key part of this.

The United States Administration has a strong focus on infrastructure investment, an area where APEC has a critical advantage. It is undergoing a radical transformation in its energy markets through its shale revolution and is actively looking to export gas into Asian markets. Even in trade, an area where the Administration has been the most sceptical, the United States has strong interests in strategic aspects of the modern trade agenda outlined below, including digital trade, data flows and services. Given the United States is unlikely to engage substantially in APEC in 2020, given the Presidential Election that year, or perhaps even in the few years that follow, APEC's focus should be on having an agenda which the United States can be engaged.

China is heavily invested in APEC. APEC was critical to China's entry into the WTO and in supporting the implementation of its trade reforms. China's constructive engagement in APEC is a critical asset for the forum. APEC is an opportunity to support China's domestic reforms which will go far to promoting sustainable growth in the region and addressing political tensions regarding trade and financial imbalances. APEC is an opportunity to remove the heat from the bilateral relationship between the United States and China and constructively engage both economies in a multilateral setting.

#### ***4.2 An inclusive, streamlined, modern agenda***

Addressing the current backlash against globalisation is broader than engaging the United States Administration. It also requires an APEC agenda which is 'shared', with a deliberate focus on sharing the benefits of globalisation while mitigating its costs.

At its simplest level, this includes better communicating the benefits of APEC and its successes in raising living standards. But it also means developing a substantive policy agenda that addresses the sources of the current anti-globalisation movement. Outlined in the sections below, this will require deliberate policies to open the global trading system to SMEs, feeding the benefits of trade directly into communities. It will require processes to support domestic policy reforms on education, skills, retraining, tax and welfare. It will require harmonisation of regulations across borders and improved access to regional finance for investment in education, skills, health and infrastructure.

APEC's agenda must be crisp and modern, with strong political buy-in. APEC's bloated agenda needs to become less bureaucratic and technical and less 'bottom-up'. While this has widened and deepened policy community engagement across APEC's membership and

facilitated substantial technical cooperation, it has caused politicians, the media and commentators to lose interest in APEC's message of cooperation and integration.

Within the core focus on inclusiveness, APEC's agenda should focus on four systemic issues which resonate with leaders and which are critical to the post-2020 world: a contemporary trade agenda, a long-term infrastructure agenda with strong political buy-in, a fresh focus on investment facilitation and policies to harness the energy transformation.

None of these issues are new to APEC. The breadth of APEC's agenda means there are few if any issues or approaches that have not already been explored in some context. Instead, this is about refocusing APEC's priorities on the issues that will help it promote inclusiveness, counter the backlash to globalisation and reposition the forum for the post-2020 world. It is fundamentally about packaging an agenda that will appeal to leaders and achieve political buy-in and deliver the greatest gains out of APEC's efforts.

### ***4.3 A contemporary trade agenda***

A modern trade agenda sits at the core of a rejuvenated APEC. While APEC has made substantial progress on the Bogor Goals, it should not allow itself to be bogged down in negotiations over a few sensitive goods. Readily achievable gains from better connectivity far exceed the potential gains that come from getting rid of all remaining traditional barriers to trade.<sup>55</sup> Reducing supply chain barriers to trade would increase world GDP over six times more than removing all tariffs, according to the World Economic Forum.<sup>56</sup> Focusing on digital trade, services, integrating SMEs into the trading system, harmonising regulations on privacy and cross-border data flows and focusing on domestic structural reforms and settings will unlock the next wave of trade reform.

Many of the modern barriers to trade relate to domestic laws and regulations. A useful starting point would be an APEC commitment for each economy to undertake a root and branch review of its competition laws and policies to explore the markets and sectors which would benefit from opening to greater competition. Australia, for example, has undertaken such reviews several times throughout its history, most recently through the Harper Review. Each time, these reviews have helped focus the minds of policymakers on problematic sectors, even if action in those areas takes many years.<sup>57</sup>

Digital trade represents a rapidly evolving area. Engaging as early as possible is key to maximising its benefits, as APEC did with technology and environmental goods trade. Economies are developing their regulatory policies in this area and many have done so already. The risk is that a patchwork of inconsistent regulatory regimes develops,

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<sup>55</sup> Elek, A. (2011). Imaginative approaches needed for global economic integration. East Asia Forum. 24 July 2011.

<sup>56</sup> World Economic Forum. (2011). Enabling Trade: Valuing Growth Opportunities. World Economic Forum. Davos.

