



**Asia-Pacific  
Economic Cooperation**

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**Background Paper  
Fostering Sustainable, Innovative  
and Inclusive Growth**

Purpose: Consideration  
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## BACKGROUND PAPER

### PROMOTING SUSTAINABLE, INNOVATIVE AND INCLUSIVE GROWTH

#### I. BACKGROUND

Since the global financial crisis, the global economy is undergoing a process of slow recovery. The pattern of growth has been less predictable, and uneven across different groups of economies. Even the Asia Pacific, arguably the most dynamic region, witnessed sluggish growth. Accelerating the pace of growth recovery in the Asia Pacific region is then a major concern, since it helps shape prosperity and induce efforts to liberalize regional trade and investment.

Table 1: Selected indicators and forecasts for East Asia and the Pacific (%)

	2013	2014	2015 <sup>*</sup>	2016 <sup>†</sup>	2017 <sup>†</sup>	2018 <sup>†</sup>
East Asia and Pacific, GDP growth	7.1	6.8	6.5	6.3	6.2	6.1
GDP per capita, growth	6.4	6.0	5.7	5.6	5.5	5.5
Export growth	7.2	6.5	2.5	3.4	4.3	4.8
Import growth	8.5	5.7	2.1	4.0	4.8	5.4

Source: World Bank. Note: <sup>\*</sup>: estimate; <sup>†</sup>: forecast.

It is becoming more apparent that manipulating macroeconomic policies to achieve growth is hardly viable in various Asia Pacific economies. Fiscal space becomes narrower after prolonged period of stimulus to combat economic downturn. In addition, excessive use of stimulus measures, including monetary policy instruments, by one economy may trigger counter measures by other economies in the region which, after sufficiently long period, may increase instability in the regional context.

In this context emerges the need for efforts to identify more innovation- and broad-based sources of growth in the Asia Pacific region. Such efforts should target not only high and sustainable economic growth, but also wide participation of various groups, including women, young people, the elderly, ethnic minorities. More importantly, such efforts should incorporate collaboration among regional economies to facilitate shared experiences, to ensure greater consensus and harmonized actions.

This paper discusses the key issues and deliverables for APEC 2017 under the pillar of promoting sustainable, innovative and inclusive growth. More specifically, the paper focuses on major work streams on structural reforms and innovation, services, human resource development in the digital era, and building a sustainable and inclusive community. Leveraging on the progress under these work streams embodies essence to return to the trajectory of high economic growth as well as to overcome the risk of middle-income trap. These are the priorities that build upon the on-going work of APEC, and possess potential for continuation by APEC in the years to come.

#### II. KEY ISSUES

##### 1. Structural reforms and innovation

Structural reform consists of improvements made to institutional frameworks, regulations and government policies so that the efficient functioning of markets is supported and behind-the-border barriers are reduced. Such work is expected to generate significant benefits and remains relevant for many current economic policy debates, including the issues related to the prospects of avoiding the middle-income trap.

In 2015, APEC Ministers endorsed a Renewed APEC Agenda for Structural Reform (RAASR), which will guide APEC's work on structural reform until 2020. The RAASR aims for a robust, comprehensive and ambitious structural reform agenda to reduce inequality and stimulate growth in APEC economies, and contribute to APEC's overarching goal to promote



balanced, inclusive, sustainable, innovative and secure growth, through measures in line with the three pillars, namely: (i) more open, well-functioning, transparent and competitive markets; (ii) deeper participation in those markets by all segments of society, including micro-, small- and medium-sized enterprises (MSMEs), women, youth, aged workers and people with disabilities; and (iii) sustainable social policies that promote the above mentioned objectives, enhance economic resiliency, and are well-targeted, effective and non-discriminatory.

Innovation represents an important pathway to improve the quality of growth, promote economic and social development, address common challenges and achieve prosperity of the Asia-Pacific and beyond. In 2014, the APEC Leaders endorsed the "Toward Innovation-Driven Development" initiative. In line with the above declaration of innovative growth through enabling eco-system, regional cooperation, human resource exchange, and infrastructure development, PPSTI is to strengthen the synergy of government, academia and industry, including SMEs, and engage actors involved in joint scientific research and in the technology inception, dissemination and commercialization cycle, with both its competitive commercial sectors and non-profit elements. The Vision Statement in the PPSTI Strategic Plan (2016-2025) reiterated that "By 2025, APEC will have achieved innovative economic growth through PPSTI's efforts".

