



Asia-Pacific
Economic Cooperation

Advancing Free Trade
for Asia-Pacific Prosperity

APEC AT 30

A REGION IN CONSTANT CHANGE

APEC Regional Trends Analysis
May 2019 Theme Chapter

Policy Support Unit

APEC AT 30 A REGION IN CONSTANT CHANGE

Asia-Pacific Economic Cooperation (APEC) was established in 1989. The 21 Member Economies are Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; the Philippines; Russia; Singapore; Chinese Taipei; Thailand; the United States; and Viet Nam.

APEC Policy Support Unit (PSU) is the policy research and analysis arm of APEC, comprising openly recruited professionals working together with APEC Senior Officials, committees and fora, in improving the quality of their deliberations and decisions and promoting policies that support the achievement of APEC's goals, by providing objective and high quality research, analytical capacity and policy support capability.

APEC at 30 is a theme chapter from the May 2019 report of APEC Regional Trends Analysis, which the PSU publishes on a biannual basis. If you have any feedback, please write to us at psugroup@apec.org.

THE BEGINNINGS¹

The seeds of APEC were sown in 1988, when international trade officials in Australia and Japan started discussing the idea of organising meetings for regional economic ministers.² In 1989, Robert Hawke, then the Prime Minister of Australia, publicly broached the idea of APEC for the first time during a speech to business groups in Seoul.³ In his speech, Hawke advocated the creation of 'a more formal intergovernmental vehicle of regional co-operation'.⁴ He observed:

A meeting of ministers from throughout the region would be a useful forum to investigate the question [of how to push regional cooperation]. What we are seeking to develop is a capacity for analysis and consultation on economic and social issues, not as an

academic exercise but to help inform policy development by our respective governments.

It was clear from the beginning that the intention of this forum was to develop a regionalism that is outward-looking and non-discriminatory. APEC was meant to be an 'Asian OECD' that would enable regional consultation on trade and economic matters but not emulate a trading bloc.⁵ Its foundation was to be based on principles that had proven to be successful in promoting regional cooperation in the Pacific Economic Cooperation Council (PECC) and the Association of Southeast Asian Nations (ASEAN). According to P. Drysdale, these principles are:⁶

- Openness: To pursue wider participation with non-discriminating and transparent economic policies

- Equality: To be mutually beneficial for all participants while keeping the differences in economic and political structures in mind
- Evolution: To ensure the employment of a gradual, sustainable and pragmatic approach to cooperation based on consensus building

Hawke's announcement was just the beginning of the work to realise APEC. In March 1989, officials from Japan's Ministry of Economy, Trade and Industry (METI) visited some economies in the region to hear the reactions to Hawke's proposal, which served as groundwork to develop consensus for the idea. This was followed by what would be termed the Woolcott Mission, named after Australia's Department of Foreign Affairs and Trade (DFAT) Secretary Richard Woolcott, in April and May 1989. The first Woolcott Mission visited ASEAN economies, who

¹ Prepared by Emmanuel A. San Andres and Satvinderjit Kaur Singh, APEC Policy Support Unit (PSU).

² T. Terada, *The Genesis of APEC: Australia-Japan Political Initiatives* (Canberra: Australia-Japan Research Centre, Crawford School of Public Policy, The Australian National University, 1999).

³ A. Elek, "Back to Canberra: Founding APEC", in K. Kim and S. Young, *The Evolution of PECC: The First 25 Years* (Singapore: PECC International Secretariat, 2005), 65-85.

⁴ B. Hawke, Speech by the Prime Minister: "Regional Co-operation: Challenges for Korea and Australia", *Luncheon of Korean Business Associations*, Seoul, 31 January 1989, <http://pmtranscripts.pmc.gov.au/release/transcript-7475>

⁵ Terada, *The Genesis of APEC*.

