



Asia-Pacific  
Economic Cooperation

## APEC Policy Support Unit POLICY BRIEF No. 14

March 2016

# APEC and the Human Development Agenda

By Rhea C. Hernando and Emmanuel A. San Andres

### I. The Concept of Human Development

“People are the real wealth of a nation. The basic objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives. This may appear to be a simple truth. But it is often forgotten in the immediate concern with the accumulation of commodities and financial wealth.” This opening line of the first *Human Development Report* (HDR) published in 1990 by the United Nations Development Programme (UNDP) marked its fundamental shift in thinking from economic growth to human development.

In the HDR 1990 report, human development is defined as a process of enlarging people’s choices, of which the most essential are: to lead a long and healthy life; to acquire knowledge; and to have access to resources needed to enjoy a decent standard of living.<sup>1</sup> Based on the UNDP definition, human development has two dimensions: i) the creation of human capabilities (such as improved health, knowledge and skills; and ii) the utilization of these acquired capabilities (e.g., for leisure or work activities). Hence, development under this concept is “people-centric”; i.e., the development process, including the formulation of policies to promote development should be viewed as more than just about generating wealth or income but on improving human well-being.

Consistent with development practice and academic literature, the UNDP set out a reaffirmation of the concept of human development in its 2010 report. Specifically, the UNDP reaffirmed that “(h)uman development is the expansion of people’s freedoms to live long, healthy and creative lives; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on a shared planet...”<sup>2</sup> Today, more than 25 years after the first publication of the HDR, the concept of human development has remained intact and continues to focus on the richness of human lives rather than the richness of economies. Central to the human development agenda is broadening people’s choices, essentially providing people with increased opportunities to improve their lives instead of assuming that higher economic growth will automatically lead to better well-being.

In this policy brief, we aim to examine how human development fits into the APEC agenda. In the next section, we look into the state of human development in the APEC region as measured by the UNDP and analyze some linkages with economic growth and trade. We also show some examples of APEC’s work that contribute to human development through human capital investment. This policy brief concludes with some thoughts on the process for taking the human development agenda forward.

### II. Measuring Human Development

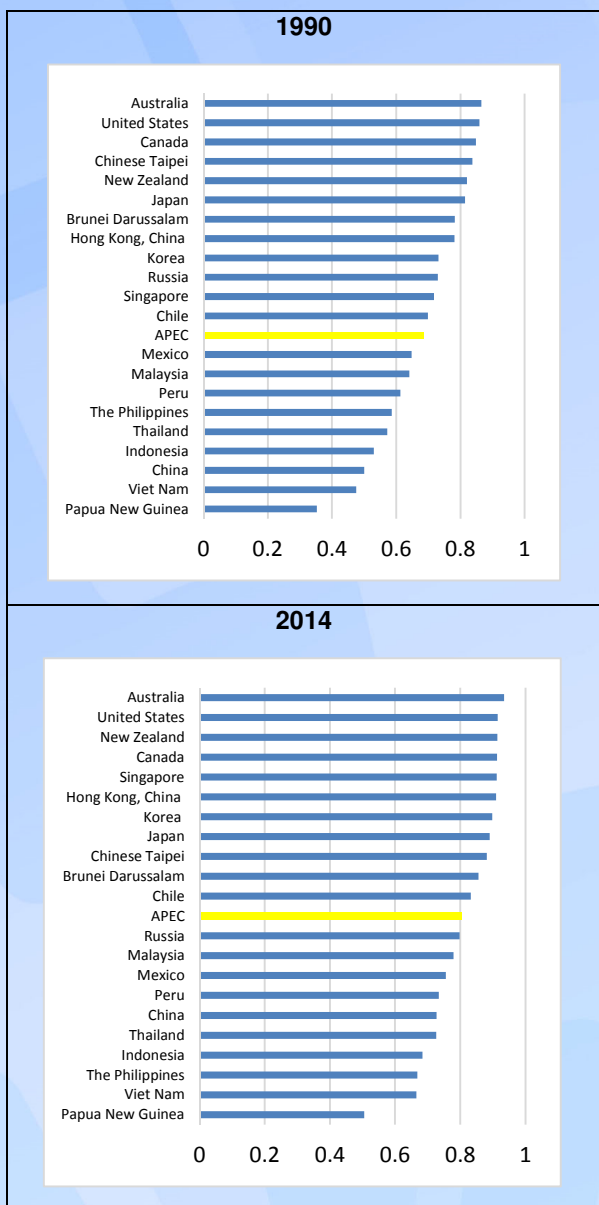
In 1992, the UNDP created the Human Development Index (HDI) to reinforce the notion that people and their capabilities should be the measure against which an economy’s development are assessed and not economic growth alone. Up until that time, the only regularly monitored indicator of welfare was per capita income: i.e., an economy’s gross income divided by its population. However, the concept of human development is wider than mere income, and the HDI was an attempt to develop an indicator that captures aspects of non-income welfare, such as health and education.