By the end of October 2016, APEC member economies have prepared individual action plans (IAP) to implement RAASR. In 2017, therefore, APEC member economies should dedicate further efforts in kick-starting the implementation of IAPs. The past implementation of APEC New Strategy for Structural Reforms (ANSSR) in 2011-2015 showed that continuous sharing of experiences and progress played an important role in aligning the outcomes of IAPs and figuring out follow-up capacity-building efforts. Therefore, APEC should encourage member economies to take prompt initiative to share experiences and build capacity for more meaningful implementation of IAPs in 2017.

Competition policy is a key focus in 2017. In particular, building capacity for competition authorities on competition economics, emerging competition issues and enforcement of competition policy has emerged as an important need. For example, understanding the need for non-discriminatory treatment between State-owned enterprises and private ones (i.e. competitive neutrality) is inevitable in designing a fair competition policy that helps nurture the development of private sector. Currently, competition authorities in the APEC region remain uneven in terms of knowledge, tenure, and experience in dealing with actual competition cases. The more recently established competition authorities in APEC developing economies appear to lag behind other developed competition authorities in terms of knowledge, particularly of the underlying economic mechanism of competition cases and related competition policies. Newly emerging issues - such as behavioral economics and competition in platform markets as well as using economic evidence - present areas where capacity building for competition authorities is necessary. In light of this, APEC should attempt to promote a series of workshops on competition-related issues under the EC/Competition Policy and Law Group, focusing on economics of competition, investigative power of competition authority, etc. (the so-called 'Competition Week').

Several sources of support can be sought for the improvement of competition policy in the Asia-Pacific region. Various competition authorities in the region have set good example of designing and enforcing competition policy. Besides, APEC may cooperate with other institutions, such as the OECD, CRESSE, etc. to improve the delivery of capacity-building programs on competition policy design and enactment.

Promoting innovation-targeted work also helps build stronger foundations for economic growth in the Asia Pacific region. Rather than being restricted to technological progress, innovation can take various forms, i.e. in products, processes, designs, marketing and organizational approaches. Studies suggest that technological growth alone is responsible for more than half of the observed rise in productivity and national income. Economies at different stages of economic development will face different challenges in developing the right mix of structural reform policies to support innovation within their economy. Creating the right socio-economic environment to support innovation requires well managed policy reforms that are developed and improved over time. Reforms should be proportionate to the individual challenges of an economy. Lifting the capability and capacity of economies to implement



reforms is equally as important as the reforms themselves, as economies move closer to the policy frontier. APEC should promote technical assistance for member economies to identify the largest impediments for innovation-targeted structural reforms and to build on them through further policy reform and capacity building initiatives. In 2017, APEC should also further enhance the award on APEC Science Prize for Innovation, Research and Education (ASPIRE).

**Table 2: Common aspects of structural reforms and innovation at different level of economic development**

	<b>Developing</b> <i>(learning/factor driven)</i>	<b>Middle</b> <i>(catching-up/efficiency driven)</i>	<b>Advanced</b> <i>(frontier/innovation driven)</i>
<b>Regulatory reform</b>	Developing institutions to support robust regulatory policy development and implementation.	Implementing frameworks to identify and manage impacts of regulatory reform. Working to ensure that regulations do not inhibit firm innovation.	Implementing advanced tools to support transparency and robust regulatory policy with an aim to promote innovation. Using regulation to promote innovation and the adoption of new technologies.
<b>Public sector governance</b>	Implementing governance frameworks to support the rule of law and remove corruption or administrative abuse.	Administrative simplification, improving coordination between government agencies.	Sophisticated governance arrangements to incentivize efficient and effective public spending, taxation, and ownership (where applicable).
<b>Competition policy</b>	Establish competition authority to enforce competitive markets.	Establish comprehensive competition policy framework.	Sophisticated competition framework to encourage long term dynamic efficiency.
<b>Corporate governance</b>	Providing basic legal infrastructure to support the birth, life, and death of firms.	Refining corporate governance systems to enable increased capital raising and more complex corporate structures.	Sophisticated and flexible legal infrastructure to support firm governance and risk-taking, incentivize growth and enable raising of capital.

Source: Adapted from input paper for APEC SRMM 2015.