⁶ P. Drysdale, *International Economic Pluralism: Economic Policy in East Asia and the Pacific* (Sydney: Allen and Unwin, 1988).

provided an overall positive feedback on the initiative. The second Woolcott Mission visited Canada; China; Hong Kong, China; and the United States.⁷

By the end of Woolcott's visits, the idea of APEC had gained strong momentum. The ensuing Woolcott report emphasised that the initiative was not to be viewed as a step toward creating a trade bloc but rather as a platform to discuss economic and trade issues. More specifically the following benefits were outlined in the report:

- Sustain positive economic trends by sharing policy practices and experiences
- Identify common interests and knowledge bases to strengthen collective capacity for analysis and formulation of policies
- Smoothen the path for trade liberalisation in the region
- Strengthen the collective voice in projecting and protecting regional interests at international economic negotiations
- Improve the probability of success of the

Uruguay Round and similar subsequent rounds of multilateral negotiations

- Alleviate future trade problems among member economies by providing a platform to voice out differences rather than engaging in harmful forms of retaliation

Following the Woolcott report, work began on the potential agenda, membership status and organisational details in preparation for the first APEC Ministerial Meeting (AMM) that was to be held in Canberra.

Picture 1: **The first AMM, 5-6 November 1989, Canberra**



Source: APEC Secretariat.

The first APEC meeting held on 5 - 6 November 1989 was attended by trade and foreign ministers from the 12 founding member economies: Australia; Brunei Darussalam; Canada; Indonesia; Japan; Korea; Malaysia; New Zealand; the Philippines; Singapore; Thailand; and the United States.⁸ The meeting confirmed the economies' interest in initiating a process of cooperation to tackle economic and social issues. It was further decided that a second meeting will be held in Singapore in 1990 and a third in Seoul in 1991.⁹

The first AMM was followed by meetings among Senior Officials in March and May 1990 in Singapore where APEC's work programme and focus areas were discussed. By the second AMM in Singapore in July 1990, seven work projects had been initiated by the Ministers, focusing on:¹⁰

- Review of Trade and Investment Data
- Trade Promotion
- Expansion of Investment and Technology Transfer
- Multilateral Human Resource Development
- Regional Energy Cooperation
- Marine Resource Conservation
- Telecommunications

These projects show that from the beginning, APEC's agenda was not only about cross-border trade and investment, but also covered inclusive, sustainable and innovative economic growth.

Another important discussion at the 1990 AMM was the membership of China; Hong Kong, China; and Chinese Taipei. The Ministers agreed to set up consultations with the economies, and at the 1991 AMM, the

three economies became members of APEC and were invited to participate in the next AMM.¹¹ The APEC community further grew in 1993 with the entry of Mexico and Papua New Guinea, followed by Chile in 1994. In 1998, Peru; Russia; and Viet Nam joined APEC, forming today's 21 member economies.¹²

⁷ Terada, *The Genesis of APEC*.

⁸ "History", APEC, accessed 25 April 2019, <https://www.apec.org/About-Us/About-APEC/History>.

⁹ Elek, A. "APEC: Genesis and Challenges", in K. Kesavapany and H. Lim, *APEC at 20: Recall, Reflect, Remake* (Singapore: Institute of Southeast Asian Studies, 2009), 1-14.

¹⁰ "1990 APEC Ministerial Meeting, Singapore, 29 July 1990", APEC, accessed 23 April 2019, https://www.apec.org/Meeting-Papers/Annual-Ministerial-Meetings/1990/1990_amm.

¹¹ "1991 APEC Ministerial Meeting, Seoul, Korea, 12 November 1991", APEC, accessed 23 April 2019, https://www.apec.org/Meeting-Papers/Annual-Ministerial-Meetings/1991/1991_amm.

¹² "History", APEC, accessed 25 April 2019, <https://www.apec.org/About-Us/About-APEC/History>.

A CHANGING REGION

In the 30 years since APEC was formed, the region's economy has expanded by leaps and bounds. In real terms (measured in 2011 PPP international dollars), the region's economy grew from USD 23.5 trillion in 1990 to USD 66.2 trillion in 2018, an average of 3.7 percent per year.

