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Beyond the 'New Normal' in Indonesia
An interview with Mari Pangestu

Singaporean Entrepreneurship
Thinking Bigger

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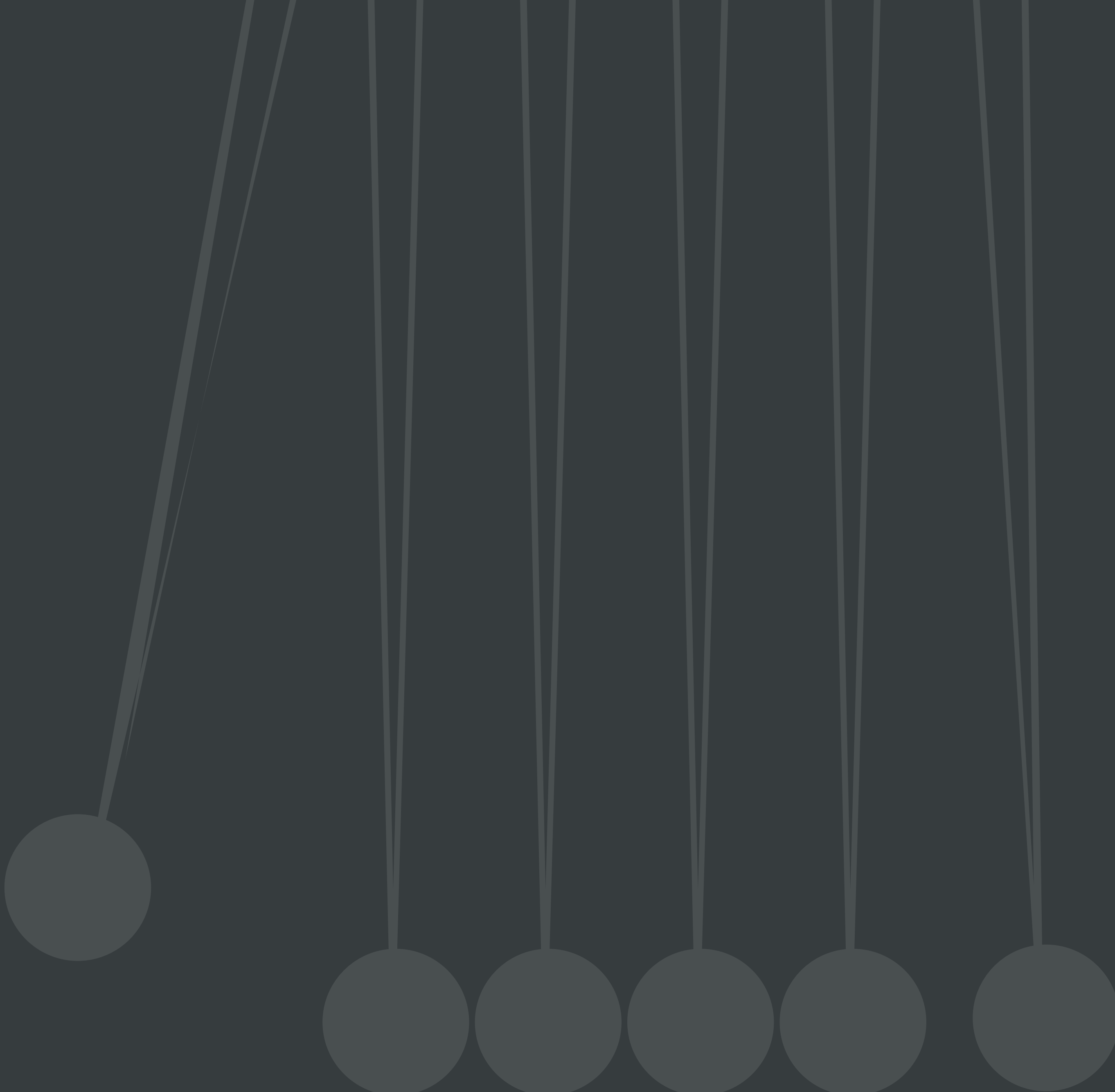

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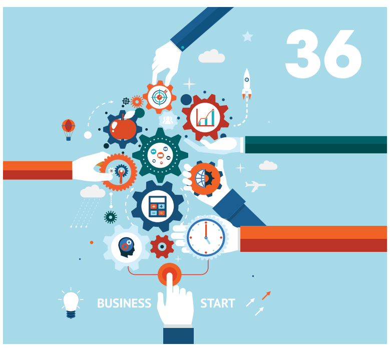
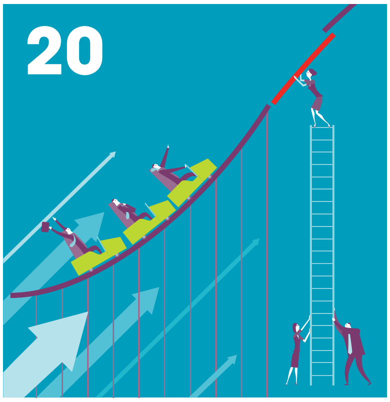


Indonesia needs productivity-based, innovation-based growth.

-Professor Mari Pangestu, Indonesia's former Minister of Trade and former Minister of Tourism and Creative Economy



Complex and disparate, comprising the developed and newly emerging economies, the member countries of ASEAN face innumerable challenges. However the region also offers immense opportunities.