The use of good regulatory practices (GRP) should be further popularized and systemized. Over the past years, the annual APEC conferences on GRP have been instrumental in promoting cross-fora collaboration on GRP issues. The room for further collaboration, however, remains ample. In particular, APEC economies should look more closely into areas such as reducing unnecessary regulatory burdens, public consultation, and international regulatory cooperation. APEC cross-fora conferences should continue to be implemented in 2017, with appropriate focus based on recommendations from past events. Promotion of individual economy's GRP capacity should also be enabled, subject to the inclusion of GRP as IAP priority. APEC work on GRPs should also incorporate further joint attempts with international organizations such as the World Bank, OECD, Economic Research Institute for ASEAN and East Asia (ERIA), etc.

Finally, APEC should deepen efforts to promote Ease of Doing Business (EoDB) program for 2016 - 2018. The five areas for APEC EoDB programs include: (i) starting a business; (ii) enforcing contracts; (iii) trading across borders; (iv) dealing with construction permits; and (v) getting credit. The technical assistance and shared experiences so far within APEC have contributed to widespread and remarkable improvements in EoDB performance of various economies. For instance, Viet Nam enacted a comprehensive agenda (under Resolution 19 since 2014) to promote ease of doing business, which led to noticeable improvements in 2015-2016. Many of the easier improvements - like streamlining procedures and reducing costs - have in large part been accomplished. Nonetheless, more difficult issues involving institutional changes that will help sustain reform in the long run still need to be addressed. In this regard, APEC economies should exchange further views and experiences on



the best-practice institutional arrangement that underpins sustainable (and possibly self-fulfilled) reforms toward facilitating business activities.

## 2. Services

In the past years, APEC has attempted to promote further collaborative work on services. Early and foundational work of APEC in regional services trade and investment included the Services Action Plan, the APEC Principles for Cross-Border Trade in Services, and the Services Trade Access Requirements (STAR) Database. APEC leaders also endorsed the APEC Service Cooperation Framework (ASCF) in 2015 and the APEC Services Competitiveness Roadmap (ASCR) in 2016. The AEPR in 2016 contributed further to the theme, with deep and insightful contents on structural reforms and services. Such joint collaborations on services led to immense progress, with commendable contribution to APEC Leaders' Growth Strategy, the APEC Connectivity Blueprint, and the 2014 APEC Strategic Blueprint for Promoting Global Value Chains Development and Cooperation.

### Box 1: Key recommendations of AEPR 2016 on Structural Reforms and Services

1. Pay more attention to services.
2. Pursue reforms on a unilateral basis.
3. Focus on productivity.
4. Rely on market mechanisms and competition.
5. Recognize and measure the positive spillover effects of structural reform.
6. Apply value chain perspectives to leverage services reforms.
7. Adopt a whole-of-government outlook to anticipate potential silo problems.
8. Consider need to address adjustment costs.
9. Design reform programs to be flexible to reflect learning by doing.
10. At the APEC level, pursue cross-fora collaboration and joint work programs.
11. Implement measures to measure progress and impacts of structural reforms.

*Source: APEC Policy Support Unit (2016).*

A number of services have the potential to contribute to the implementation of sustainable development goals (SDGs). For instance, further development of logistics services may arguably contribute directly to economic growth via various channels, namely: (i) formalization of activities in an entity-based professional way; (ii) creation of jobs; and (iii) enhancing efficiency of downstream activities, including trade and production activities. Accordingly, the goal of decent work and economic growth is very likely to be realized. Meanwhile, financial services targeting MSMEs can help engage these enterprises better in cross border trade and/or the evolution of supply chains. This will be reflected in reduced poverty and/or reduced inequality.

A further stream of necessary work to support service development is to strengthen connectivity - including by providing support for enhancing sub-regional connectivity and promoting collaboration among regional connectivity initiatives; promoting tourism, cultural exchange, mobility of business people and travel facilitation.

## 3. Human resource development in the digital era

Recognizing that human resource development is a cross-cutting issue, APEC has instructed cross-fora collaboration on a number of activities. The key contents for collaboration include building human capital for business sectors; implementing ANSSR and RAASR; conducting disaster reduction education; and conducting skills mapping research exercises in the APEC region.

It is necessary that APEC 2017 builds upon the work of human resource development, to ensure that the labor forces are more participatory to and benefit from regional economic integration.