The HDI measures an economy’s achievement in terms of three key dimensions: a long and healthy life, being knowledgeable, and with a decent standard of living. The HDI is the geometric mean of normalized indices for each of these three dimensions; namely, the life expectancy index, education index, and income index. The corresponding indicators from which these three indices are derived include life expectancy at birth, mean years of schooling and expected years of schooling, and GNI per capita.<sup>3</sup> It is important to note, however, that the HDI informs about average living standards and not on its distribution. Thus, the HDI does not incorporate concepts of inclusiveness or equity in its measurement. The HDI is a measure of average living standards in an economy and is not meant as a measure of inequality reduction or poverty alleviation.

The HDI scores range from zero (poorest level of human development) to one (highest level), which are comparable across economies and over time assuming the same methodology is used.<sup>4</sup> In the case

of the APEC region, the average HDI for the 21 member-economies has increased steadily during the period 1990-2014. In 1990, the APEC region's HDI stood at 0.69, rising to 0.74 in 2000, 0.79 in 2010, and 0.80 in the latest Human Development Report 2015 (Figure 1). Moreover, all APEC economies have experienced an improvement in their respective HDI scores during the period, indicating upgrades in average living standards in the region.

**Figure 1. HDI in APEC, 1990 and 2014**

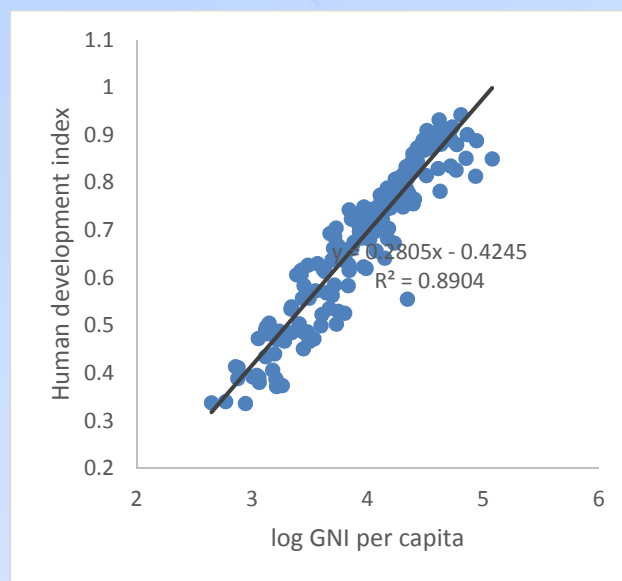


Notes: Scores for 1990 have been revised by UNDP using the current methodology and are comparable with 2014, except for Chinese Taipei. Earliest data for Chinese Taipei's HDI is 1992, which used the old methodology.  
 Source: HDR 2015, Directorate General for Budget, Accounting and Statistics (Chinese Taipei), and APEC PSU staff calculations.

As can be seen in Figure 2, there is a high correlation between GNI per capita and HDI scores. This result is to be expected since GNI per capita is a component

of the HDI. However, GNI per capita alone explains 89 percent of the variation in HDI even though it comprises only a third of the weight, implying that life expectancy and education are also positively correlated with per capita income. The synergies between health and education on one hand and per capita income on the other are well known: higher incomes give people the capability to enhance their health and skills, which consequently open up more opportunities to improve incomes. However, the relationship between trade and human development is not clear-cut.

**Figure 2. HDI and GNI per capita, 2014**



Source: HDR 2015, World Development Indicators, and APEC PSU staff calculations.

Trade can affect human development in two ways. The indirect linkage is more well-known: trade contributes to economic growth, which increases incomes and tax revenues that can be used to improve human development either through private investments in health and education or through public provision of social services. But trade can also directly influence human development by expanding opportunities and choices. For consumers, trade expands choice by increasing the number and variety of goods available in the market. Trade also helps ensure the availability of human capital goods, such as educational materials and medical products, which contribute to the expansion of opportunities. Moreover, trade fosters the exchange of information and ideas as well as the transfer of technology and best practices through people-to-people interaction between traders, retailers, and service providers. For producers and workers, trade can have opposing impacts on human development: it can provide more job opportunities, particularly for those working in the exporting industries. The other side is that trade can also adversely impact on the livelihoods of those in

import-competing industries, particularly those that are unable to keep pace with foreign competition.