- Philip Zerrillo, Editor-in-Chief, Asian Management Insights

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ASIAN MANAGEMENT INSIGHTS

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FROM THE EDITOR

On the AEC, economic miracles and leadership

I was reading the tributes to the late Mr Lee Kuan Yew the other day, and came across this comment from Henry Kissinger, an astute strategist and a man of letters who at 91 is continuing to contribute to society through his writing. "The mark of a great leader is to take his society from where it is to where it has never been." The essence of strategic management. In fact, Dr Kissinger believed that there was no better strategic thinker in the world today than Mr Lee.

This edition of Asian Management Insights focuses on the ASEAN Economic Community (AEC), the development of which also mirrors much of Singapore's well-documented early struggles. ASEAN in 2015 is top of mind for most of us living and working in the region. Complex and disparate, comprising the developed and newly emerging economies, the member countries of this regional grouping face innumerable challenges, ranging from illiteracy and water scarcity at one end, to development of knowledge hubs and information technology capabilities at the other. However it is also home to immense opportunities. While the developed markets around the world struggle with ageing, and increasing fiscal concerns, ASEAN is young, vibrant and growing.

Our journey begins with a reflection from Edward Lee on the awakening of the political and economic giant that is ASEAN, and culminates in a Parting Shot from Sudhir Devare, who questions whether ASEAN can take on a leadership role for Asia Pacific.

Several distinguished contributors offer insights on specific countries. Tony Diep and Hawkins Pham, for example, write of the renaissance of the private sector in Vietnam, its macro stability and emerging middle class. Dr Le Dang Doanh, the former President of CIEM, Hanoi explores the transition of Vietnam's economy from the old centrally planned, Soviet-moulded, economic system. Our coverage of Vietnam's evolving economy concludes with a case study analysing Unilever's 'one-rinse solution', an innovative and sustainable offering targeting the bottom of the pyramid customers.

Our contributors have also mentioned the controversial Trans-Pacific Partnership (TPP), to which Singapore is a signatory and which Vietnam is expected to sign shortly. The proposed regional regulatory and investment treaty has attracted widespread criticism on concerns that it is far more than just an economic trade alliance with the United States and member states in the Pacific region. Other current concerns in the region include the future of petroleum security, and Christopher Dula suggests significant investment and cooperation between ASEAN members will be required to shore up reliable access and affordability.

Open policies, an attractive workforce, and new market potential all suggest a Philippine 'take-off' is underway, says Dr Bernardo M. Villegas, who cautions ASEAN leaders that the AEC is a work in progress that may take at least 20 years to complete.

Meanwhile, Indonesia's former minister for trade, Mari Pangestu, discusses venturing beyond the 'new normal', to find a different way of questioning ourselves and the role of the State and the market. She also reveals that a smart Minister of Trade avoids words like "free trade", "liberalisation" and "opening up", telling me that you need to keep in mind public opinion and 'national interest'!

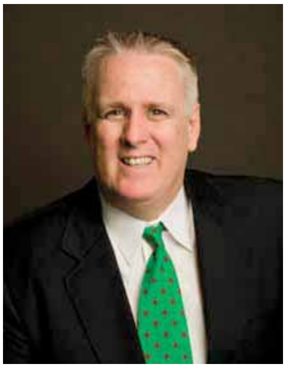
Back in Singapore, Desai Arcot Narasimhalu notes that although Singapore has become more conducive for entrepreneurship, there are still valuable lessons for the nation to learn if it expects to see home-grown entrepreneurship pushed to the next level—surely a comment worthy of Mr Lee himself, who was always at pains to emphasise learning!

The challenges do not stop there. Howard Thomas explores the widening gulf between practical management and academic curricula. He questions whether schools are failing to adequately prepare students to deal with real-world management problems. So what should managers explore if they are to fill this talent gap? Interestingly, when it comes to nurturing future leaders, Rajeev Dubey offers the concept of 'Rise Pillars', which he says also doubles up as a means of getting the often under-rated HR profession to sit at the strategic table.

The technology-enabled wellness revolution and the evolution of a new mobile health (mHealth) ecosystem is an enormous opportunity now being explored across ASEAN. Francis Puno explains how the revolution conveniently capitalises on the high adoption rate of smartphones and enabled devices in the region, and helps medical staff to address chronic disease monitoring, health education, treatment and support services.

But back to the late Mr Lee for the last word. A realist to the end, he came to the conclusion that Singapore was unlikely to remain static in a fast-moving globalised world: "Will the political system that my colleagues and I developed work more or less unchanged for another generation? I doubt it."

As always, the pithy Mr Lee captured the essence of strategic management and the spirit of entrepreneurship that is essential to business life and, some would say, is also uniquely Singaporean. Bravo Mr Lee. You will be greatly missed.



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Going Beyond the 'New Normal' in Indonesia

The Republic of Indonesia's former Minister of Trade and former Minister of Tourism and Creative Economy, Professor Mari Pangestu, talks about the country's resilience, and going beyond the 'new normal', in this interview with Philip Zerrillo.

What are some of the measures that the Indonesian government implemented after the Global Financial Crisis of 2008? Have these measures achieved their goals?

I believe the Indonesian government has taken the right steps to ensure macroeconomic stability by embarking on a conventional economic policy and choosing stabilisation over growth. To prevent capital outflow, we increased the interest rate and allowed the rupiah to depreciate. For fiscal consolidation we raised the fuel price, and switched expenditure toward infrastructure and social welfare. The main challenge ahead with regard to macroeconomic policy is managing the monetary policy in the face of the U.S. Federal Reserve tapering its quantitative easing policy, and managing the fiscal policy.