<sup>57</sup> The Harper Review identified a range of industries sheltered from competition, including coastal shipping, domestic aviation, pharmacies and the medical and legal professions. Similar challenges are evident across the APEC membership.

weakening digital trade, damaging regional value chains and undermining trade in services. APEC should develop a leader-level dialogue to agree on the principles balancing the opportunities from cross-border data flows with the objectives of privacy and consumer protection. It should expand work of the APEC Electronic Commerce Steering Group on interoperability beyond the EU GDPR. Economies should finalise their participation in the APEC cross-border privacy rules and seek a common approach to these critical issues.<sup>58</sup>

Engaging SME's in the global trading system is a critical way to distribute the gains from trade throughout communities. Digital trade and cross-border data flows have driven this participation. APEC should complement this with an SME international trade advisory council to better identify the barriers to SME engagement in the trading system. Ensuring a free and open internet, expanding access to reliable and affordable broadband, ensuring simplicity and consistency in tax and regulatory policies and seeking to further reduce transport and logistics costs through competition reform will be critical.<sup>59</sup>

Services trade remains well-below potential in APEC, held back by domestic regulations, regulatory inconsistencies between economies and an inefficient regional trading framework. Other than being a boon to global growth, services trade liberalisation would reduce global trade imbalances, help ease political tensions and better engage the United States. APEC can ease political concerns without taking a backwards step on the global trading system.

A modern trade agenda does not mean existing issues should be abandoned. APEC should continue to push for further reductions in tariffs (particularly those recently introduced), further liberalisation in agriculture and a rationalisation of the current noodle-bowl trading system through RCEP, TPP, FTAAP or a combination of all three. But larger gains can be obtained by focusing on these new, rapidly developing areas. Establishing a coherent approach and common economic agenda on these developing issues will underscore the next wave of trade reform.

There is an opportunity for APEC to lead the discussion on cross border issues that have global implications. One area is in intellectual property protections, an area of contention between some APEC members. Home to major innovators that export intellectual property, emerging IP producers and major IP consumers, APEC members have an interest in leading regional and global reforms of cross border trade and protections of intellectual property. Taking initiatives to discuss the rules and norms around new and old issues of IP protection will build confidence in the region and successful initiatives and reforms can be taken to the global level, including through the WTO.

APEC's agenda should continue to include initiatives that can be implemented among members and translated to global forums like the WTO. In addition to reform of

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<sup>58</sup> Meltzer, J. (2017). Global digital trade 1: Market opportunities and key foreign trade restrictions. Brookings Institution. Testimony. Washington, D.C. 12 April.

<sup>59</sup> Many APEC economies, including Australia, continue to impose restrictions on cabotage and aviation, for example. This increases the cost of trade and restricts flows of goods and merchandise which is critical to stronger engagement of SMEs in the trading system.

intellectual property protections, APEC can lead initiatives that further investment facilitation and dispute avoidance and settlement. The non-binding and cooperative nature of APEC makes it an effective vehicle for convergence of ideas and forging of consensus around contentious economic issues.

#### ***4.4 Political buy-in for infrastructure***

Infrastructure is a vital, but crowded policy area. There is a lot going on in multiple forums and institutions, with private and public investment, often at different levels of government and with various forms of international support. These approaches are often different and uncoordinated, with different priorities and criteria. Yet, investment in infrastructure remains critical to all the challenges discussed in Section 3. Seldom does a leader give an intervention that does not mention investment and infrastructure. There is strong political support for the topic, but thus far this political support is yet to be effectively channelled into something that delivers tangible results.

APEC needs to lift the issue of infrastructure investment up to the political level. Members should create an APEC Infrastructure Ministers process. It should implement an APEC Infrastructure Vision with the goal of ‘40 by 40’: a commitment to invest 40 per cent more public and private resources in infrastructure by the year 2040 than what is implied by the current rates of investment. This commitment would be benchmarked against calculations by the Asian Development Bank of the current average annual infrastructure spend by APEC economies.

Developing Asia will need to invest \$26 trillion from 2016 to 2030, or \$1.7 trillion per year, if the region is to maintain its growth momentum, eradicate poverty, and respond to climate change. Currently, the region annually invests an estimated \$881 billion in infrastructure.<sup>60</sup> Closing this infrastructure gap therefore implies a doubling of the current spend. Increasing spending by 40 per cent is an achievable first step.

The Ministerial process represents a framework for achieving this. Ministers should ensure greater standardisation across APEC in contracts, processes and documentation with more transparency and consistency to help redirect more global finance into infrastructure processes. This goes to having a greater emphasis on project preparation to ensure that projects are ‘bankable’, turning infrastructure into its own asset class.

A first step is to agree on principles for public and private investment in infrastructure, including the need for independent cost-benefit analysis of projects, open and competitive bidding to deliver projects, and strong governance to ensure investment delivers the intended economic and social outcomes. APEC’s public-private partnership centres are an important step in achieving more consistency and standardisation, as well as learning from each other’s policy experiences.