This remarkable economic growth also led to rising average incomes in the region. Average per capita GDP in APEC rose from USD 10,258 in 1990 to USD 22,000 in 2017, an average growth of 2.8 percent per year. APEC's economic achievement has also contributed to a narrowing of the gap between the region's highest and lowest per capita GDP. In 1990, the highest per capita GDP in the region was more than 58 times higher than the lowest; by 2017, this was down to 22 times (Figure 1).

Figure 1: **Real per capita GDP in APEC, 1990-2017**

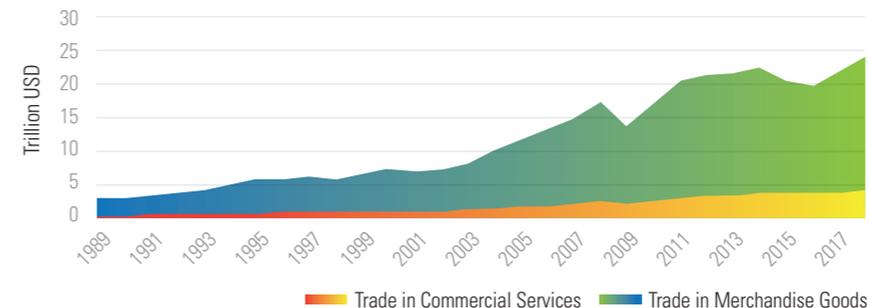


Notes: Regional average per capita GDP is weighted by population. Ratio shows the highest per capita GDP divided by the lowest per capita GDP in the region.
Source: IMF, World Bank, StatsAPEC and APEC PSU staff calculations.

A key driver of APEC's economic growth over the past three decades has been international trade. The total value of APEC's trade rose from USD 3.1 trillion in 1989 to USD 24.0 trillion in 2018, an average growth rate of 7.1 percent per annum (Figure 2). From 1989

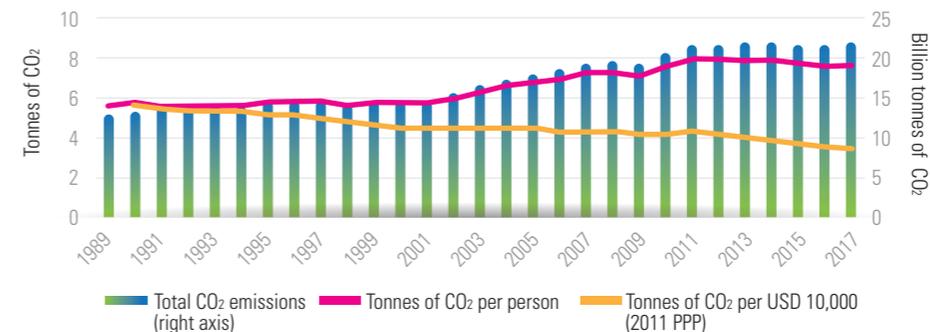
to 2011, real trade growth outpaced GDP growth, save for a few exceptions. However, since 2012, trade has started to take a back seat as the key driver of economic activity, being replaced by domestic consumption as the consistent engine of growth.¹³

Figure 2: **Value of APEC trade in current USD, 1989-2018**



Note: APEC trade is the sum of imports plus exports.
Source: WTO, StatsAPEC and APEC PSU staff calculations.

Figure 3: **Carbon dioxide emissions in APEC, 1989-2017**



Source: Global Carbon Atlas, StatsAPEC and APEC PSU staff calculations.