But I think we need to go beyond the 'new normal', to find a different way of questioning ourselves and the role of the state and the market. We have to address more fundamental reform issues. For Indonesia, this means reforming infrastructure and increasing our competitiveness across the board. Diversification of our export structure and our economic structure is the imperative going forward.

We need productivity-and innovation-based growth. And that's the challenge that I think requires structural reforms and addressing issues of competiveness, such as our high cost of logistics, the issue of human capital and the right quality of investments.

What are some of the key initiatives that Indonesia needs to take in terms of infrastructure development?

In the last 10 years or so, we have recognised the need to address the infrastructure bottleneck. So we have been trying to set up a framework to ensure that the political as well as commercial risk issues of infrastructure development are addressed, while also promoting private-public partnership. There has been some success–the building of some power plants, ports, airports and roads–but it still falls short of what is needed.

The main issue with infrastructure boils down to acquiring and developing land, and the certainty about the economic pricing of these projects to make the private-public partnership attractive. On the land issue, after a lengthy process, an Eminent Domain law was passed in 2012, so that the government can take over private land for public use, of course after a fair process. But it has only recently been implemented. Hopefully in the years ahead it will increase the certainty for land acquisition needed for infrastructure.

And are there specific infrastructure industries that you think would be prioritised?

The priority is clearly on power generation. We recognise that area as one of the major bottlenecks for growth and also for development. The target is that the country should be able to produce 35,000 megawatts by 2019. But can we reach that and make it sustainable? A lot of what we are using today is still coal. Can we develop clean coal generated power plants? And what about other sources of energy like hydro or gas or renewable energy? The incentives for these sources are not yet clear. For instance, there seems to be more incentives for coal-fired power plants as compared to gas–yet gas is a cleaner source of energy and Indonesia has gas reserves.

The second priority, I think, pertains to logistics and improving connectivity–because you want to connect more remote regions with the mainland. This would address issues of efficiency and competitiveness, as well as help alleviate poverty. In practice, this means developing ports and airports. The government may focus on integrated ports to begin with, and this is an area where public-private partnerships are likely to develop. Once roads are built and connectivity is established, it will raise the productivity of the agricultural sector, and the ability to get goods in and out of the country will certainly enable more value adding.

What are your thoughts on the future megatrends taking place in the medium-to-long term that would impact Indonesia's economy?

China's impact on Indonesia is significant because the decline in commodity demand is impacting prices and overall consumer demand in Indonesia. But on the positive side, as China restructures and goes to its 'new normal' of rising labour costs, it is shifting away from the large-scale labour intensive manufacturing it has relied on, and that allows room for Indonesia to maintain competitiveness in this area.

So Indonesia needs to capture this opportunity by ensuring that its labour policy does not unnerve investors and exporters. For instance, an increase in minimum wage should not be done in a way that causes uncertainty. Or consider the retrenchment issue. It needs to be carefully managed, as it is difficult and costly to retrench in Indonesia. Incentives need to be provided to labour-intensive, export-oriented investments, and industrial estates should be developed near the supply of labour.

What are your views on the ASEAN Economic Community (AEC), and the opportunities and challenges that it would bring to Indonesia?

I don't see AEC 2015 as a gate that opens up and suddenly causes dramatic change by the end of 2015. This is actually a process that has been ongoing. In general, Indonesia has probably benefitted from the current process of the AEC, because a lot of multinationals chose Indonesia as their regional hub or regional production centre. Moreover, Indonesian producers and exporters already view ASEAN as a domestic market. But are the small- and medium-sized enterprises (SMEs) able to benefit from the ASEAN market? The answer is probably still no. That is the kind of capacity building that SMEs will need to focus on.

I think the big challenge will be on the services side and the movement of professional workers, because, by and large, not just Indonesia, but most ASEAN countries, are still quite closed or restrictive on the opening up of their services sector. And in fact, many may be regressing in trying to protect some of the services sector, such as finance, health and education. So for instance, some of the priority sectors like health should be allowing 70 percent ASEAN ownership–but it's been a slow process trying to get there, and even if these sectors were opened up, the next challenge is managing the domestic regulation issues that would emerge.

I think services is something that we policy makers, or people talking about competitiveness, have not prioritised in Indonesia. Meanwhile, Malaysia and Singapore have already made competitive services a part of their long term development plan, and so has Thailand to some extent. And China is already in that mould. So Indonesia needs to understand that to become competitive, it must have a competitive services sector, be it logistics or financial services, which would facilitate the competitiveness of other sectors.

And we should want to be competitive in our own right, and think carefully about the movement of professionals. I believe that if you don't have the skills at home, you should be open to getting talent and skills from abroad as long as the idea is that you learn from them, and alongside develop your own set of human capital.

Fifty percent of Indonesia's population are 29 years of age and below, and the country needs to grow at 6 percent per year or more to create jobs for them. At a time when most countries are worried about ageing population, does Indonesia see its young demographic as an asset?

We do have a demographic bonus, but if you cannot create jobs or utilise your productive young labour force in the right way, you instead have a time bomb. So while we would benefit from our young population in the sense that we will be able to continue with labour-intensive export-oriented manufacturing, I think it is something that we should work at, and one of the keys is information and communications technology (ICT) infrastructure.