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<sup>60</sup> Asian Development Bank. (2017). Asia Infrastructure Needs Exceed \$1.7 Trillion Per Year, Double Previous Estimates. Asian Development Bank. News Release. 28 February.

#### ***4.5 Investment facilitation***

APEC's long-term goal should be an international framework on investment facilitation. The focus should be on fostering a transparent, predictable and efficient regulatory and administrative framework for investment that maximises the benefits to the host economy. APEC should begin by agreeing on collective principles, policies and actions to deliver this ambition. Over time, each member would commit to put these principles in place, providing a benchmark for APEC economies and a focal point for investors in assessing an economy's investment environment.

There are areas in which international collaboration and assistance on investment facilitation is clearly needed. Improving and standardising the processes around environmental, social and human rights impact assessments are key not only to protecting those issues and granting a 'social licence' for particular investments, but also for providing certainty and transparency for investors. Ensuring that investment is guided by sound governance principles is critical. A regional mechanism for capacity building and assistance with project evaluation would help strengthen decision making.

Regional dispute mechanisms to adjudicate cross-border disputes are more complex. But they provide a way to ensure that the economic and social outcomes intended from investment are delivered. Investment chapters of different treaties and agreements are vastly different. Agreeing to core principles on dispute settlement in such agreements could be a first step towards a more cohesive regional body for investment dispute settlement.

To develop and strengthen political support for investment, it is useful to explore barriers to investment generally and look at economies' experience with addressing those barriers and how they secured economic and social payoffs. The competition policy reviews will be a framework for this focus (Section 4.3). There is a clear political need to ensure that reductions in regulation or home-country preferment lead to economic and social benefits, and it is timely look at what has worked to ensure those benefits, such as adjustment support, better enforcement of safety regulations or local employment requirements.

#### ***4.6 Energy transformation***

Rising and shifting energy demand and the global energy transformation in shale gas, renewable energy and technology makes multilateral cooperation more important than ever. There is a risk that these transformations strain regional markets and relationships. Historically, energy policy has been a source of significant challenges. It has fueled geopolitical tensions, damaged human health, destroyed water aquifers and ecosystems, contributed to climate change, triggered recessions and wreaked economic havoc.

Post 2020, the demands on energy policy will be substantial. Policy must satisfy rising demand for energy, ensure energy security, catalyze substantial investment, reduce carbon emissions, protect the environment, manage radical changes in technology and be mindful of geopolitical tensions that can arise. The threat that energy becomes a global competitive struggle makes multilateral cooperation is more important than ever.

APEC should focus on three critical areas: multilateral governance, regulatory frameworks and technology. On governance, the International Energy Agency (IEA) currently excludes China, Indonesia, India and other emerging market economies which are now some of the largest energy consumers in the world.<sup>61</sup> The IEA's stockpiling obligations are becoming outdated as technologies change, such as the use of renewables and electric cars. APEC should develop a regional position on global energy governance to be prosecuted in global forums, including the IEA and the G20. This could include reforming the IEA to better reflect the global energy market or replacing the IEA with a new institution with a more modern approach to global energy security.

On regulatory frameworks, the focus should be on better coordination and transparency around the energy policies of APEC members, including domestic energy security policies. Better understanding how these policies fit together will provide the basis for exploring how coordination could result in more efficient policies on energy security that support market structures. There is much to be gained from having a better understanding of what works in the region to deliver low-cost energy and energy security. Innovative policies are being implemented around, for example, improving the energy efficiency of buildings. Rolling out such policies across the region could have substantial implications for carbon pollution and reducing the cost of energy.

Technology is profoundly reshaping energy markets, both through the energy mix (such as from the shale gas boom) and through advances in renewable energy and storage. Sharing policies and experiences on how to best harness and manage these technologies will help APEC economies ensure low cost energy and energy security. Avoiding a patchwork of inconsistent systems will require a strengthening of domestic energy frameworks, greater cooperation and more efficient integration.

## 5. Conclusion

APEC is a substantial economic and security asset for the region. APEC economies are uniquely placed in advancing an agenda of Shared Prosperity and have a significant incentive to do so. By celebrating its success on the Bogor Goals while strategically repositioning its agenda for the post-2020 world, APEC can invigorate the forum and remain at the forefront of regional cooperation for years to come.

