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APEC at 30 : a region in constant change

Provided in Cooperation with:

Asia-Pacific Economic Cooperation (APEC), Singapore

Reference: (2019). APEC at 30 : a region in constant change. Singapore : Asia-Pacific Economic Cooperation Secretariat.

This Version is available at:

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**Asia-Pacific
Economic Cooperation**

Advancing Free Trade
for Asia-Pacific **Prosperity**

APEC REGIONAL TRENDS ANALYSIS

APEC at 30: A Region in Constant Change

APEC Policy Support Unit

May 2019

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Produced for:
APEC Ministers Responsible for Trade Meeting
Asia-Pacific Economic Cooperation

APEC#219-SE-01.5



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KEY ABBREVIATIONS

AMM	APEC Ministerial Meeting
APEC	Asia-Pacific Economic Cooperation
FDI	foreign direct investment
FOMC	Federal Open Market Committee (United States)
GDP	gross domestic product
IMF	International Monetary Fund
NEER	nominal effective exchange rate
OECD	Organisation for Economic Co-operation and Development
PPP	purchasing power parity
PSU	Policy Support Unit (APEC)
UNCTAD	United Nations Conference on Trade and Development
WEO	World Economic Outlook
WTO	World Trade Organization

KEY MESSAGES

I. APEC at 30: A Region in Constant Change

- APEC was formed in 1989 to develop ‘a capacity for analysis and consultation on economic and social issues, not as an academic exercise but to help inform policy development’. It was also meant to serve as a platform to voice out future trade issues rather than engaging in harmful forms of retaliation.
- The first APEC Ministerial Meeting (AMM) held in November 1989 was attended by the 12 founding member economies: Australia; Brunei Darussalam; Canada; Indonesia; Japan; Korea; Malaysia; New Zealand; the Philippines; Singapore; Thailand; and the United States. Seven projects were endorsed during the second AMM in 1990, covering areas such as trade and investment, technology transfer, telecommunications, marine resource conservation, and human resource and skills development.
- Since APEC’s founding, the region has experienced massive changes. The regional economy has increased from USD 23.5 trillion in 1990 to USD 66.2 trillion in 2018, growing at an average of 3.7 percent per year. This economic growth has led to rising average incomes, contributing to vast reductions in poverty and an expanding middle class. Trade has been a key driver of growth, while new technologies have pushed the boundaries of the global economy.
- But this growth has not been shared equally. Long-term trends are toward more inequality, rather than less, as income gaps between poorer and richer segments of the population widen. And despite the use of more environment-friendly technologies, the region’s carbon footprint continues to grow.
- APEC declarations have reflected the region’s focus as well as its changing priorities over the last three decades: 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 that was about to be more globally integrated and connected than ever before. It took a holistic approach to economic policy cooperation that addressed both cross-border and behind-the-border issues, meeting these challenges through regional cooperation, multilateralism and the incubation of new ideas.
- The region faces unprecedented challenges in the coming decades with rising inequality, unabated damage to the environment, and digital disruptions. 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.

II. Sustaining APEC Growth: A Delicate Balancing Act

- The global economy grappled with heightened policy uncertainty in 2018, marked by trade tensions that translated into the imposition of tariffs and counter-measures. The adverse impact of trade tensions is reflected in the uneven growth across APEC economies in 2018, even as the region posted a modest GDP growth of 4.1 percent in 2018 from 4.0 percent in 2017.
- However, the rate of economic expansion has slowed in APEC. The steady deceleration in GDP growth starting in the second half of 2017 coincided with the announcement of trade-restrictive measures in the third quarter of 2017, escalating into the imposition of tariffs and counter-measures in 2018.
- Trade performance in the APEC region was also negatively affected, with growth in the value and volume of merchandise trade declining in 2018 compared to 2017. In particular, the volume of merchandise exports was significantly down to 4.1 percent in 2018 after a strong recovery to 6.2 percent in 2017 from the level in 2016.
- Accompanying weaker trade growth is an increase in the number of trade-restrictive measures implemented by APEC economies during the period mid-October 2017 to mid-October 2018 compared to previous periods, equivalent to 59.7 percent of total trade and trade-related measures.
- In the short term, over the period 2019–2021, the APEC region is expected to grow at a slower pace, in line with global trends. In 2019, APEC is projected to grow by 3.8 percent, notably lower than the 4.1 percent GDP growth in 2018, with the rest of the world (non-APEC economies) slowing down to 2.8 percent; overall, total world output is estimated to grow considerably less at 3.3 percent. From 2020 until the medium term, GDP growth for APEC and the rest of the world is projected to track within the 3.5–3.7 percent range.
- Risks remain tilted toward the downside, largely emanating from trade tensions that could undermine further global trade, investment and output; and policy uncertainty, including trade policies and prolonged Brexit negotiations that could negatively affect investor confidence. A greater-than-expected economic slowdown in China could also impact on global growth and APEC growth in particular, with repercussions to its partner economies via channels such as trade, investment and tourism. The upside potential for growth could come from the quick and positive resolution of trade tensions that should significantly reduce uncertainty.
- For the APEC region, sustaining economic growth amid trade tensions and policy uncertainty while having to contend with idiosyncratic factors is a delicate balancing act that requires implementing measures to support continued expansion while ensuring that growth remains sustainable and inclusive.

- Thus, it is timely to revisit the APEC Strategy for Strengthening Quality Growth 2015–2020. APEC has the unique advantage of being comprised of members from different income groupings and in various stages of economic, financial and technological development. This affords APEC a deeper understanding of the appropriate and feasible initiatives and policy reforms that need to be implemented to ensure that growth is not only sustained at a higher level but also that economic gains are widely shared, with social programmes for the marginalised and vulnerable.

1 APEC AT 30: A REGION IN CONSTANT CHANGE¹

1.1 THE BEGINNINGS

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

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).

(DFAT) Secretary Richard Woolcott, in April and May 1989. The first Woolcott Mission visited ASEAN economies, who 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 1.1 The first AMM, 5–6 November 1989, Canberra



Source: APEC Secretariat.

⁷ Terada, *The Genesis of APEC*.

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

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

⁹ A. Elek, "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.

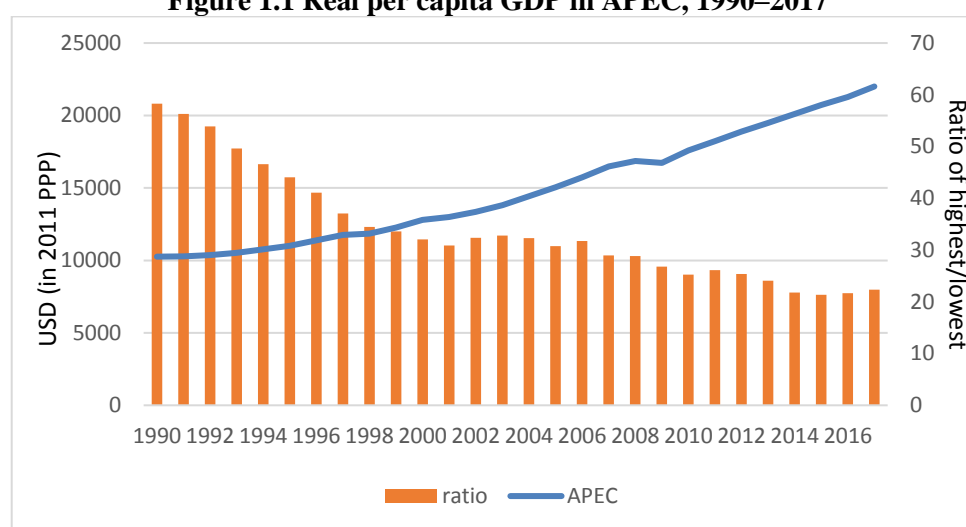
¹² APEC, "History".

1.2 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 1.1).