ICT infrastructure is very important because it means you can work from anywhere. It also opens up a huge opportunity for long-distance learning, or e-learning, which makes sense in a country as spread out as Indonesia. In the 1970s, the launch of the satellite really helped Indonesia to develop because you could watch television, and there was a lot of education through that mode, including Indonesian language education and propagating family planning. Now it's obviously a different world, but with improved ICT infrastructure—in terms of broadband, accessibility, speed and cost—you could do a lot for young people even before the physical infrastructure gets built.

And we should take advantage of the economic opportunity available on account of the ageing population in North East Asia. There will be increased demand for certain sectors, such as health products. And I think Indonesia has not done much in terms of exporting services, such as health, when compared to Singapore, Malaysia or Thailand. Moreover, Malaysia and Thailand have programmes inviting people to retire in their country. All these initiatives create value, generate foreign exchange and are a service that skilled Indonesian workers can deliver. So I would say there is an opportunity that we need to study.

But the bottom line is that you have to invest in the right type of education, and skill and capacity building for the young people.

What, in your view, are the sunrise and sunset industries in Indonesia?

It is probably not very useful to categorise industries as sunrise or sunset. But industries which are becoming less competitive are typically the low-end, large-scale, and 'sweatshop' type of industries, in say, garments and footwear. Therefore, what needs to be done is to move to the medium and higher-end, as we should be looking to be at the higher value-added part of the global value chain. Similarly, if agriculture does not keep up with the more recent productivity increases, it may not become a sunset industry, but would be increasingly uncompetitive. For now mining too, has the appearance of a sunset industry, because of low demand and low prices.

The rising industries are the higher value-added portions of manufacturing, and I think we should focus not just on low labour costs advantage, but also think about more skilled labour, the value-added phases like improved materials, research and development (R&D), design, and so on. And there is potential for the services sector to become more efficient and competitive. Given increased purchasing power and the growing middle class, tourism and creative industries such as fashion, lifestyle and consumer-related products will also have potential. Despite a slowdown in property due to slower growth, Indonesia's size allows for continued property development and construction in the second- or third-tier cities.

Talking about the second- and third-tier cities, are there any efforts underway to develop talent in these more distant places?

Yes there is, and creative economy and digital connectivity is an important part of that answer. We have seen talent and industry develop where the local government has been active about developing connectivity in the ICT space, and providing creative public space and opportunities. That is why realising the broadband blueprint by 2019 is crucial.

I can give you an old age example and a new age example. The old age, traditional industry example would be batik, which is a technique of wax-resist dyeing applied to cloth. About 10 years back, batik was dying and none of the young people wanted to go into batik or even weaving, because people were not interested in wearing batik or woven products. But in the last 10 years, with the push to promote the creative economy and interest in developing heritage-based products, there has been a boom in batik and a number of batik centres have become alive again. And now there are schools that are teaching batik-making, there is use of computer-aided design, and there appears to be a revival of the industry with incomes increasing for batik makers.

A new-age example is digital connectivity. All over Indonesia, you have pockets of offshoring and outsourcing work for all kinds, be it animation, graphic design or online selling. And a lot of them are working from homes in their villages.

Let me give you one such example. There are around 250 people working in a village about one hour away from Jogja. They're providing logo designs for websites. So thousands of small companies will put in their requests to make a logo, and these people compete to develop the logo. Whoever wins will get US$200 to US$400 for each logo, and as a result, their income can go up more than 20 times. But during the day, they continue to work as farmers and stone construction workers. They create logos at night, and they can do so because they are connected digitally. They taught themselves graphic design, and as they don't speak English, they use Google Translate to communicate with their clients. It is an amazing story, and brings with it an added advantage that as the young people are busy at night, the village is safer then.

"Trade" is not always popular, and as Minister of Trade, how did you deal with that, particularly in a country where there is considerable domestic demand for employment?

I think there is a lot of misunderstanding about trade. And especially after the Asian Financial Crisis in 1997-98, as well as the more recent global crisis, there is a tendency, not just in Indonesia but around the world, to blame trade and liberalisation–to say we have a crisis because we are too exposed to globalisation.

And so a kind of anti-foreign, anti-import mentality emerges, and when you see small companies go under or comparisons being made with cheap goods from China, the debate always arises that we should stop imports. It then becomes difficult to explain that to export and produce goods competitively for the domestic market, you need to access internationally priced inputs, including imports. More importantly, if you don't have the goods in your country, importing is going to help the consumers and even the poor. For instance, food imports will benefit the poor, because otherwise the food prices would be higher.

So what I have found is that the words "free trade", "liberalisation", "opening up" are not words that you would use if you were a smart Minister of Trade. We need to be better at explaining how opening up benefits the national interest, such as, by creating jobs, keeping prices stable for consumers and the poor, and so on.

For example, we have to make sure that there is enough rice in the country because rice makes up about 25 percent of what the poor consume. So we have to ensure that prices are stable, and when we don't have enough stock domestically, we import. But we will see to it that we import only the amount that is necessary, so that it will not hurt the price that our farmers would receive and that the government continues to buy rice at the minimum floor price.

To conclude, what are some of the key measures that Indonesia should take to address the key social and economic challenges that it faces? And are you optimistic about its future economic growth?

Well, I think the major challenge for Indonesia is how to have sustainable growth, with new sources of growth coming from more productivity-based growth. That means it has to come from new investments in physical infrastructure and initiatives which would increase productivity. Therefore paying attention to R&D and innovation is going to be important in the way we diversify the structure of our economy.

And I would submit that developing more efficient, more modern and more competitive services has to be an important part of the strategy. Just like many other countries, we are also dealing with an increase in inequity in Indonesia, which has to be addressed primarily through physical infrastructure as well as accessibility to health and education, so that we have the human capital capacity to compete and become part of the growing economy.