The actions of APEC economies have dramatically improved the living standards of its citizens. APEC economies are trading more with the world, and each other, than ever before. Goods trade has increased four-fold. Services trade has increased six-fold. Average MFN tariffs have been reduced by more than two-thirds. Cross-border flows of investment, though they have edged back in the past few years, have been at an all-time high. There is, of course, much more to be done and there are immediate problems that

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<sup>61</sup> Although the IEA works with many of these economies through means other than full membership, this governance requires updating to better reflect the global reality.

need to be resolved on the way to framing the APEC agenda over the next 20 years. The goal of achieving ‘free and open trade in the Asia Pacific’ is never complete. But pausing to highlight the success of APEC will underscore the importance of the forum and the cost of retreat from its core objectives and principles.

The world has changed dramatically since 1994 and it will change even more dramatically after 2020. APEC requires a new agenda for a new era. The Bogor Goals acted as an aspirational focal point which articulated a common economic agenda and common view. A new focal point is required. An agenda of ‘Shared Prosperity’ can help deliver this.

The agenda must seek to engage all members in areas of common interest, while unequivocally opposing its attacks on the rules-based international order. The virtues of APEC’s non-binding approach should be advertised, reinforced by a modern agenda that breaks deadlocks and refocuses on critical new issues.

Fundamentally, APEC’s agenda must be ‘shared’. It must be focused on sharing the benefits of globalisation while mitigating its costs. It will require deliberate policies to open the global trading system to SMEs and domestic policy reforms on education, skills, retraining, tax and welfare. It will require harmonisation of regulations and access to regional finance for investment in education, skills, health and infrastructure.

A modern trade agenda sits at its core. APEC should not get bogged down in negotiations over a few sensitive goods. Readily achievable gains from better connectivity far exceed the potential gains from getting rid of all remaining traditional barriers to trade. Digital trade, services, integrating SMEs into the trading system, harmonising regulations on privacy and cross-border data flows and focusing on domestic competition policies will unlock the next wave of trade reform while better engaging the United States, China and the region.

Reframing the APEC trade agenda needs realistic acceptance of where that needs to start, in opening the way to progress on the big trade conflicts of today. APEC economies can work through initiatives with partners in Asia, including India and ASEAN, to open dialogue in APEC on a global framework for governance of digital trade, foreign investment and intellectual property — all major issues that will define the frontiers in international trade policy development in the decades ahead.

Infrastructure is another vital, though crowded policy area. There is strong political support for addressing the infrastructure gap in developing and developed APEC economies alike, but thus far this political support is yet to be effectively channelled into something that cooperatively delivers tangible results. APEC economies has no long-term interest in locking infrastructure development in its region into non-competitive blocs, APEC needs to lift the issue of infrastructure investment up to the political level so that the funding and delivery of major infrastructure projects within Asia and the Pacific is contestable, efficient and meets the highest possible international benchmarks. Members should create an APEC Infrastructure Ministers process and seek to include the widest possible and relevant participation in that process beyond the APEC economies. It should implement an APEC

Infrastructure Vision with the goal of ‘40 by 40’: a commitment to invest 40 per cent more public and private resources in infrastructure by the year 2040 than what is implied by the current rates of investment. The Ministerial process should focus on achieving greater standardisation across all areas of infrastructure investment, turning infrastructure into its own asset class.

APEC’s long-term goal should be an international framework on investment facilitation. The focus should be on fostering a transparent, predictable and efficient regulatory and administrative framework for investment that maximises the benefits to the host economy. APEC should begin by agreeing on collective principles, policies and actions to deliver this ambition. Over time, each member would commit to implement these principles, providing a benchmark for APEC reforms and a focal point for investors in assessing an investment environment. APEC economies should work with the objective of connecting this initiative to expanding the recently signed agreements on investment facilitation in the WTO.

Rising and shifting energy demand and the global energy transformation in shale gas, renewable energy and technology makes regional cooperation more important than ever. Though they open many new opportunities, there is a risk that these transformations strain regional markets and relationships. APEC economies have a vital interest in calibrating its own energy policies to these realities in regional energy markets and step-by-step engaging with APEC partners to establish an Energy Ministers group to work with the G20 in reforming global energy governance to include the major emerging market economies with a modern approach to global energy security.

Global energy transformation, technological advances and the need to create a low-carbon energy system to fight climate change makes energy a critical part of APEC’s post-2020 agenda. APEC should focus on three critical areas: governance, regulatory frameworks and technology. APEC should develop a regional position on global energy governance to be prosecuted in global forums. It should focus on better coordination and transparency around the energy policies of APEC members, including domestic energy security policies, and share policies and experiences on how to best harness and manage these technologies will help APEC economies ensure low cost energy and energy security.

By celebrating its success on the Bogor Goals while strategically repositioning itself and its agenda for the post-2020 world, APEC can reinvigorate the forum and remain at the forefront of regional cooperation for years to come.

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