Figure 1.1 Real per capita GDP in APEC, 1990–2017

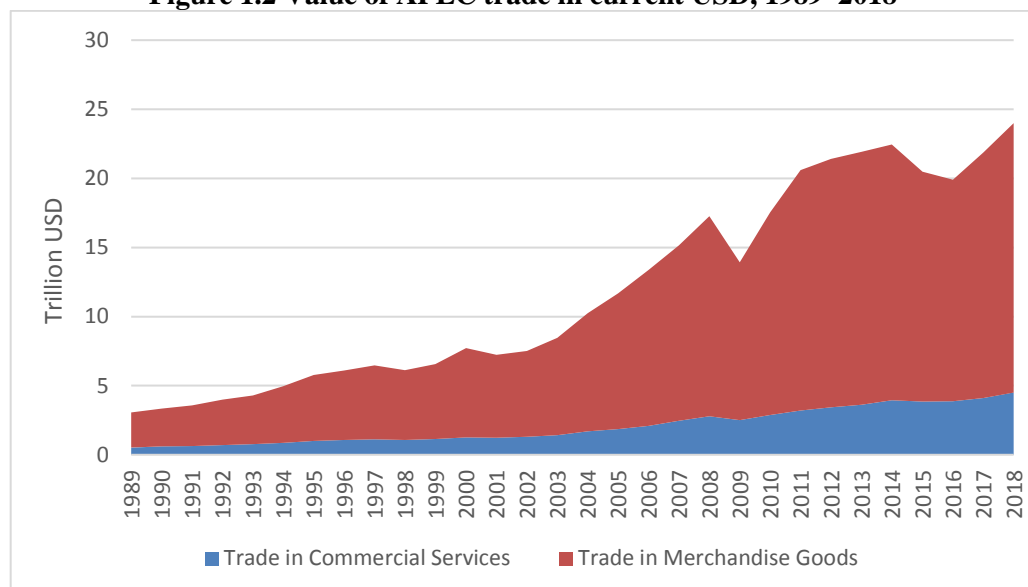


Note: Regional average per capita GDP is weighted by population. Ratio shows the highest per capita GDP divided by the lowest per capita GDP in the region.

Source: IMF; World Bank; StatsAPEC; 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 1.2). 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

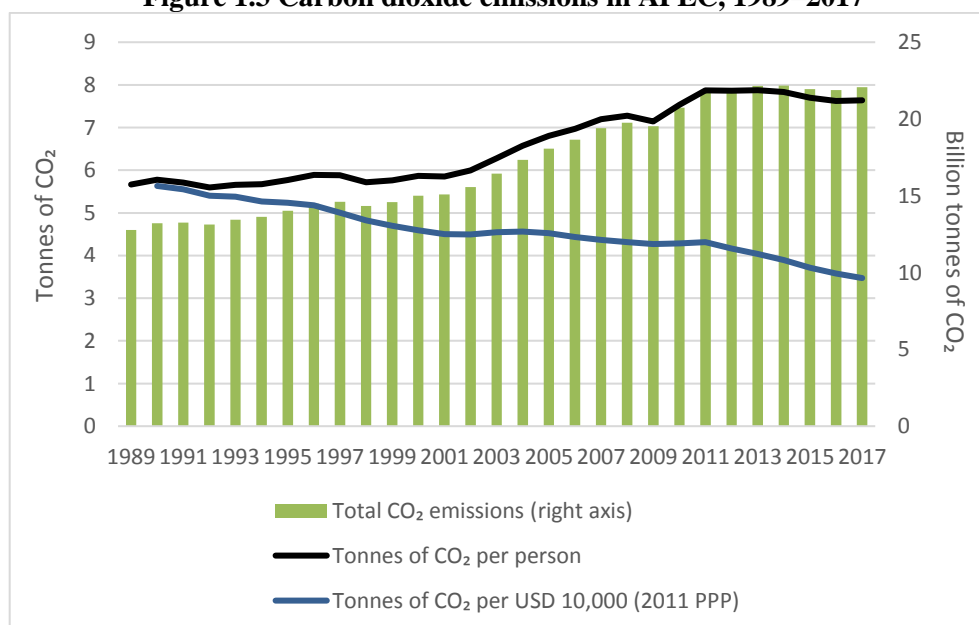
¹³ APEC, "Structural Reform for Resilient and Inclusive Growth" (Singapore: APEC, 2015), <https://www.apec.org/Publications/2015/08/Structural-Reform-for-Resilient-and-Inclusive-Growth>.

Figure 1.2 Value of APEC trade in current USD, 1989–2018

Note: APEC trade is the sum of imports plus exports.

Source: WTO; StatsAPEC; APEC PSU staff calculations.

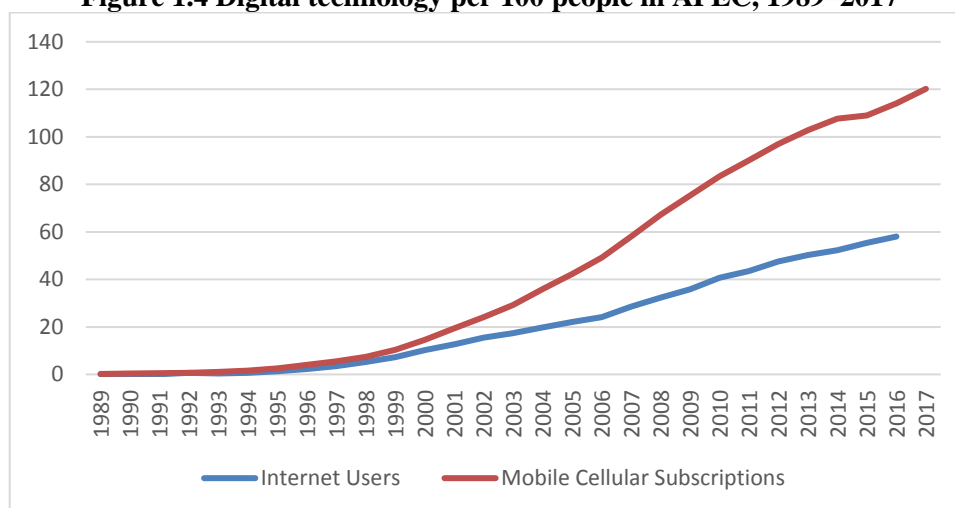
As APEC's economy has grown over the past 30 years, so has its environmental footprint. Total carbon dioxide emissions in the region increased from 12.8 billion tonnes in 1989 to 22.1 billion tonnes in 2017, growing at an average annual rate of 2.0 percent (Figure 1.3). The average person in the APEC 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.

Figure 1.3 Carbon dioxide emissions in APEC, 1989–2017

Source: Global Carbon Atlas; StatsAPEC; APEC PSU staff calculations.

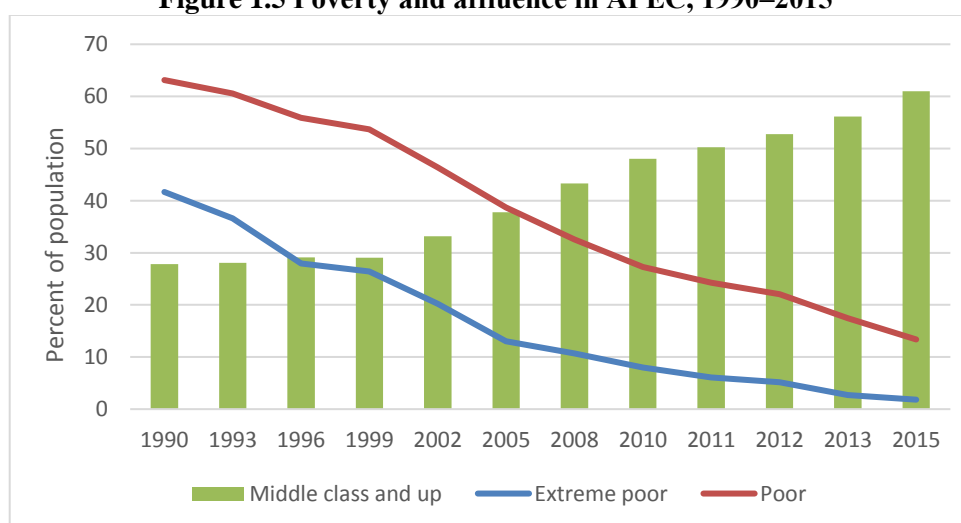
The past three decades have also seen a massive shift in technology in the APEC region. In 1989, less than one person per 100 people had access to the internet or a mobile phone; by 2017, more than half of the people in the region were connected to the internet and there were more mobile phone subscriptions than people (Figure 1.4). This massive growth in technology use and penetration has led to great changes – some say disruption – to economic activity, trade, employment and society.