If the new government can succeed on infrastructure and ensure that we have stable macroeconomic conditions, I think everything else will fall into place. Subsequently, we will have the luxury to fine-tune things a bit more. We already have universal health and universal education programmes in place, and I think we have to be mindful to continue these programmes in an effective way.

I think Indonesia has shown a lot of resilience. It has gone through many crises and a number of changes. I am reasonably optimistic about its future economic growth because I believe that democracies are always noisy, and in general, we complain a lot domestically. But we are consolidating the process of democracy, and while the institutions are not there yet, we are going in the right direction. It's a little bit of trial and error, but the new government should be practical and brave to make changes when they need to. If what they're trying to do is not quite effective or the targeting is not quite right, they should have the political will, as well as the ability and the flexibility to change directions and make it work.

Professor Mari Pangestu
served as Indonesia's Minister of Trade from 2004 to 2011, and as Minister of Tourism and Creative Economy from 2011 until October 2014. She is currently Professor of International Economics at the Faculty of Economics, University of Indonesia and is on the Board of Directors of the Centre for Strategic and International Studies, Indonesia's leading thinking tank

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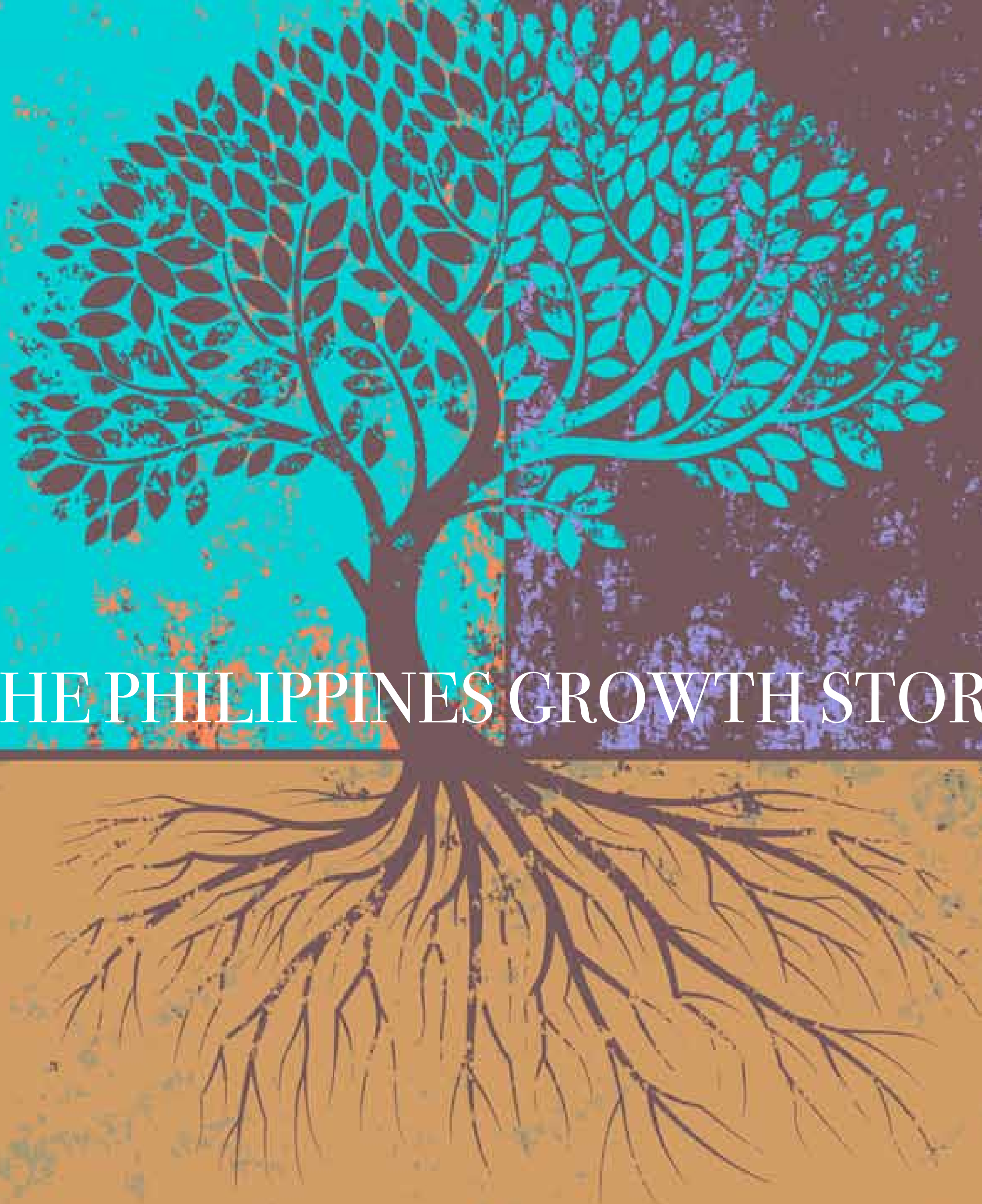

THE PHILIPPINES GROWTH STORY:

Ground Realities of ASEAN Integration

Open policies, an attractive workforce and new market potential in the Philippines–all suggest a 'take-off' is underway.

