



**DRAFT
BACKGROUND PAPER**

**Priority Area 1:
Improving the Narrative of Trade and Investment**

Purpose: Consideration

Submitted by: Malaysia

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A. INTRODUCTION

The basic foundation behind the establishment of APEC is regional economic integration. This has guided APEC economies to actively engage in consultation on trade and economic matters, which lead to the adoption of a long-term plan of free and open trade and investment in the region, the Bogor Goals. This goal will reach its maturity in 2020 therefore setting the path for a new Post-2020 Vision.

Regional economic integration has been an important driving factor to the economic growth of the region, in the past 30 years since APEC was formed. The region's economy grew from USD23.5 trillion in 1990 to USD66.2 trillion in 2018, an average of 3.7 per cent per year¹. This positive growth is currently facing slowdown as seen from the latest APEC trend analysis² with GDP on the decelerating path since mid of 2017.

This contraction can be related to the current landscape of the global economy that is causing uncertainties owing to the growing trade tension, rapid changes on industry trend and technologies, growing of anti-globalisation sentiments and unilateral protectionism measures. These are some aspects that APEC needs to keep in mind in charting the direction of APEC post-2020.

As APEC steps into the next chapter in 2020, it creates an opportunity to not only take stock of its current progress through the review of Bogor Goals, but also to venture into new areas that can value add to its existing works. It is pertinent more than ever for APEC to restore confidence of its people in trade, investment and multilateralism by improving the narrative of trade and investment. This can be done by embarking on discussions that focuses on balanced, inclusive and sustainable solutions through integration of regional economies which will lead to well-being of society.

¹ APEC Policy Support Unit (May 2019), 'APEC Regional Trend Analysis May 2019 A Region in Constant Change'

² APEC Policy Support Unit (November 2019), 'APEC Regional Trend Analysis Counting What Counts'

For a start, it can be on the practicality of Gross Domestic Product (GDP) as a measure of economic success that has prominent influence in policy making. GDP has its limitations given that it is an incomplete measure of the economy, and falls short on many aspects of economic growth and development. GDP measures the value of all goods and services produced within an economy and discounts quality, distribution, inclusion and sustainability. Besides, the era of technology will require a better measurement that is more representative of the complex economic interactions and impacts.

APEC has benefitted businesses by creating a favourable climate through trade and investment liberalisation and business facilitation. This has allowed businesses to thrive but to what extent has this prosperity been justly distributed for the benefit of people. The long-term trend in APEC points toward more inequality with the richest 5 per cent expected to increase their share while the share of the poorest 40 per cent gets smaller³. This calls for private sectors to play a larger role in narrowing the gap by embedding social impact models in their businesses, which can promote economic inclusion and bring positive social shifts.

These challenges necessitate appropriate and effective response by APEC economies. Therefore, Malaysia will facilitate discussion on, but not limited to, the following key areas:

- I. APEC Post-2020 Vision;
- II. Complementary Indicators - Beyond Gross Domestic Product (GDP); and
- III. Inclusive and Responsible Business

B. APEC POST-2020 VISION

The end of Bogor Goals requires for the development of a new set of goals for APEC post-2020. In 2017, Vietnam established a mechanism within the SOM process through the establishment of APEC Vision Group (AVG) to provide recommendations to SOM on the Post-2020 Vision. The AVG has submitted the Report on Post-2020 Vision to SOM at the third Senior Officials' Meeting

³ APEC Policy Support Unit (May 2019), 'APEC Regional Trend Analysis May 2019 A Region in Constant Change'

(3rd SOM) in Puerto Varas on 29-30 August 2019, and the final report will be deliberated at the Concluding Senior Officials' Meeting on 7 December 2019 in Singapore.

At the Third SOM in Puerto Varas, Chile, APEC economies expressed their support for Malaysia to lead the process for developing the Post-2020 Vision. Following this mandate, Malaysia will set in motion the process according to the Timeline for the Adoption of the Post 2020 Vision adopted by SOM. The AVG's Recommendations in combination with the proposed frameworks by the Pacific Economic Cooperation Council (PECC) and APEC Business Advisory Council (ABAC) will be used as basis for the development of draft document for discussion among SOM.

Notwithstanding, where relevant, the outcomes of the Bogor Goals Review in 2020 will feed into the document depending on the drafting process. Towards this end, the Review of Bogor Goals in 2018 found that although many areas have shown progress, there are a number of areas that needs improvement.