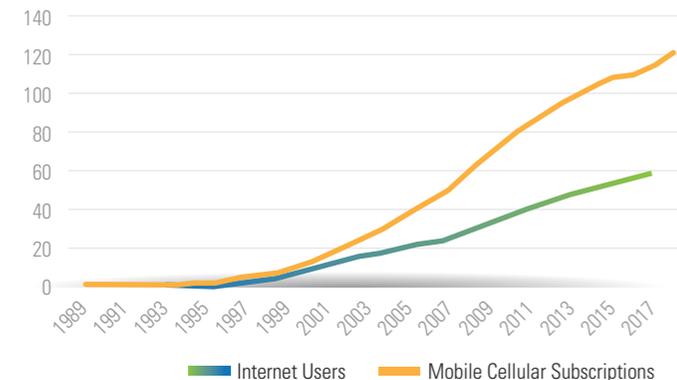
As APEC's economy has grown over the past 30 years, so has its environmental footprint. Total carbon dioxide emissions in the region increased from 12.8 billion tonnes in 1989 to 22.1 billion tonnes in 2017, growing at an average annual rate of 2.0 percent (Figure 3). The average person in the APEC region is also more carbon-intensive now than three decades ago: per capita carbon dioxide emissions went up from 5.7 tonnes in 1989 to 7.6 tonnes in 2017. On the other hand, data point to less carbon-intensive production methods in the region: carbon dioxide emissions for every USD 10,000 of real GDP (in 2011 PPP terms) went down from 5.6 tonnes in 1990 to 3.5 tonnes in 2017. Policy efforts at promoting sustainable growth and the application of more environment-friendly technologies may have contributed to this achievement.

The past three decades have also seen a massive shift in technology in the APEC region. In 1989, less than one person per 100 people had access to the internet or a mobile phone; by 2017, more than half of the people in the region were connected to the internet

¹³ APEC, "Structural Reform for Resilient and Inclusive Growth" (Singapore: APEC, 2015), <https://www.apec.org/Publications/2015/08/Structural-Reform-for-Resilient-and-Inclusive-Growth>.

and there were more mobile phone subscriptions than people (Figure 4). This massive growth in technology use and penetration has led to great changes – some say disruption – to economic activity, trade, employment and society.

Figure 4: **Digital technology per 100 people in APEC, 1989-2017**

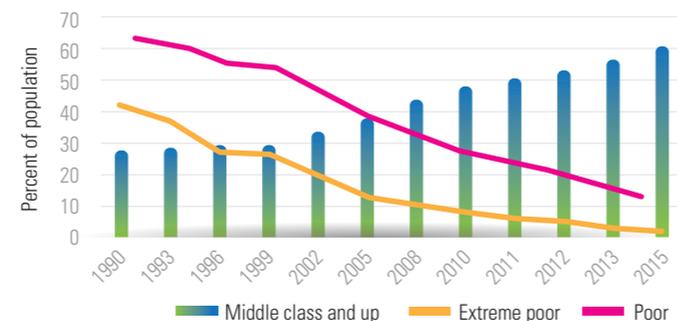


Source: International Telecommunication Union and StatsAPEC.

¹⁴Intuitively, extreme poverty is a level of consumption that is just enough to cover the minimum food intake for human survival (around 1,800 kilocalories per day for an adult). Poverty is a level of consumption that is just enough to cover basic necessities such as food and shelter.

The APEC region has witnessed some of the most spectacular reductions in poverty in history. There are about 1 billion fewer poor people in the region now compared to when APEC began. The ‘extreme poverty’ rate in APEC fell from 41.7 percent to 1.8 percent between 1990 and 2015, while the ‘poverty’ rate fell from 63.1 percent to 13.4 percent.¹⁴ Meanwhile, the middle income and higher segment expanded from 27.8 percent of the population in 1990 to 61.0 percent in 2015 (Figure 5).