By Bernardo M. Villegas

The year 2015 is only symbolic for the ASEAN Economic Community (AEC), as the region has been moving towards economic integration for some time. Tariffs for most manufacturing goods have already fallen to low levels between the member nations. Capital is moving freely across member countries—for example, the Philippines already allows 100 percent foreign equity in local banks. Service professionals, with the exception of some like lawyers and architects, continue to practice and work across ASEAN borders. At the other end of the spectrum, we do not expect the free flow of labour for a long time to come. Still, 2015 may be significant for agricultural commodities like sugar and palm oil, which until now have been protected by subsidies to local producers and/or high import tariffs.

There is a lot of talk about how Filipino policy makers and businesses should prepare for and take advantage of the opportunities offered by the AEC. The reality is that Philippine enterprises have been investing and doing business in Indonesia, Malaysia, Singapore and Vietnam since the early 1980s. Their experiences, both positive and negative, serve as a good starting point for policy makers and businesses to strategise on which domestic sectors to focus on, where to invest and how to conduct business in order to benefit from the integrated community. Even more important, the Philippines needs to take some bold measures to put its own house in order to be an attractive place for business.

In order to plan ahead, one must learn from the past. The Philippine economy has gone through many ups and downs in the last 60 years. Past political regimes—whether open or closed, regressive or reformist, dictatorial or democratic—have left their indelible marks on the economy. Though mooted as one of the most promising economies of Asia

GDP Growth Rate

2011	3.7%
2012	6.8%
2013	7.2%

The Philippines achieved 6.9 percent growth in GDP in the last quarter of 2014, establishing three years of continuous growth for the first time since the mid-1950s.

in the 1950s, the Philippines witnessed a systematic degeneration of its economy in the decades that followed (refer to Box Story below).

After six decades of repeated boom and bust economic cycles and almost two decades of slow and painful reforms, the Philippines is once again poised to attain sustained annual growth rates of 7 to 10 percent. The effects of the strong and sound economic policies of the last 14 years are clearly reflected in the country's growth performance–GDP growth rose from 3.7 percent in 2011 to 7.2 percent in 2013.[1] The country achieved 6.9 percent growth in GDP in the last quarter of 2014, establishing three years of continuous growth for the first time since the mid-1950s.[2]

Tapping into ASEAN and beyond

Since 2001, major players such as the Salim group (Indonesia), Singtel and Keppel Corporation (Singapore), and Charoen Pokphand (CP) Group (Thailand) have established their presence in the Philippines, resulting in a continuous increase in portfolio investment in the country. Toward the end of the last century and the beginning of this one, Philippines-based food and beverage enterprises began expanding their operations to select ASEAN countries: the Robinson Group, Liwayway Manufacturing (Oishi brand), Century Pacific, Jollibee and Nutri Asia being noteworthy cases in point. Many other companies traversing ASEAN even earlier, such as accounting firm Sycip Gorres Velayo & Co. (SGV & Co.), pharmaceutical company United Laboratories and brewer San Miguel Corporation. Admittedly, these already globalised enterprises are the exception in the generally inward-looking, insular, ultra-nationalist and protectionist Filipino business community. But times are changing. And these changes can accelerate if, instead of worrying about what governments will do to promote or block regional integration within ASEAN, Filipino entrepreneurs simply follow the lead of the pioneers who went international despite uncertainties in government policies and the geopolitical environment.

These measures to open up the economy will not only help the country compete better in ASEAN, but also

THE PHILIPPINES: A CHEQUERED 60 YEARS

In the mid-1950s, the Philippines was ranked the second most progressive country in Asia, after Japan. With its large, educated, English-speaking population and prospering industries, it was poised for rapid growth and development. After 1965, the inward-looking policies and controls imposed by Ferdinand E. Marcos' government hampered, and even stunted, economic development. In the two decades that followed, the Philippines experienced severe economic hardships, marred by corruption and social unrest. Trade declined, investor confidence dropped, industries weakened, growth suffered and a large part of the population was trapped in poverty.

In 1986, through a peaceful 'People Power' revolution, the authoritarian government of Marcos was overthrown and Corazon Aquino took over as president. A new constitution was approved in 1987. Despite several attempted coups d'état, natural disasters and severe power shortages, the Aquino government was able to establish democratic rule in the country. Some initiatives were also taken to revive the economy. However, it was Fidel Ramos, Aquino's successor, who pushed through bold economic reforms under the 'Philippines 2000' development plan. During his six years in office (1992 to 1998), he focused on industrialisation, privatisation, deregulation and liberalisation. Several infrastructure sectors such as globally. Hence, although the ASEAN nations would be trading and investing in each other's countries more and more, the Philippines should not be closed to the rest of the world. A good example of this is the business process outsourcing (BPO) industry in the Philippines, which earns over US$10 billion annually from the U.S. alone. With earnings of US$15 billion in 2013, the industry employs more than a million Filipinos and is growing at 15 to 20 percent each year.[3]

My view is that, while the establishment of the ASEAN economic community is sure to prove mutually beneficial to all member states, political, social, cultural, religious and even economic heterogeneity will call for growth trajectories based on the strengths and

THE PHILIPPINES ECONOMY IN 2015: REPLETE WITH PARADOX

Strengths	Challenges
Stable democracy	Red tape and bureaucracy
Improved governance	Corruption
Strong macroeconomic fundamentals	High rate of poverty
Young, educated, English-speaking population	Lack of infrastructure
Renaissance in manufacturing	Low foreign direct investment
High savings rate from overseas workers' remittances	Low rate of investment to GDP
Low dependence on petroleum (and on external trade, in general)	Vulnerable to natural calamities (floods, earthquakes)
Peaceful labour	Civil unrest in Mindanao

electricity, communications, banking, shipping and oil were privatised. The Philippines' taxation system was reformed, and external debt and inflation were brought under control through debt restructuring and prudent fiscal management. The Estrada government, which took over in 1998, and in particular the visionary Secretary of Agriculture, Edgardo Angara, helped to refocus national efforts toward agriculture, an ignored sector with otherwise huge untapped potential.