On the whole, empirical data show that trade is positively associated with human development (even after controlling for GDP): a one percent increase in total trade is correlated with a 0.04 percent increase in the human development index (Table 1). The trade linkage seems stronger for APEC economies, where a one percent increase in trade is correlated with a 0.5 percent increase in HDI scores. While results in Table 1 show some evidence that this linkage is stronger for APEC economies than the rest of the world, establishing the reasons behind it will require looking into linkages behind borders.

**Table 1. Correlations between HDI and trade, 2010-2014**

Dependent variable: log of HDI score	World	APEC	ROW
Log of total trade	0.0384** (0.0151)	0.0458*** (0.0142)	0.0374** (0.0154)
Log of GDP	0.0988*** (0.0289)	0.0789*** (0.0267)	0.101*** (0.0311)
Constant	-3.737*** (0.521)	-3.560*** (0.420)	-3.751*** (0.572)
Observations	772	108	664
R-squared	0.830	0.963	0.830

Notes: Model used is fixed effects panel regression controlling for economy- and year-specific effects. Robust standard errors are in parentheses. \*\*\* = significant at 1% confidence level; \*\* = significant at 5%; \* = significant at 10%. Results for year dummy variables are suppressed for brevity.

Sources: UNDP, World Development Indicators, and APEC PSU staff calculations.

The linkages between trade and human development are not straightforward, but they can be strengthened by policy. For example, trade that enhances opportunities and capabilities for all members of society—e.g., by expanding the choices for educational materials or by making food and medicines more affordable—can generate positive contributions to human development. Likewise, social safety nets and continuing skills development for workers in industries that compete with foreign companies will help ensure that trade does not harm human development. In this regard, institutions that foster regional cooperation and integration have a role in enhancing human development side by side with the promotion of free and open trade and investment.

### III. Examples of APEC's Contribution to Human Development

Although human development is a relatively new topic for APEC, some of APEC's work has contributed to human development, particularly those in the area of human capital investment. Human development and human capital are closely related concepts that have

different approaches. As can be seen in Table 2, there are significant differences between the human development approach and the human capital approach, mainly due to disparities in objective. However, both approaches are very similar in terms of policy recommendations, with particular focus on improving access to social services and expanding opportunities for all individuals.

**Table 2. Human development vs. human capital**

Human development approach	Human capital approach
<b>Differences</b>	
- Objective: to improve people's overall well-being	- Objective: to make people more productive workers/entrepreneurs
- Rights-based approach: human development is an end in itself	- Efficiency-based approach: human capital is a means to an end (i.e., economic growth)
- No substitution: all aspects of human development need to be addressed; education, health, etc. are essential	- Substitution: policy can substitute between various aspects of skills development, healthcare, etc.
<b>Similarities</b>	
- Policy focus: basic social services (health, education, sanitation, etc.) need to be improved to promote well-being	- Policy focus: basic social services (health, education, sanitation, etc.) need to be improved to enhance productivity
- Non-discrimination: Access to work and credit should be expanded to provide equitable opportunities and choices	- Non-discrimination: Access to work and credit should be expanded to maximize the productive frontier

Source: Authors.

Parallel with its traditional work on economic and trade issues, APEC has touched upon human development through its work on skills development and education. As early as 1990, APEC established the Human Resources Development Working Group (HRDWG) to strengthen human capacity in the APEC region. APEC's role in advancing human development was defined more clearly with the launch of the Human Resources Development Framework for APEC during the 1994 APEC Ministerial Meeting in Jakarta, Indonesia.<sup>5</sup>

In line with the UNDP's focus on enriching human lives, the goal of HRD in APEC is two-pronged but related: to promote the well-being of all people, and to achieve sustainable and economic growth in the region. The promotion of human development in APEC is guided by the following principles: 1) the people are the most important resource; 2) the

development and protection of human resources help alleviate poverty, achieve full employment, widen access to education, and encourage full participation of all groups in the economic and development process; 3) the development of human resources requires cooperative action by the public and private sectors as well as education and training institutions; and 4) the diversity of experiences and situations inherent in the region should be taken into account in the design of regional approaches towards human resources development.

Accordingly, APEC's human development agenda through the HRDWG endeavors to prioritize efforts that are geared towards the achievement of quality basic education; deeper analysis of trends and needs in the regional labor market; enhanced supply and quality of managers, entrepreneurs, and educators/trainers; reduced skills deficiencies and unemployment levels; improved education and training systems, methods, materials, and staff; increased opportunities to build skills and capacities; and continued productivity amid economic and technological changes.