To illustrate, tariffs in agriculture are still higher than those imposed on non-agricultural products, new emerging unilateral restrictions in services are appearing, trade remedies have increased in recent years, and there is an accumulation of specific trade concerns in areas such as sanitary and phytosanitary measures. These areas provide APEC with the opportunity to identify potential initiatives that will advance the remaining issues of the Bogor Goals towards their conclusion.

The final review of the Bogor Goals, through the IAPs, will be carried out by PSU in 2020. This review is critical since the outcomes will determine the final outstanding areas that were not able to be achieved. This will set the path for further deliberation on the next course of action for these particular areas.

Activities and Outcomes:

- To convene a Multi-Stakeholders Dialogue (MSD) on APEC Post-2020 Vision at the margins of SOM1;
- Work with PSU on the final review of the IAPs: SOM1-SOM3; and

- To formulate the APEC Post-2020 Vision together with the other Economies.

C. COMPLEMENTARY INDICATORS - BEYOND GROSS DOMESTIC PRODUCT (GDP)

Since the mid-twentieth century, GDP has become the world's most powerful indicator of national development and progress. This is because GDP is the primary indicator of a government's performance in managing the economy and APEC economies have been claiming its progress on the basis of GDP amount and growth. Furthermore, positive and continuous growth of GDP corresponds to greater economic resources and income that in turn can be used to improve standards of living. In the absence of anything better, this is the only metric on hand for policymakers while framing policy despite Simon Kuznets, who defined the modern version of GDP in the 1930s, specifically cautioned against using it as a measure of welfare.

More and more debates are taking place of its relevance and applicability in the present context, and real impact on people's well-being. It is widely accepted that GDP does not tell us anything about the quality of goods and services produced, the distribution of economic benefits, the environmental outcomes, well-being of people in the much more complex world of rapidly evolving technologies.

Given this, Malaysia will pioneer discussion on Beyond GDP by taking stock of the alternative economic indicator models that have been put in motion by other economies that incorporates economic, social and environmental elements, which are not captured in traditional statistics. The outcomes can be used as basis for continuing this conversation in the coming years to develop a better economic measurement model for the region. APEC Leaders have been calling for balanced, inclusive, sustainable, innovative and secure growth since 2010, and alternative measurements will strengthen the policy sphere of APEC.

In addition, this augurs well with the characteristic of APEC as incubator of ideas. Hence, new conversation on developing measures of wellbeing beyond

GDP that can better represent a country's progress on the basis of growing inequality, can value add to APEC's work in addressing the regional inequality within and between economies for a future of shared prosperity.

Activities and Outcomes:

- To commence discussion on Beyond GDP at the Economic Committee (EC) at SOM1 and continue throughout 2020.
- To convene a MSD on Complementary Indicators - Beyond GDP at the margins of SOM2.

D. INCLUSIVE AND RESPONSIBLE BUSINESS AND INVESTMENT

Members of the public are becoming more conscious on the impact that businesses have on their life, society and environment. Similarly, companies are also exploring new business models that are both commercially viable and socially relevant, moving away from the traditional corporate social responsibility, to future proof their businesses.

In 2015, APEC Ministers instructed officials to undertake more work on understanding inclusive business and its role in sustainable and inclusive growth through sharing of experiences. Following this, the comprehensive report on APEC Inclusive Business completed in 2017 had numerous recommendations that APEC economies can undertake to promote inclusive business. Among the recommendations that is of interest to Malaysia is to make inclusive and responsible business practise fundamental to day-to-day activities and long-term strategies of companies, and integrating the agenda on inclusive business in other APEC working group beside Investment Experts Group (IEG).

By way of responding to this, Malaysia plans to engage in dialogues with the private sector by working closely with the APEC Business Advisory Council (ABAC) to strengthen the inclusive and responsible business agenda in APEC. While general investment and trade promotion in APEC economies have led to economic growth in the region, establishing an enabling ecosystem for domestic and foreign direct investments through inclusive and responsible

business will provide the foundation for achieving inclusive and sustainable development.

Activities and Outcomes:

- To convene a Public-Private Dialogue on Inclusive and Responsible Business at the margins of SOM3
- To strengthen collaboration and partnership between different APEC fora, ABAC and private sector to ensure continuation of the discussion in the coming year
- To make Inclusive and Responsible Business and Investment a permanent agenda of IEG