The Asian financial crisis of 1997 had an adverse impact on all economies in the region. Although the Philippines managed to fare better than some of its neighbours, the nation also saw a change in leadership which added to its economic woes. Within three years, in 2001, the Estrada government was overthrown by a second 'People Power' revolution, which placed Gloria Macapagal-Arroyo at the helm as president of the nation. Since then, the Philippine government has been making a sustained effort toward growth, policy reform and liberalisation. The Arroyo government also took proactive measures toward agricultural and rural development. Recognising the budgetary constraints of the government, Arroyo emphasised public-private partnerships (PPPs) as a means to develop the country's infrastructure. The current president, Benigno Aquino III, is taking these initiatives to the next level.

challenges unique to each country. The Philippines, too, has to take stock of its competencies and weaknesses—leveraging the former and overcoming the latter—in order to position itself as a strong and stable economy that is open to foreign trade and investment.

Banking on an upwardly mobile workforce

Unlike most developed economies, and many ASEAN countries, the Philippines still has a young and growing population. In 2011, a UN report noted that over half (51 million) of the population was of working age, and only 3.5 percent of the population consisted of aged dependents (refer to Figure 1).

Investment in education has helped develop the young population into a dominant workforce that is fluent in English, culturally westernised and constantly moving up the workforce value chain. This is a key asset not just for the Philippines but also for ASEAN as a whole. Even though most ASEAN countries are not economically developed, they suffer from developed country demographics. Thailand is a case in point. At US$6,000, Thailand's annual per capita income is much lower than that of Singapore (which is about US$50,000). Yet its age profile is similar to that of Singapore. Thailand's birth rate has been declining for almost 30 years. The average age of a farmer in Thailand is 60 years, and few young people want to go into farming. Ageing populations will make it difficult for countries like Thailand to escape the middle income trap.

In 2014, overseas workers accounted for 12 percent of the Philippines' labour force and contributed US$26 billion to the economy. In fact, remittances from overseas workers are a bigger source of foreign income than tourism. Although domestic workers accounted for 40 percent of total overseas workers in 2012, this profile is rapidly changing as more domestic workers are moving into higher skilled and better paid jobs such as information technology professionals, nurses and caregivers. The trend is apparent in the BPO industry too—the Philippines' large pool of university graduates is being hired not just to man call centres, but also for data analysis and software development that feeds into the medical, accounting and legal industries in the United States.

Filipinos are sought after by their ASEAN neighbours for key management positions. For over 20 years, Indonesian companies have been importing Filipino managers to head their marketing, finance and accounting functions. In fact, SGV & Co. was instrumental in building Indonesia's accounting and auditing sector, and many SGV professionals have ascended to top executive positions in numerous Indonesian conglomerates. In addition, there are many American multinationals hiring Filipinos to run operations in Vietnam—although this trend may change in the long term.

> In 2011, a UN report noted that over half (51 million) of the population was of working age.

THE PHILIPPINES' DEMOGRAPHIC TREE: A YOUNG AND GROWING POPULATION

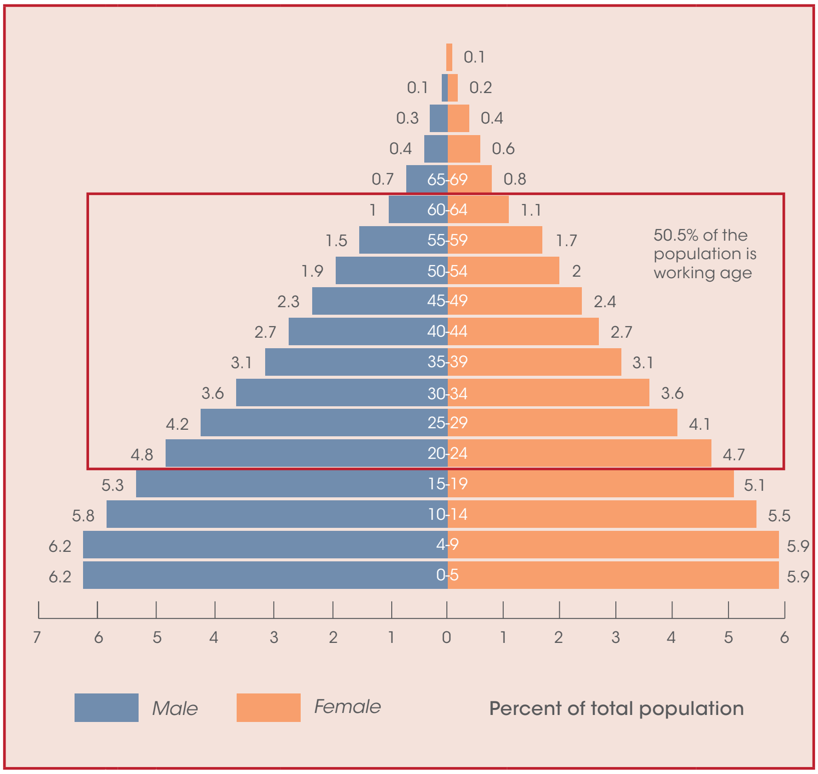

FIGURE 1 *Source: World Population Prospects: The 2010 Revision, United Nations, Department of Economic and Social Affairs, Population Division, 2011*

Investment in education has helped the Philippines develop the young population into a dominant workforce that is fluent in English, culturally westernised and constantly moving up the workforce value chain.