Figure 1.4 Digital technology per 100 people in APEC, 1989–2017



Source: International Telecommunication Union; StatsAPEC.

Figure 1.5 Poverty and affluence in APEC, 1990–2015



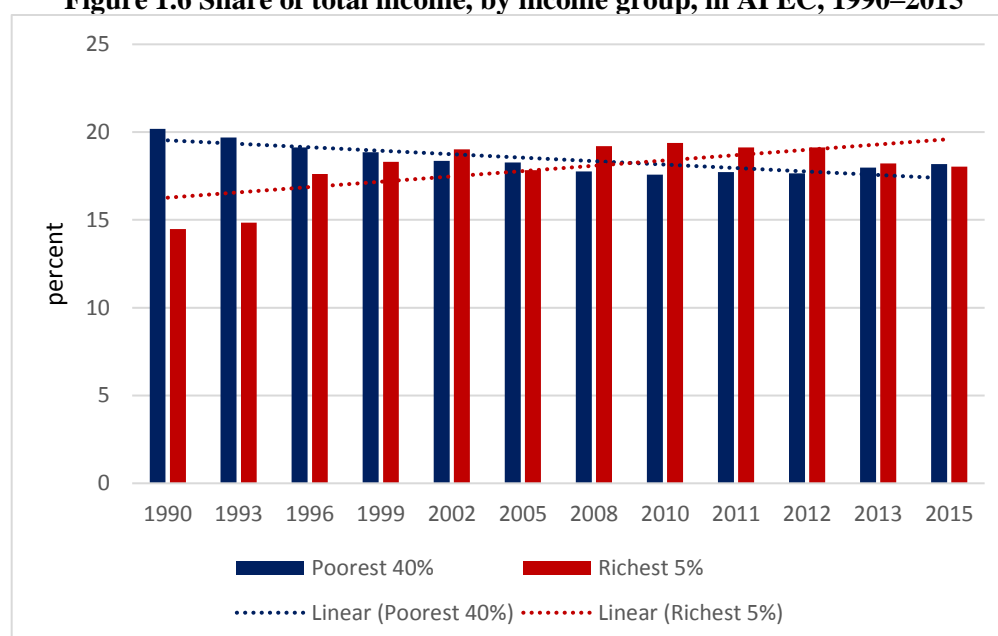
Note: The extreme poor are defined as people living on USD 1.90 or less per person per day in 2011 PPP terms. The poor are defined as people living on USD 3.80 or less per person per day in 2011 PPP terms. The middle class and up are defined as people living on USD 7.60 or more per person per day in 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; APEC PSU staff calculations.

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 1.5).

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

Figure 1.6 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; APEC PSU staff calculations.

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 1.6).¹⁶ Long-term trends also point to worsening inequality, with the richest 5

¹⁴ Intuitively, 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.

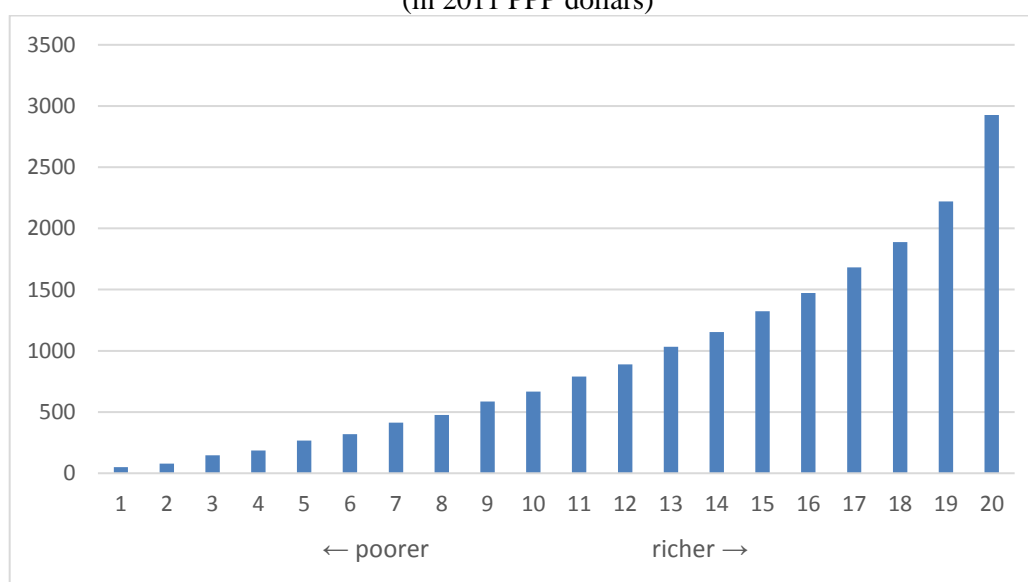
¹⁵ M. Ravallion, “A Comparative Perspective on Poverty Reduction in Brazil, China, and India”, *The World Bank Research Observer* 26, no. 1 (2011): 71–104.

¹⁶ It 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,

percent expected to increase their share while the share of the poorest 40 percent gets smaller.

The diverging fortunes of richer and poorer segments of the population can be seen in Figure 1.7 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 1.5. 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 1.7 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; APEC PSU staff calculations.

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.

1.3 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 1.8).

Figure 1.8 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 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 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 to the environment and climate change 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.

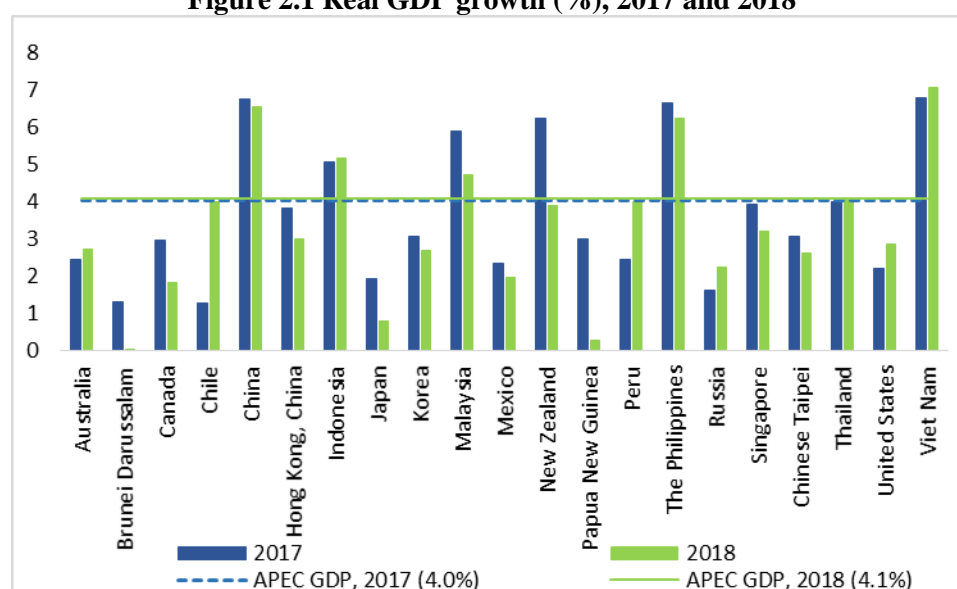
2 SUSTAINING APEC GROWTH: A DELICATE BALANCING ACT ¹⁷

2.1 APEC GDP GROWTH

The global economy grappled with heightened policy uncertainty in 2018, marked by trade tensions that translated into the imposition of tariffs and counter-measures. Implementing tariffs and other trade barriers result in increased production costs, as prices of inputs go up, leading to higher prices for final goods. This, in turn, could hold back consumption, trade and investments, affecting economic activity and output as well as income and employment levels. Indeed, the macroeconomic consequences of the implementation of trade-restrictive measures reverberated across the globe, affecting the volume of trade as well as the overall output of the economies that imposed tariffs along with that of their trading partners.