Since human resources development is a cross-cutting concern, the HRDWG has been coordinating with APEC working groups such as the Committee on Trade and Investment (CTI), the Economic Committee (EC), the Small and Medium Enterprises Working Group (SMEWG), the Emergency Preparedness Working Group (EPWG), and the APEC Business Advisory Council (ABAC). The HRDWG and the said APEC working groups have established crucial points of collaboration: building human capital for the business sector; implementing APEC's structural reform agenda; conducting disaster reduction education; and conducting skills mapping research exercises in the region.

It is also worthwhile to note that the HRDWG is collaborating with the Policy Partnership on Women and Economy (PPWE) to implement training programs and establish capacity building centers to develop women's skills and competencies in order to help them meet job requirements. These, in turn, will not only boost women's job opportunities in the short-term, but will also pave the way towards an environment that offers better quality jobs for women. Together with skills development, the HRDWG and PPWE are working together to enhance the education of girls and women.

Advancing women's full participation in the economy in concrete, actionable and measureable terms entails adopting gender equality and women's empowerment across APEC's work streams. APEC's Women and Economy Dashboard 2015<sup>6</sup> could be used as a tool towards identifying policy actions that help promote women empowerment. An important determinant of women empowerment is reflected in women's representation in leadership or management roles.

To ensure that women's ability to access opportunities is not hindered by health concerns, the HRDWG, PPWE, and the Health Working Group (HWG) worked together to develop a Health Toolkit under the APEC Healthy Women, Healthy Economy initiative. The Health Toolkit offers a user-friendly one-stop menu of policy options that can be used to pilot, implement and scale up actions appropriate to local economic and social conditions. This policy toolkit aims to address health-related barriers to women's economic participation, so that they can join, remain, and grow in the work force.

A holistic approach to human development necessitates that human health is preserved by instituting policies and initiatives that are comprehensive, sustainable and appropriate in the economy setting. In this context, the APEC member-economies launched the Healthy Asia Pacific 2020 Initiative, which was formulated by the APEC HWG and APEC Life Sciences Innovation Forum (LSIF).

The Healthy Asia Pacific 2020 initiative establishes a new set of health management responses that aims to mitigate threats to the region's people, trade and economic security. The four major areas of focus under this initiative cover the unfinished health-related Millennium Development Goals (MDGs), including destigmatization and equality; a holistic and multi-sectoral approach for the prevention and control of non-communicable diseases, including early diagnosis; universal access to safe, effective, quality, affordable and sustainable primary health care; and the improvement of health emergency preparedness, including during pandemic events and natural disasters.

#### **IV. Human Development and Inclusive Growth**

Investing in human development towards economic inclusiveness took center stage in the APEC region during the 2015 APEC Economic Leaders' Meeting, in line with the theme "Building Inclusive Economies, Building a Better World". As embodied in the 2015 Leaders' Declaration in Manila, APEC member-economies recognize that the full participation of all sectors of society, including women, the youth, vulnerable groups, and micro and small medium enterprises (MSMEs), is a crucial prerequisite towards the achievement of inclusive growth.<sup>7</sup>

Efforts and commitments that are focused on developing human capital help move the agenda a step closer towards the full economic participation of all sectors of society. These efforts are reflected in programs and initiatives that upgrade skills to equip economic participants, particularly women, rural communities, and vulnerable groups with appropriate capacities required to get jobs or start businesses in an increasingly globalized and digital world; introduce

education reforms to improve access, systems and standards across the region; and promote healthcare and management systems to preserve people's well-being and build resilience amid disasters.

Boosting support for MSMEs also facilitates increased economic inclusiveness, especially since MSMEs constitute women entrepreneurs and low-income individuals, among others. Advancing MSMEs necessitates improving access to financing by streamlining procedures and requirements; providing market opportunities, both in the initial and scale-up business phases; and enhancing product quality to be able to compete in global markets. Equally important, MSMEs need to be resilient against episodes of natural disasters and financial crises as well as unexpected events. This cushion would mean instituting credit guarantee systems that will provide much-needed liquidity during challenging times. Thus, MSMEs require the collaboration of the private sector and the public sector, particularly to ensure a business-friendly environment where MSMEs not only thrive, but flourish.

The continuing work on human capital development at the APEC, with strong support from working groups and fora within the region, should result in higher overall productivity in the medium-term. This, in turn, could help ensure full economic participation of all sectors, so that sustainable and inclusive growth becomes attainable.

## V. Concluding Remarks

Human development, as defined by UNDP, is not a new approach: it has been integral to the work undertaken by international development organizations in the past three decades. But it is nevertheless a relatively new approach within APEC.

