



APEC 2017: Springboard for economic initiatives from Vietnam

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By 2017, the Asia-Pacific Economic Cooperation (APEC) economies will be only three years away from the nominal deadline for the Bogor Goals that have guided APEC's development agenda over the past two decades. It is thus high time for APEC leaders to take stock and deliberate on a new vision for regional economic development.

As the APEC host for 2017, Vietnam is in the prime position to kick-start this discussion. Vietnam should move to shape a meaningful and measurable Beyond-Bogor development agenda along three main pillars: (i) Enhancing regional connectivity with modernised future-ready economies, (ii) preparing for structural reforms to mitigate the negative effects of globalisation and (iii) fostering micro, small and medium-sized enterprises (MSMEs) for inclusive growth. These broad themes are consistent with both the development needs of Vietnam and the region as a whole.

Trade and investment liberalisation has been the central thrust of economic integration in the Asia-Pacific under the Bogor Goals. The most ambitious initiative as yet is the plan to establish the Free Trade Area of the Asia-

Pacific (FTAAP).

While its objectives are laudable, the FTAAP process is a colossal undertaking which is likely to entail multiple rounds of complex negotiation, chiefly because there are substantial development gaps between the member economies.

In this context, regional integration should also be pursued through bottom-up initiatives aimed at enhancing inter-country and intra-country connectivity. Strengthening connectivity helps to reduce transaction costs which hamper production, investment and commerce.

Moreover, these projects can deliver tangible benefits for the people and facilitate balanced sub-national development, thus helping to build political support for deeper integration.

The three connectivity objectives of physical, institutional and people-to-people connectivity are being pursued in tandem. Nevertheless, physical infrastructure bottlenecks represent a particularly pressing challenge for many developing APEC economies. Such economies often face huge infrastructure financing gaps.

APEC economies should leverage on cooperation with multilateral development banks to help covering these gaps. At the same time, allocation and management of infrastructure funding must be made more efficient. Finally,

the private sector should also be engaged in infrastructure development through Public-Private Partnerships (PPP).

Globalisation has been a positive force for global economic development. However, its adverse distributive effects must not be overlooked.

Recent empirical studies show that employment in export-competing industries in the United States has been adversely affected by China's rise as an export powerhouse. In turn, China is gradually losing its cost competitiveness to emerging rivals as manufacturing matures and labour cost rises. Meanwhile, disruptive technological changes and diminishing demographic dividends will also erode the advantages in manufacturing of other developing economies, including Vietnam, sooner rather than later.

It is thus crucial for all governments to prepare for reforms to make the economy resilient to structural challenges and future disruptions. A policy priority should be the development of services in tandem with manufacturing. Services gain in importance as an engine of growth and employment creation as the economy develops.

Nevertheless, the development of the service sector cannot be achieved through market forces alone. Governments have an im-

portant role in facilitating an appropriate regulatory framework which fosters competitive and efficient service markets and investing in service infrastructure.

Another policy priority is the reduction of skill mismatches in the labour market. Education and technical training should be revamped in alignment with industry needs, with close collaboration between higher-learning institutes, industry associations and companies.

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Furthermore, curriculum should also seek to develop soft skills and language skills so as to prepare the workforce for the service economy.

Fostering MSMEs is a key step in realising the vision of inclusive growth as MSMEs represent 97 percent of all businesses and employ more than half the workforce across APEC economies. However, there must be a paradigm shift in the strategy to develop MSMEs in the post-Bogor era.

Direct interventions such as distributing handouts and providing tax breaks should not lon-

ger be the sole modus operandi for governments.

Instead, governments must focus on playing a facilitative role. Policy-makers, especially those in developing economies, must intensify market reforms to level the playing field between state-owned enterprises and the private sector. Streamlining bureaucracy and improving bureaucratic capabilities to enhance ease of doing business is also important.

Furthermore, governments should seek to amend information asymmetries in the market. Profiling MSMEs and disseminating such information is crucial as information gaps often hinder multinational corporations (MNCs) and prospective investors from linking up with MSMEs. Additionally, policy-makers can facilitate dialogue between MSMEs and industry captains to promote cross-learning to help MSMEs address their weaknesses. Evidenced-based firm-level studies on MSMEs in terms of productivity and efficiency are thus vital for governments to fulfil their facilitative role.

The Asia Competitiveness Institute at Lee Kuan Yew School of Public Policy, National University of Singapore, in cooperation with the European Central Banks and national think-tanks in Asia, is developing a comprehensive database on MSMEs in 16 Asian

economies.

This research will provide MNCs and policy-makers with an accurate assessment of MSMEs' characteristics which may serve as instructive roadmap to develop synergies to innovate and internationalise MSMEs.

APEC 2017 is the golden opportunity for Vietnam to show leadership by initiating the discussion on the Beyond Bogor agenda. Other ASEAN partners also have an interest in helping Vietnam to successfully host APEC 2017, in particular Malaysia which will be the host for APEC 2020, as this will reaffirm ASEAN's centrality in charting the development trajectory for the Asia-Pacific.

Moreover, the impetus generated from APEC 2017 and particularly the discussion on the Beyond Bogor agenda may reinvigorate the reform momentum to address extant structural weaknesses among APEC economies. In this sense, APEC 2017 can be the springboard for fresh economic initiatives to achieve future prosperity.

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