The adverse impact of trade tensions is reflected in the uneven growth in the APEC region, with more than half of the APEC economies recording lower GDP growth in 2018 compared to 2017. Nonetheless, the region posted a modest increase in GDP growth of 4.1 percent in 2018 from 4.0 percent in 2017 (Figure 2.1).

Figure 2.1 Real GDP growth (%), 2017 and 2018



Note: 2018 GDP growth for Papua New Guinea uses estimates from the Bank of Papua New Guinea.

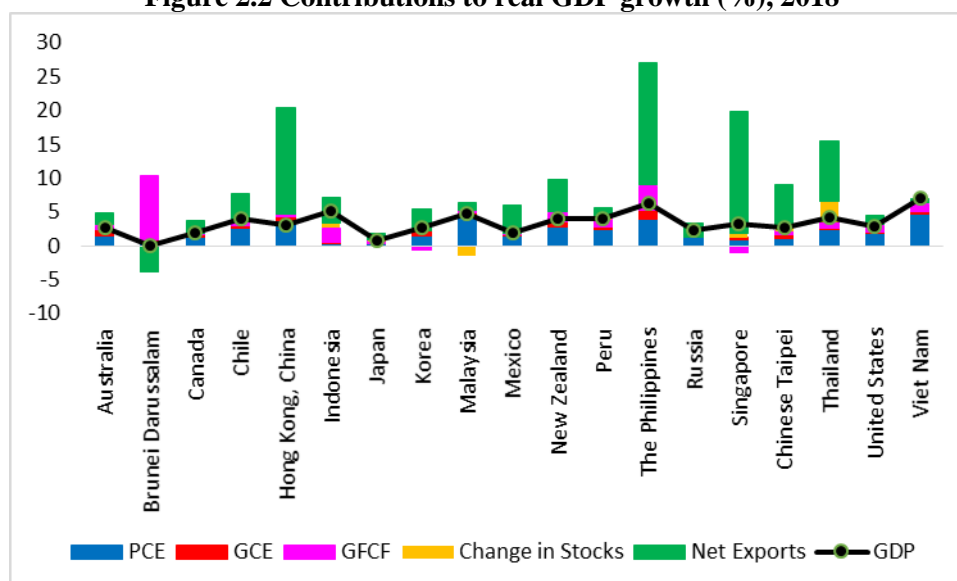
Source: Economy sources; IMF WEO database (April 2019); APEC PSU staff calculations.

Amid a challenging external environment, APEC economies continued to rely mainly on steady domestic consumption to boost economic growth (Figure 2.2). Accommodative policies and fiscal measures fuelled household consumption. Some economies with adequate room opted to keep interest rates relatively low amid manageable inflation levels, especially with the decline in global oil prices. Other economies with fiscal policy space

¹⁷ Prepared by Rhea C. Hernando, APEC Policy Support Unit (PSU).

implemented stimulus measures to support economic activity. Net exports and investments also contributed to growth, albeit in varying degrees across member economies.

Figure 2.2 Contributions to real GDP growth (%), 2018

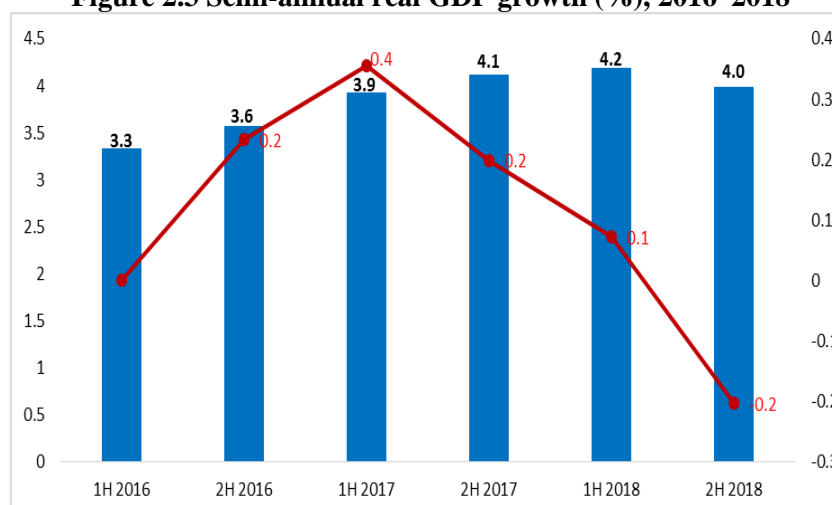


Note: PCE=private consumption expenditure; GCE=government consumption expenditure; GFCF=gross fixed capital formation. Data on GDP by expenditures not available for China and Papua New Guinea.

Source: Economy sources; APEC PSU staff calculations.

However, the rate of economic expansion has slowed in APEC as observed in the region's semi-annual GDP growth (Figure 2.3). A relatively strong expansion was seen in mid-2016 up to the first half of 2017 as external demand increased in line with the global economic momentum; but GDP growth in APEC started to moderate steadily from the second half of 2017 continuing into the period July–December 2018. The slowdown in GDP growth coincided with the announcement by some APEC economies of trade-restrictive measures in the third quarter of 2017, escalating into the imposition of tariffs and counter-measures in 2018.

Figure 2.3 Semi-annual real GDP growth (%), 2016–2018



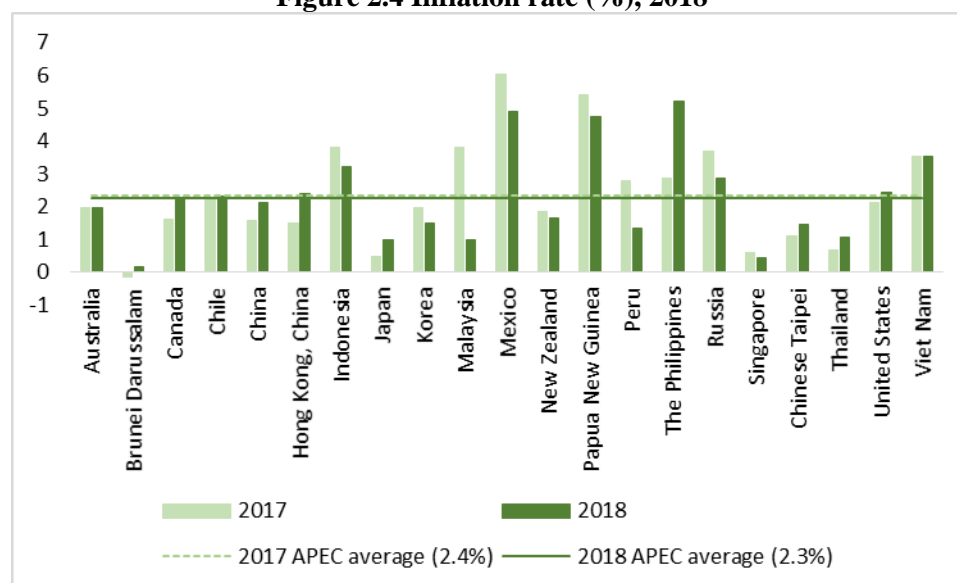
Note: The semi-annual weighted GDP growth rate does not include Papua New Guinea due to unavailability of semestral data.