Figure 5: **Poverty and affluence in APEC, 1990-2015**

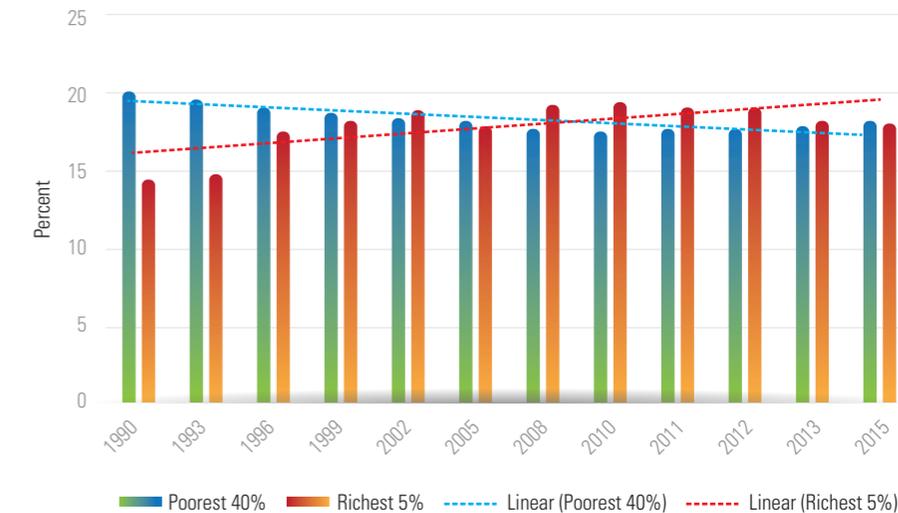


Note: The extreme poor are defined as people living on USD 1.90 or less per person per day in 2011 PPP terms. The poor are defined as people living on USD 3.80 or less per person per day in 2011 PPP terms. The middle class and up are defined as people living on USD 7.60 or more per person per day in 2011 PPP terms. Data cover Australia; Canada; Chile; China; Indonesia; Japan; Korea; Malaysia; Mexico; Papua New Guinea; Peru; the Philippines; Russia; Thailand; the United States; and Viet Nam.
Source: World Bank's Povcal database and APEC PSU staff calculations.

The APEC region's success in reducing extreme poverty is especially remarkable. Between 1990 and 2015, the number of extremely poor people in the region dropped by more than 888 million, of which China contributed 83.5 percent (742 million). China reduced extreme poverty by 98.7 percent during this period, while the rest of APEC reduced it by 78.1 percent. A large part of China's success in extreme poverty reduction was its ability to ensure access to basic services and equalise pathways to opportunity, broadly enabling its population to take advantage of the benefits of economic liberalisation and rapid growth.¹⁵

However, the trend in APEC points toward more inequality, rather than less. In 2015, the poorest 40 percent of the population and the richest 5 percent of the population earned roughly the same share of the region's total income – around 18 percent for each group (Figure 6).¹⁶ Long-term trends also point to worsening inequality, with the richest 5 percent expected to increase their share while the share of the poorest 40 percent gets smaller.

Figure 6: **Share of total income, by income group, in APEC, 1990-2015**



Note: Bars show average within-economy income shares weighted by population. Data cover Australia; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; the Philippines; Russia; Singapore; Chinese Taipei; Thailand; the United States; and Viet Nam.
Source: World Bank's Povcal database, economy sources and APEC PSU staff calculations.

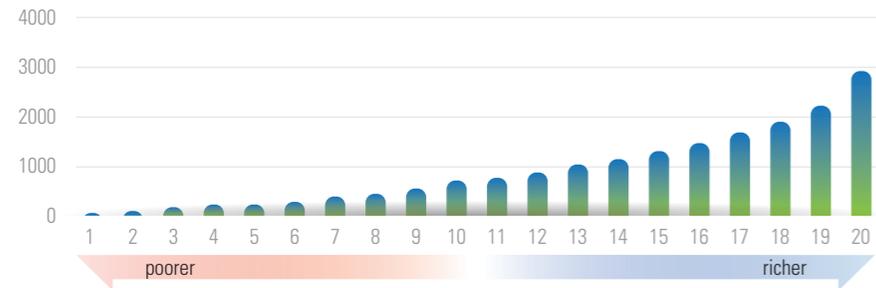
¹⁵M. Ravallion, "A Comparative Perspective on Poverty Reduction in Brazil, China, and India", *The World Bank Research Observer* 26, no. 1 (2011): 71-104.

¹⁶It is important to note that this analysis is on income flows and not wealth. Income is based on wages, salaries or returns on investments earned at a specific point in time. Wealth is an accumulation of assets, which includes endowments (e.g., inherited wealth), savings, and physical or intangible assets (e.g., real estate or intellectual property). Hence, a small income gap leads to a large wealth gap because of the accumulation of savings and assets over time.