As APEC host for 2016, Peru has chosen the theme of "Quality Growth and Human Development" to guide the organization's work throughout the year. Although APEC is primarily an economic forum focusing mainly on trade and investment issues, there is a rising trend within the organization to consider broader issues of human development in its work. Concepts relating to inclusive growth, social protection, and equal opportunity—which are compatible with UNDP's concepts of human development—are increasingly recognized by APEC Leaders as seen in recent Ministerial and Leaders' statements.

Human development is a cross-cutting issue. The previous section has shown several examples of APEC fora and groups working on human development, and this is not nearly an exhaustive list.

Going forward, APEC needs to undertake a mapping<sup>8</sup> of its ongoing work that contributes to human development. This mapping exercise will help the organization avoid duplication of efforts while allowing it to recognize opportunities for further action. Given the cross-cutting nature of human development, strategic policies and initiatives promoting this agenda need to be discussed at the highest levels, with Senior Officials Meeting (SOM) as the venue for discussion, leading to implementation and monitoring.

In 1994, APEC Economic Leaders in Bogor, Indonesia charted the region's course of economic cooperation, focusing on trade liberalization and investment facilitation. In their declaration, they stated:

"Our objective to intensify development cooperation among the community of Asia-Pacific economies will enable us to develop more effectively the human and natural resources of the Asia-Pacific region so as to attain sustainable growth and equitable development of APEC economies, while reducing economic disparities among them, and improving the economic and social well-being of our people."<sup>9</sup>

The human development agenda, although explicitly tackled only now in APEC, is in fact a continuation of the vision laid out by Leaders during its founding days.

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**Rhea C. Hernando** is a Researcher at the APEC Policy Support Unit. **Emmanuel A. San Andres** is an Analyst at the APEC Policy Support Unit.

The views expressed in this Policy Brief are those of the authors and do not represent the views of APEC member economies. The authors would like to acknowledge the valuable inputs of Dr Denis Hew. Any remaining errors are the authors'. This work is licensed under the Creative Commons Attribution-NonCommercial-ShareAlike 3.0 Singapore License.

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**Address:** 35 Heng Mui Keng Terrace, Singapore 119616

**Website:** [www.apec.org/About-Us/Policy-Support-Unit](http://www.apec.org/About-Us/Policy-Support-Unit)  
**E-mail:** [psugroup@apec.org](mailto:psugroup@apec.org)

**APEC#216-SE-01.4**

<sup>1</sup> UNDP Human Development Report 1990, Box 1.1, p. 10.

<sup>2</sup> UNDP Human Development Report 2010, p. 2.

<sup>3</sup> For a technical exposition of deriving HDI, please see [http://hdr.undp.org/sites/default/files/hdr2015\\_technical\\_notes.pdf](http://hdr.undp.org/sites/default/files/hdr2015_technical_notes.pdf).

<sup>4</sup> Note, however, that there have been some tweaks in HDI methodology, notably in 2010 when the formulae for the life expectancy, education, and income indices were revised. Hence, HDI scores in earlier reports may not be comparable with the HDI scores reported in the recent years.

<sup>5</sup> The Ministerial Statement is available here, [http://www.apec.org/Meeting-Papers/Ministerial-Statements/Annual/1994/1994\\_amm/hrd\\_framework\\_dec.aspx](http://www.apec.org/Meeting-Papers/Ministerial-Statements/Annual/1994/1994_amm/hrd_framework_dec.aspx).

<sup>6</sup> The APEC publication can be accessed here [http://www.apec.org/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/~/\\_media/2AA295B69D574F6B88ACCEB82032747B.ashx](http://www.apec.org/Groups/SOM-Steering-Committee-on-Economic-and-Technical-Cooperation/Working-Groups/~/_media/2AA295B69D574F6B88ACCEB82032747B.ashx).

<sup>7</sup> The 2015 Leaders' Declaration is available here [http://www.apec.org/Meeting-Papers/Leaders-Declarations/2015/2015\\_aelm.aspx](http://www.apec.org/Meeting-Papers/Leaders-Declarations/2015/2015_aelm.aspx).

<sup>8</sup> Similar mapping exercises have been done for other cross-cutting issues such as connectivity, services, and urbanization.

<sup>9</sup> 1994 Leaders' Declaration, para 8: [http://www.apec.org/Meeting-Papers/Leaders-Declarations/1994/1994\\_aelm.aspx](http://www.apec.org/Meeting-Papers/Leaders-Declarations/1994/1994_aelm.aspx).