Source: Economy sources; APEC PSU staff calculations.

2.2 INFLATION AND MONETARY POLICY

Inflation in the APEC region averaged slightly lower in 2018 at 2.3 percent from 2.4 percent in 2017 as global commodity prices decreased, particularly energy prices (Figure 2.4). Average crude oil prices declined to USD 53.96 per barrel in December 2018 from USD 61.19 per barrel in December 2017. Prices of metals also went down over the same period, particularly copper (by 4.3 percent) and iron ore (by 11.1 percent); while rice prices have remained generally low.¹⁸

Figure 2.4 Inflation rate (%), 2018

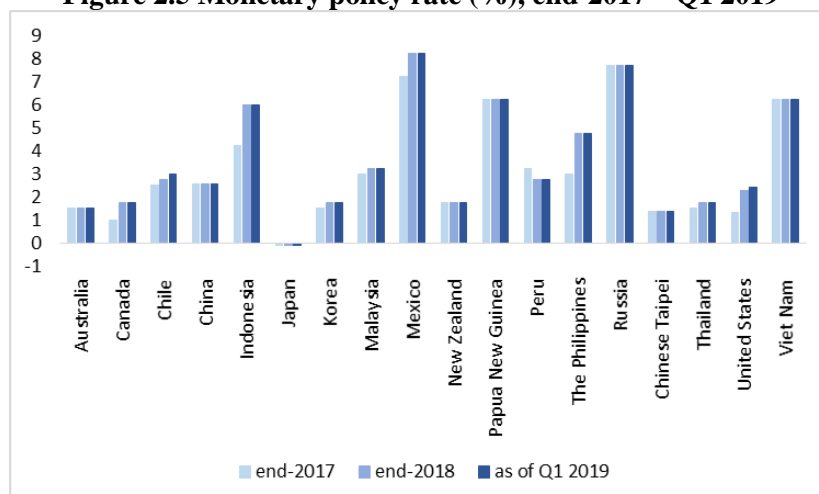


Source: IMF WEO database (April 2019); APEC PSU staff calculations.

The generally benign inflation environment allowed half of the APEC economies – using interest rates as their main monetary policy lever – to either maintain or reduce their benchmark rates in 2018 from the level in 2017 (Figure 2.5). Other economies decided to increase their monetary policy rates primarily to keep inflation expectations anchored, even as some economies looked to maintain the interest rate differential with the US federal funds rate given the decision by the Federal Open Market Committee (FOMC) to implement four rate hikes in 2018. Meanwhile, the Monetary Authority of Singapore (MAS) decided to maintain its monetary policy settings by keeping unchanged the rate of appreciation of the S\$NEER policy band, along with its width and the level at which it is centred, as of its 12 April 2019 monetary policy meeting.

In its 20 March 2019 monetary policy meeting, the US FOMC signalled that interest rates could be on hold for a length of time, taking into consideration risks to global growth and muted inflation pressures. This decision is a shift away from policy tightening and toward a cautious approach, suggesting that monetary policy stands ready to support growth requirements amid increasing risks to economic outlook. Mirroring this cautious stance by the US FOMC, the majority of APEC economies decided to keep their monetary policy settings steady as of the first quarter of 2019.

¹⁸ Commodity prices are sourced from the World Bank's Commodity Price Data.

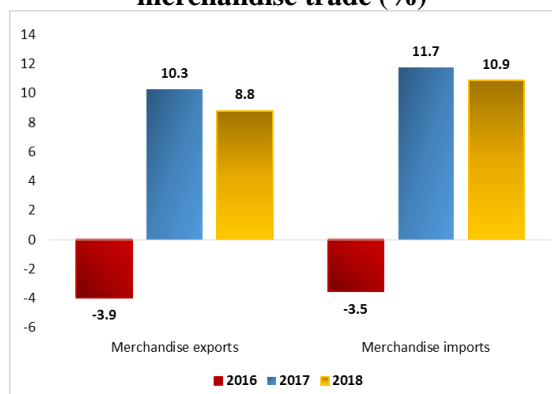
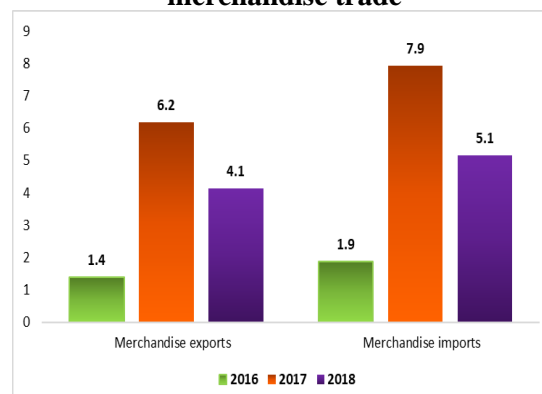
Figure 2.5 Monetary policy rate (%), end-2017 – Q1 2019

Note: The monetary policy framework in Brunei Darussalam is based on a currency board system, with the Brunei dollar anchored to the Singapore dollar at par. Hong Kong, China maintains a currency board system pegged against the US dollar. For Singapore, monetary policy is conducted through the trade-weighted exchange rate, which is allowed to fluctuate within a policy band. The operating targets for the S\$NEER are expressed in the level, slope and width of the policy band which determine the direction of monetary policy.

Source: Economy sources.

2.3 TRADE PERFORMANCE

The implementation of tariffs and counter-measures covered a wide array of export products, effectively raising production costs and reducing the volume of trade. The negative effect on trade performance is evident in the APEC region, where growth in the value and volume of merchandise trade declined in 2018 compared to 2017 (Figures 2.6 and 2.7). Growth in the volume of merchandise exports was significantly down to 4.1 percent in 2018 after a strong recovery to 6.2 percent in 2017 from the level in 2016, while growth in the value of merchandise exports also declined. The same downward trend is seen in the growth in merchandise imports, in terms of both value and volume.

Figure 2.6 Growth in value of merchandise trade (%)**Figure 2.7 Growth in volume of merchandise trade**

Note: APEC average growth does not include Brunei Darussalam and Papua New Guinea due to data unavailability.

Source: WTO for trade values; UNCTAD Statistics for trade volume; APEC PSU staff calculations.

It is also notable that the rest of the world – i.e., non-APEC economies – has been outpacing the APEC region in terms of the growth in the value of merchandise exports for the period 2016–2018 (Table 2.1). Meanwhile, APEC’s share of the world’s exports decreased to 49.6 percent in 2018 from a little more than 50 percent in the previous years.