The diverging fortunes of richer and poorer segments of the population can be seen in Figure 7 showing changes in monthly real income by income group. Each group represents 5 percent of the population – or ventile – with group 1 being the poorest and group 20 being the richest. The chart shows that all income groups have experienced an increase in real income in 1990-2015. This explains the poverty reduction and rise of the middle class seen in Figure 5. However, the chart also shows that

income growth has not been equal or pro-poor during this time. Between 1990 and 2015, monthly income per person among the poorest 5 percent of the population grew from USD 64 to USD 114 per person per month in 2011 PPP dollars – an increase of USD 50 in real terms. In comparison, real per capita monthly income among the richest 5 percent of the population went from USD 4,098 to USD 7,025 per person per month, or an increase of almost USD 3,000.

Figure 7: **Increase in real monthly per capita income, by ventile group, in APEC, 1990-2015 (in 2011 PPP dollars)**



Note: Ventiles refer to 5-percent groups of the population according to income, forming 20 groups with ventile 1 being the poorest and ventile 20 being the richest. Data cover Australia; Canada; Chile; China; Indonesia; Japan; Korea; Malaysia; Mexico; Papua New Guinea; Peru; the Philippines; Russia; Thailand; the United States; and Viet Nam. Aggregates are weighted by population. Source: World Bank's Povcal database and APEC PSU staff calculations.

APEC IN THE NEXT 30 YEARS

A review of past APEC statements reflects the constant focus on trade and economic issues as well as changing priorities over the past 30 years. A word cloud analysis of Ministerial- or Leader-level APEC statements shows that trade and economic issues are consistently mentioned. These two categories are among the most frequently cited concepts in almost all the past statements. They are followed by growth, development, investment and cooperation. These frequently cited concepts point to the focus areas of APEC in the past three decades (Figure 8).

The word cloud analysis also shows how APEC has changed in tandem with a dynamic economic landscape. In the 1990s, concepts such as liberalisation, sustainable, social and community were being mentioned. In the early 2000s, concepts of security and energy were in frequent use. By the 2010s, inclusive and sustainable growth as well as innovation and digital were being frequently cited. In fact, in

Figure 8: **Word clouds of APEC statements, 1989-2018**



Note: A word cloud is a graphical representation of word frequency in a text or set of texts. These word clouds were automatically generated with non-relevant words filtered out. Ministerial Statements were used for 1989-1992, Leaders' Declarations were used for 1993-2017, and the Era Kone Statement was used for 2018. Source: APEC Secretariat.

the 2018 Era Kone Statement, digital was the most cited concept, surpassing even trade and the economy in frequency of citation. These changing priorities reflect the challenges facing the region throughout its 30-year history: the thrust toward globalisation and economic liberalisation in the 1990s, concerns about human security and terrorism in the 2000s, the drive toward environmental sustainability and inclusion in the 2010s, and addressing the impacts of a digital economy in more recent years.

Thirty years ago, APEC stood on the cusp of a changing world, one about to be more globally integrated and connected than ever

before. Before it lay a future to be defined by international trade and global value chains, the increasing importance of finance and other services, and the start of the digital revolution. By identifying seven diverse work areas in 1990, APEC took a holistic approach to economic policy cooperation that addressed both cross-border and behind-the-border issues. APEC met these challenges head-on through regional cooperation, multilateralism and the incubation of new ideas. Today, APEC once again considers its future direction. In 2020, APEC Leaders, with inputs from the APEC Vision Group and other stakeholders, will lay out their vision and direction for the region in the next decades.

The APEC region faces unprecedented challenges in the coming decades. Rising inequality and damage to social cohesion threaten to tear apart the hard-won consensus on trade and globalisation. Unabated damage threaten not only future economic growth but also the existence of some economies. And the arrival of advanced digital technologies and artificial intelligence threatens to disrupt how we work, how we choose and how we organise. APEC will need to strengthen the spirit of 1989 – cooperative, holistic and innovative – if it is to step up to the challenges of the next 30 years.



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