Possible areas for future work include:

- Support the implementation of the HRDWG Strategic Plan 2016 – 2020;
- Advance cooperation on education, skill training, particularly identifying and developing 21<sup>st</sup> century skills to prepare for the future of work;



- Advance cross-border education, inter-institutions collaboration on education and training;
- Promote mutual recognition of qualifications, sharing experiences on STEM and employable skills for labor, development of women entrepreneurship;
- Promote mobility of academics, researchers and students.

#### **4. Building a sustainable and inclusive community**

APEC Economic Leaders has expressed in the Economic Vision Statement in November 1993 that "Our environment is improved as we protect the quality of our air, water and green spaces and manage our energy resources and renewable resources to ensure sustainable growth and provide a more secure future for our people". This statement provides the mandate for APEC's work on sustainable development.

With a view to promoting inclusive growth, since 2010, APEC has supported policies that increase opportunities for all workers to benefit from regional economic integration. Efforts are made to improve the business environment for micro, small and medium enterprises (MSMEs) and to create sufficient opportunities for potentially vulnerable groups, including youth, elderly and women, through better education, training and employment programs.

Key issues related to building a sustainable and inclusive community include:

- Reduce the development gap, inequality;
- Address regional challenges (climate change mitigation, emergency preparedness, disaster risk reduction, poverty reduction, etc.);
- Promote sustainable and inclusive urban growth;
- Improve social protection and further assistance to vulnerable groups; Empowerment of women, youth, older workers and people with disabilities; address economic and social issues caused by aging population;
- Implement the initiative "Healthy Asia – Pacific to 2020";
- Implement the APEC Cooperation Initiative for Jointly Establishing an Asia – Pacific Urbanization Partnership.

### **III. EXPECTED OUTCOMES AND DELIVERABLES**

#### **1. Structural reform and innovation**

- Several workshops, roundtable dialogues on experiences related to competition policy, promotion of innovation and structural reforms, etc.;

- Some capacity-building workshops on implementation of structural reforms (IAP under RAASR), science and technology, competition policy, good regulatory practices, women entrepreneurship, etc.;

- Various APEC projects to help implement the IAPs under RAASR in APEC economies;

- Policy recommendations to APEC SOM and Leaders on issues related to structural reforms and innovation, competition policy, etc.

#### **2. Services**

APEC 2017 should continue to promote dialogues among services regulators; officials responsible for trade, investment, and competition policies; and the private sector. Topics of dialogues may include, but are not limited to: (i) the key services sectors that can contribute to job creation and growth while promoting social inclusion and human development; (ii) existing excess of regulatory restrictiveness over services; and (iii) competition policy in selected services sub-sectors.

To promote further work on services in 2017, APEC can resort to the cooperation and/or assistance by a wide range of partners/institutions, including the World Trade Organization (WTO), United Nations (UN) Bodies, International Trade Center (ITC), the Organization for Economic Cooperation and Development (OECD), the Economic Research Institute for ASEAN



and East Asia (ERIA), the Asian Development Bank (ADB), Inter-American Development Bank (IADB), and the World Bank, among other institutions, to implement the Roadmap, and avoid duplication and ensure coherence with existing initiatives.

### **3. Human resources development in the digital era**

APEC leaders have also instructed the Economic Committee to lead the preparation of the APEC Economic Policy Report 2017 titled "Structural Reforms and Human Capital Development". Given the high interest and importance of the issue, APEC should encourage member economies to contribute to the preparation of the APEC Economic Policy Report 2017, particularly in terms of individual economy reports.

Other possible deliverables include:

- Regular APEC forum/policy dialogues among APEC members and relevant stakeholders to share experience and discuss solutions for coping with arising issues related to human resource development (in the digital age) and preparation for future of work towards sustainable development;
- Some capacity-building workshops on structural reforms and human resource development, women entrepreneurship, etc.;
- Various APEC projects on human resource development to implement IAPs under RAASR in APEC economies;
- Policy recommendations to APEC leaders and SOM on issues related to human resource development towards decent work and sustainable development, etc.

Regarding human resource development, APEC should deepen cooperation with other international organizations such as the International Labour Organization (ILO), OECD and the Southeast Asian Ministers of Education Organization (SEAMEO) in the areas of labor and social protection and foreign language education and training.

### **4. Building a sustainable and inclusive community**

- Substances of cooperative and individual-economy efforts to address the above issues will be incorporated in the relevant workshops, roundtable dialogues, etc.;
- The related Statement and policy recommendations will be presented to APEC SOM and Leaders.