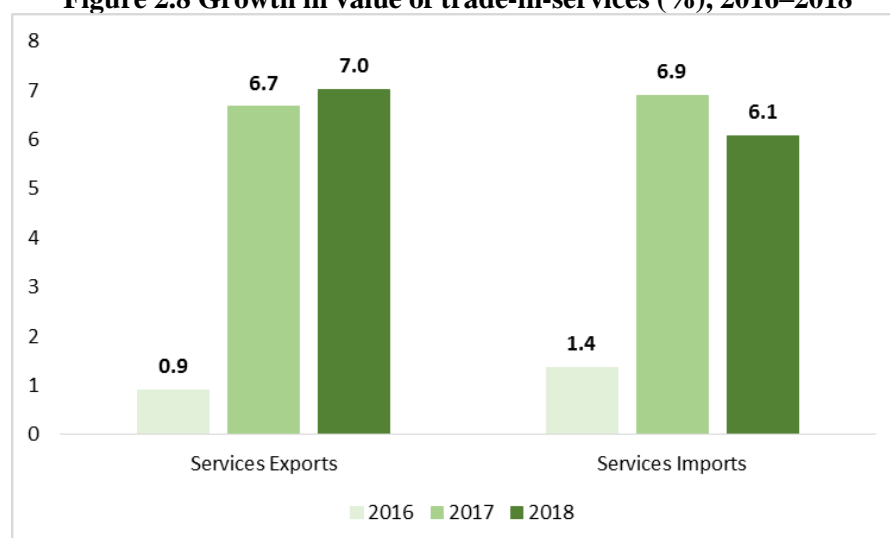
Table 2.1 Value and growth in merchandise trade, 2016–2018

	Value (in billion USD)			Growth (y-o-y, in %)		
	2016	2017	2018	2016	2017	2018
Merchandise Exports						
World	15850.0	17543.0	19287.0	-2.8	10.7	9.9
APEC	7977.6	8795.8	9570.4	-3.9	10.3	8.8
Rest of the world (ROW)	7872.4	8747.2	9716.6	-1.6	11.1	11.1
Merchandise Imports						
World	16187.0	17932.0	19754.0	-2.8	10.8	10.2
APEC	8003.4	8943.1	9914.9	-3.5	11.7	10.9
ROW	8183.6	8988.9	9839.1	-2.1	9.8	9.5
APEC's Share of the World (in %)						
Merchandise exports	50.3	50.1	49.6			
Merchandise imports	49.4	49.9	50.2			

Source: WTO.

The APEC region posted a 7.0 percent growth in services exports in 2018, higher than the 6.7 percent expansion in 2017 and a significant jump from the level in 2016 (Figure 2.8). Services imports also continued to grow but at a decelerated pace of 6.1 percent in 2018 from 6.9 percent in 2017.

Figure 2.8 Growth in value of trade-in-services (%), 2016–2018



Source: WTO.

As with merchandise trade, the rest of the world consistently grew more than APEC in terms of total services exports and imports for the period 2016–2018. It is also noticeable that APEC’s share of total trade-in-services incrementally went down during the same years (Table 2.2).

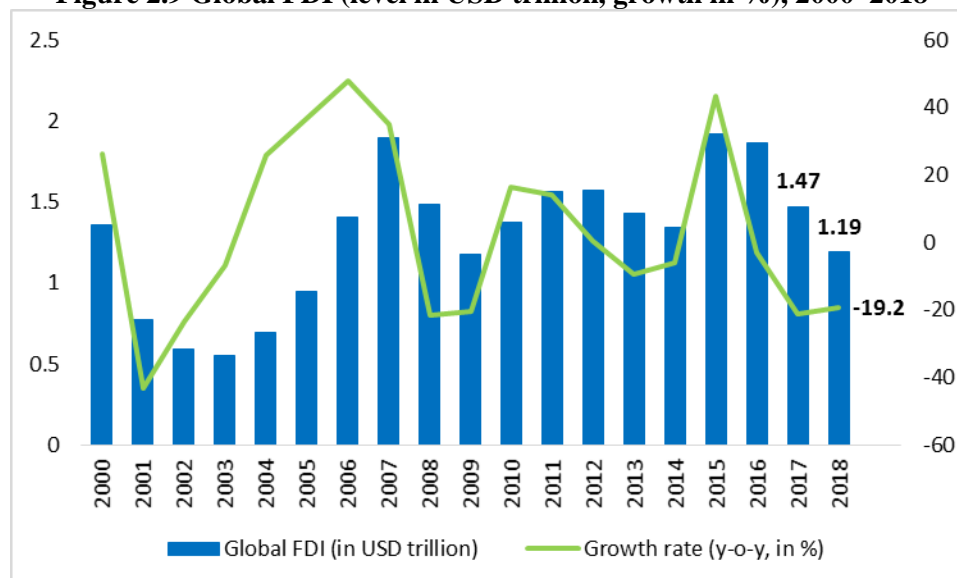
Table 2.2 Value and growth in services trade, 2016–2018

	Value (in billion USD)			Growth (y-o-y, in %)		
	2016	2017	2018	2016	2017	2018
Services Exports						
World	5036.0	5452.9	5872.7	1.5	8.3	7.7
APEC	1954.1	2084.4	2230.8	0.9	6.7	7.0
Rest of the world (ROW)	3081.9	3368.5	3641.9	1.9	9.3	8.1
Services Imports						
World	4912.7	5239.9	5621.7	1.1	6.7	7.3
APEC	2009.4	2148.1	2278.5	1.4	6.9	6.1
ROW	2903.3	3091.8	3343.2	0.9	6.5	8.1
APEC's Share of the World (%)						
Services exports	38.8	38.2	38.0			
Services imports	40.9	41.0	40.5			

Source: WTO; APEC PSU staff calculations.

2.4 INVESTMENT TRENDS

Preliminary data reveal that global foreign direct investment (FDI) dropped for the third consecutive year to around USD 1.2 trillion in 2018, from USD 1.5 trillion in 2017 (Figure 2.9). The 19.2 percent decline in the level of global FDI in 2018 is close to the 20.6 percent fall experienced in 2009 at the height of the global financial crisis.

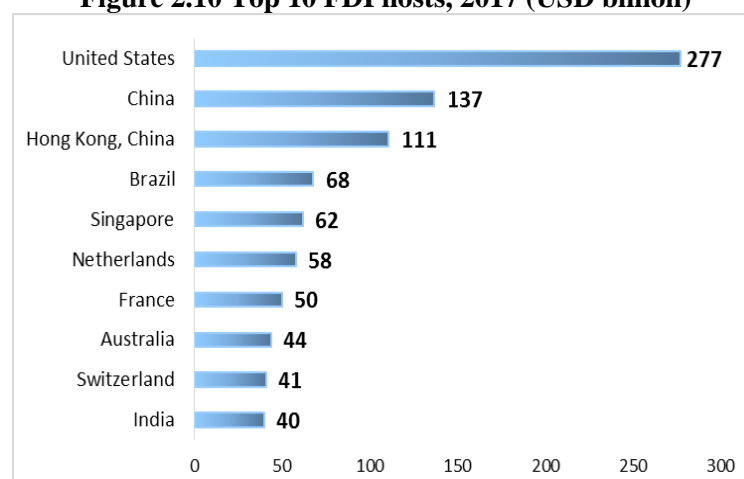
Figure 2.9 Global FDI (level in USD trillion, growth in %), 2000–2018

Source: UNCTAD Statistics; APEC PSU staff calculations.

FDI inflows in developed economies were lower by 40 percent at around USD 451 billion in 2018, attributed mainly to significant repatriations of accumulated foreign earnings by United States multinational enterprises (MNEs) after tax reforms were implemented. In contrast, developing economies attracted FDI inflows amounting to USD 694 billion in 2018, a 3.0 percent increase from the level recorded in 2017.¹⁹

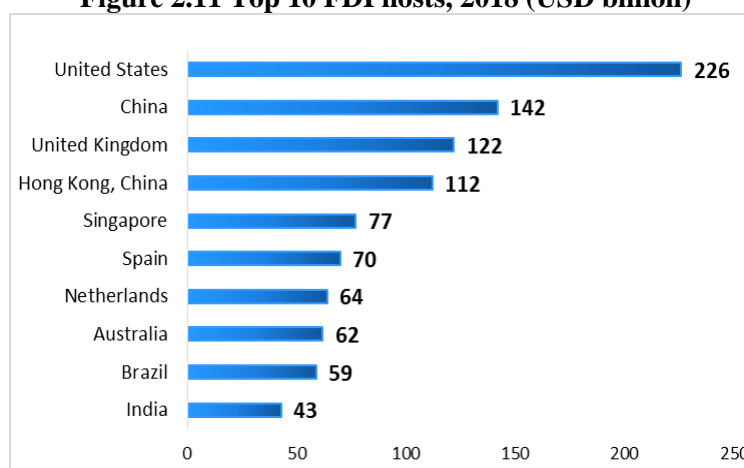
As in 2017, five APEC economies are in the list of top 10 FDI recipients for 2018, namely: the United States; China; Hong Kong, China; Singapore; and Australia (Figures 2.10 and 2.11). Taken in aggregate, these APEC economies accounted for an estimated 51.6 percent of global FDI in 2018, equivalent to around USD 619 billion.

Figure 2.10 Top 10 FDI hosts, 2017 (USD billion)



Source: UNCTAD, *Investment Trends Monitor* no. 31 (January 2019).

Figure 2.11 Top 10 FDI hosts, 2018 (USD billion)



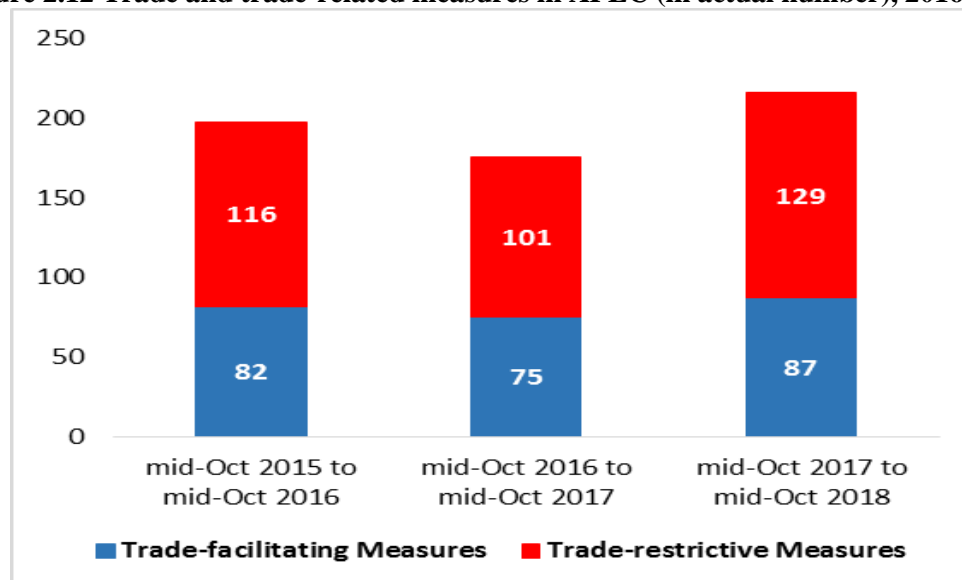
Source: UNCTAD, *Investment Trends Monitor* no. 31 (January 2019).

¹⁹ United Nations Conference on Trade and Development (UNCTAD), *Investment Trends Monitor* no. 31 (January 2019).

2.5 TRADE AND INVESTMENT MEASURES

Accompanying the weaker trade performance of the region is an increase in the number of trade-restrictive measures implemented by APEC economies during the period mid-October 2017 to mid-October 2018 compared to previous periods. Around 59.7 percent of total trade and trade-related measures implemented during this period were trade-restrictive (Figure 2.12).

Figure 2.12 Trade and trade-related measures in APEC (in actual number), 2016–2018



Source: WTO, “Overview of Developments in the International Trading Environment: Annual Report by the Director-General”.

Initiation of anti-dumping and countervailing investigations dominated the measures restricting trade that were implemented from mid-October 2017 to mid-October 2018 (Table 2.3). Together, they accounted for almost 70 percent of total trade-restrictive measures, while the bulk of the remainder could be explained by the imposition of tariffs and additional requirements by APEC member economies.²⁰

²⁰ For a complete and detailed listing of trade and trade-related measures implemented during the period mid-October 2017 to mid-October 2018, see Annex 1: https://www.apec.org/-/media/Files/Publications/2019/Annex%201%20Trade%20and%20Trade-related%20Measures_mid-Oct%202017%20to%20mid-Oct%202018.docx.

**Table 2.3 Trade and trade-related measures in APEC,
mid-October 2017 to mid-October 2018**

	Number of Measures
Trade-restrictive measures	
Initiation/Resumption of anti-dumping investigation	59
Initiation of countervailing investigation/duties	29
Initiation of safeguard investigation/duties	7
Increase/Imposition of import tariffs, export duties, and taxes	23
Reduction in tax rebates	1
Imposition of export/import requirements, quotas, bans or restrictions	10
Other trade-restrictive administrative measures	0
Sub-total: Trade-restrictive measures	129
Trade-facilitating measures	
Termination of anti-dumping investigation/duties	28
Termination of countervailing investigation/duties	10
Termination of safeguard investigation/duties	1
Reduction/elimination of export duties, import tariffs and taxes	34
Increase in tax rebates	1
Elimination of import/export ban and other restrictions	0
Other trade-facilitating administrative measures	13
Sub-total: Trade-facilitating measures	87
Total: Trade and trade-related measures	216

Source: WTO, "Overview of Developments in the International Trading Environment: Annual Report by the Director General (mid-October 2017 to mid-October 2018)", 27 November 2018.

Rising trade tensions contributed to higher levels of policy and economic uncertainty, prompting the WTO to downgrade anew its short-term growth forecasts for world trade volume (Table 2.4). In April 2018, the WTO projected world trade volume to grow by 4.4 percent during the year, revising their forecast downward to 3.9 percent in September 2018. Preliminary estimates show that trade volume increased by 3.0 percent in 2018, significantly below the WTO's lowered expectations. The WTO's latest trade projections as of April 2019 point to another round of decline in the growth of world trade volume to 2.6 percent in 2019. A slight recovery to 3.0 percent is expected in 2020, but this is largely dependent on the resolution of ongoing trade conflicts.

Table 2.4 WTO's projection of growth in world trade volume (%), April 2018 – April 2019

	Apr-18	Sep-18	Apr-19
2018	4.4*	3.9*	3.0**
2019	4.0*	3.7*	2.6*
2020			3.0*
*Trade forecasts			
**Actual growth (preliminary)			

Source: WTO.

Meanwhile, six of the 10 investment measures implemented by APEC economies who are also G20 members from mid-May 2018 to mid-October 2018 were measures that facilitated the entry of foreign investments, while the remainder were investment-restrictive measures (Table 2.5).²¹

Table 2.5 Selected investment measures implemented by APEC member economies, mid-May 2018 to mid-October 2018

	Number of measures
Facilitating foreign investments	
Increasing transparency in the investment environment	0
Clarifying and simplifying concepts, rules and processes	2
Relaxing rules on foreign exchange quota and settlement	3
Increasing threshold/lifting caps for foreign investments/ownership	1
Restricting foreign investments	
Imposing additional requirements/prohibitions	3
Increasing/Imposing taxes/fees/surcharges	1
Introducing foreign ownership ceiling	0
Lowering caps on foreign exchange use and overseas financing	0
Total: Investment measures	10

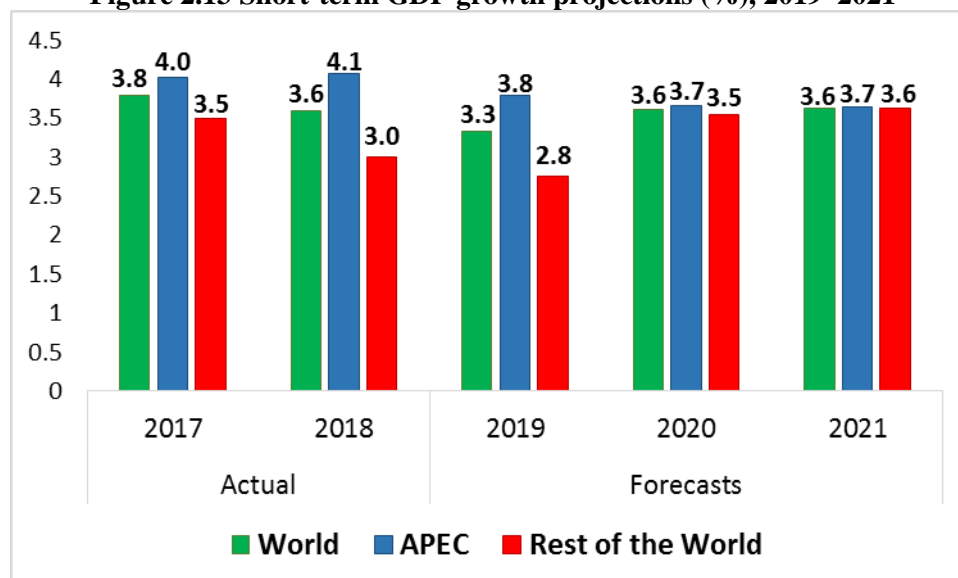
Note: Covers nine APEC economies who are also G20 members, namely: Australia; Canada; China; Indonesia; Japan; Korea; Mexico; Russia; and the United States.

Source: OECD–UNCTAD 20th Report on G20 Measures, 22 November 2018.

2.6 NEAR-TERM OUTLOOK, RISKS AND OPPORTUNITIES

In the short term, over the period 2019–2021, the APEC region is expected to grow at a slower pace, in line with global trends (Figure 2.13). In 2019, APEC is projected to grow by 3.8 percent, notably lower than the 4.1 percent GDP growth in 2018, with the rest of the world (non-APEC economies) slowing down to 2.8 percent; overall, total world output is estimated to grow considerably less at 3.3 percent. From 2020 until the medium term, GDP growth for APEC and the rest of the world is projected to track within the 3.5–3.7 percent range, hinged largely on the resolution of trade conflicts and reduced policy uncertainty.

²¹ For a complete and detailed listing of investment measures implemented during the period mid-May 2018 to mid-October 2018, see Annex 2: https://www.apec.org/-/media/Files/Publications/2019/Annex%20Investment%20Measures_mid-may%202018%20to%20mid-October%202018.docx

Figure 2.13 Short-term GDP growth projections (%), 2019–2021

Source: IMF WEO database (April 2019); APEC PSU staff calculations.

Risks remain tilted to the downside, largely emanating from trade tensions that could undermine further global trade, investment and output; and from policy uncertainty, including trade policies and prolonged Brexit negotiations that could negatively affect investor confidence. A greater-than-expected economic slowdown in China could also impact on global growth and APEC growth in particular, with repercussions to its partner economies via such channels as trade, investment and tourism. Moreover, economic and financial conditions prevailing in other major engines of global growth such as the US and the Eurozone could affect global demand. In particular, a worsening in economic activity as well as in the debt dynamics in these large economies, including China, could tighten global financing conditions and add to already-heightened global uncertainty, which, in turn, could give rise to debt difficulties and other financial vulnerabilities, dampening consumption and investment.

The upside potential for growth could come from the quick and positive resolution of trade tensions. The ongoing pause in tariff measures as the US and China go back to the negotiating table is a welcome development. A trade deal, achieved in a quick and orderly manner, should significantly reduce policy uncertainty and lead to a turnaround in trade and investment, potentially powering another round of global economic momentum.

2.7 CONCLUSION

The loss in global economic momentum, apparent in the slowdown of global growth while economic and financial risks loom larger, is cause for action. It is imperative that economies monitor developments in the real and financial sectors, and stand ready to provide monetary and/or fiscal support should risks threaten macroeconomic growth and stability.

For APEC, sustaining economic growth amid trade tensions and policy uncertainty, while having to contend with idiosyncratic factors, entails the delicate balancing act of implementing measures to support continued expansion while ensuring that growth remains sustainable and inclusive. In this context, APEC has the unique advantage of

having members from different income groupings and in various stages of economic, financial and technological development. Through information sharing, this affords APEC a deeper understanding of the kinds of initiatives and policy reforms that are appropriate and feasible for promoting robust growth and for ensuring that economic gains are more equitably distributed (through, for example, social programmes for the marginalised and vulnerable).

As 2020 comes into view, it is timely to look back at the genesis and trajectory of APEC's inclusive growth strategy (see Box 2.1), and to revisit the APEC Strategy for Strengthening Quality Growth 2015–2020. Moving forward, APEC needs to assess the growth strategy vis-à-vis its priorities, mindful that strategies should remain cognisant of the diverse economic circumstances of its members. APEC needs to evaluate the impact of its growth strategies, not only in terms of ensuring quality growth but also in increasing the economic participation of women, youth, the poor and other vulnerable groups of society. This assessment should also carefully take into account the relevance of its growth objectives amid a dynamic and uncertain global environment. The focus remains on identifying areas that APEC needs to strengthen to ensure that economic growth is balanced, sustainable and inclusive.

Box 2.1 APEC's inclusive growth strategy: 2010 to present

APEC Growth Strategy 2010

The initial impetus for a growth strategy for the APEC region was the 2008 global financial crisis, which negatively affected economic output, financial conditions, and business and consumer confidence. The crisis also left many individuals vulnerable, jobless and excluded from economic activity, fraying the region's social fabric. APEC responded by launching the APEC Growth Strategy 2010, to achieve growth that is balanced, inclusive, sustainable, innovative and secure. Specific and interconnected initiatives were identified under these five attributes of growth.²²

APEC Strategy for Strengthening Quality Growth 2015–2020

APEC's growth strategy has since evolved to take into account changes in the global economic landscape. In November 2015, amid subdued global economic activity as the US started to gradually tighten monetary policy, and with China rebalancing away from export-driven growth and toward consumption and services, the APEC Strategy for Strengthening Quality Growth 2015–2020 was launched at the APEC Economic Leaders' Meeting in the Philippines. This growth strategy focused on actions and programmes that could be undertaken by APEC economies under the three key accountability areas of institution building, social cohesion, and environmental impact.²³

²² Some initiatives under each growth attribute include: (1) *Balanced growth*: APEC New Strategy for Structural Reform (ANSSR) and Ease of Doing Business; (2) *Inclusive growth*: Initiatives for SMEs and APEC Digital Opportunity Center; (3) *Sustainable growth*: APEC List of Environmental Goods and Low-Carbon Model Towns; (4) *Innovative growth*: APEC Initiative toward Innovation-driven Growth and Business Start-up and Development of Entrepreneurial Skills; and (5) *Secure growth*: Action Plan on Food Security and Energy Security Initiative.

²³ For example, under institution building, economies can take into account some of the more important economic institutions: (1) rules-based economy that promotes legal certainty and reduces the cost of doing business; (2) a market-based economy supported by sound public institutions and regulations; (3) deep financial markets that efficiently intermediate savings combined with effective regulatory systems that promote financial stability; (4) a shareholder-oriented corporate governance system; (5) mechanisms that support trade and investment liberalisation and facilitation; and (6) a labour market that allows re-allocation of labour in response to market demand but at the same time protects the welfare of workers. Actions toward social cohesion consist of policies that address exclusion and marginalisation, resulting in significant reduction in poverty as well as a stable growth process. Meanwhile, a positive environmental impact entails measures that respond to climate change such as reducing greenhouse gas emissions, increasing carbon

APEC Action Agenda on Advancing Economic, Financial, and Social Inclusion in the APEC Region 2017

Complementing the APEC growth strategy is the APEC Action Agenda on Advancing Economic, Financial, and Social Inclusion in the APEC Region, which was endorsed at the APEC Economic Leaders' Meeting in Viet Nam in November 2017. This action agenda focused on priority work under the three pillars of economic, financial and social inclusion, to help APEC take advantage of the opportunities, and address the challenges, brought by globalisation and digital transformation.

sequestration and adapting to the impact of climate change through disaster preparedness and risk reduction. In turn, improving climate conditions and adapting well to climate change require investments in science and technology as well as disaster-resilient infrastructure, among others.

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