REAPING EFFICIENCIES IN PALM OIL PRODUCTION IN MALAYSIA

The experience of Malaysia shows that agricultural growth does not always have to be state sponsored. Guthrie, a Malaysian plantation company, which is now part of the conglomerate Sime Darby, sponsored the technology for palm oil production in Malaysia. The company set up nucleus farms with milling capacity through partnerships with thousands of farmers who individually owned small plots of land. Guthrie provided the technology and micro-financing, and even bought the palm oil from the farmers. In this way, the company was able to significantly improve the productivity of the plantations, address poverty issues in rural areas, and transform Malaysia into the leading palm oil producer in the world.

With the shortage of labour in Malaysia (palm oil production is a highly labour-intensive industry), these plantation companies are now eyeing countries like Indonesia and the Philippines as their next area for expansion. Furthermore, what has been done for palm oil can be replicated for other cash crops such as coconut, cacao and coffee. This could usher in a new era for agro-business in the Philippines.

The Philippines is also becoming an important player in the region for medical tourism. Filipino doctors that trained and practiced in the U.S. are returning home, setting up state-of-the-art hospitals and attracting patients from all over the world who were earlier looking at Thailand or Singapore as their first choice for medical treatment.

Realising the Philippines' agricultural potential

Up until a decade or so ago, the Philippines' policy makers largely neglected the agriculture sector. Under the agrarian reforms that started in the 1960s and continued into the mid-1980s, agricultural land was redistributed and divided into small plots, allegedly in the name of social justice. This politically motivated move was disastrous for achieving agricultural efficiency, and only helped to increase the number of landed poor. Most agricultural land in the Philippines, even today, is divided into small plots, which makes it economically inefficient for modern agricultural techniques. This, combined with the government's tunnel-like focus on industrialisation, has resulted in the lack of rural infrastructure, urban-rural transport networks, irrigation facilities, mechanised farming and modern machinery. In 2013, while 32 percent of the population was engaged in agricultural activities, the sector's contribution to GDP was a mere 11 percent.[4]

There is a strong case for investing in and developing agriculture in the Philippines. First, outside of Manila and a handful of other cities, most of the country is rural. For economic growth to be sustainable, it must trickle down to the rural areas. Here, Filipino policy makers can learn a lesson or two from Thailand, a country that has reaped the long-term benefits of investing in agriculture and countryside development. The government in Thailand has indulged its farmers with the necessary infrastructure such as farm-to-market roads, irrigation systems, transport and warehousing facilities—all inputs that make farming profitable.

A productive agriculture sector not only improves the incomes of farming populations—but, in addition, rural prosperity also creates a large domestic market for other goods and services. For example, the Thais have been able to create a domestic market for one million automobiles, much larger than that of the Philippines, which in turn keeps their exports competitive. A similar story is seen in Malaysia, where the palm oil industry has helped steer the nation's overall economic development (refer to the Box Story above).

So what will happen when commodity trade barriers come down? If Filipino farmers do not improve their productivity, they are sure to lose out as 2015 heralds free trade in commodities in ASEAN. The sugar industry in the Philippines, for example, is trembling in its roots. In Thailand, sugar is produced at one-third the cost of that in the Philippines. Thus far, this industry has survived because of tariff protection. Bringing down the trade barriers may render many sugar-producing regions like Central Luzon and Calabarzon uncompetitive. Multinationals like Coca-Cola and Pepsi would prefer to buy their sugar from Thailand. This may sound ominous, but it is equally a call for change. In the short run, some mills will close down and lose out to foreign competition, but in the medium- to long-run, the sugar industry in the Philippines will restructure and move toward the more efficient model of large-scale estate farming.

Converting savings into investment

In 2012, the Philippines' investment to GDP ratio was 18 percent, compared to an average investment rate of 30 percent for Singapore and 49 percent for China.[5] Despite the reforms of the last 25 years, there are still several provisions in the Philippines' constitution that discourage foreign direct investment. For instance, foreigners are prohibited from investing in media, and can only hold a 25 percent stake in telecommunications, and a 40 percent stake in public utilities. All these controls stem from nationalistic concerns and sentiments.

So how has the country achieved a 6 to 7 percent growth rate in the past couple of years? The growth has been primarily consumption-led, rather than investment-led. The Philippines has a very high savings rate, mostly owing to the remittances of overseas workers. With US$26 billion being sent by Filipinos abroad every year, the savings rate as a percentage of gross national product was 32 percent in 2014. Yet these savings are not being converted into investments. There is a huge opportunity here, which can be reaped by both domestic and foreign investors.

Finding a broader definition of industry

Filipino policy makers have for many years focused on manufacturing as a critical path to industrialisation. But there are four components of industry–mining, manufacturing, construction and public utilities–and over time, this obsession with manufacturing has proved detrimental to the nation's growth. Countries like Hong Kong and Singapore illustrate that it is possible to be highly industrialised even if manufacturing contributes little to GDP, as long as it has sizeable sectors in construction and public utilities (ie, telecom, water and electricity). For the Philippines, mining, along with its secondary growth effects, can be a major catalyst for industrialisation. It is impossible to extract mineral ores from the earth without adequate roads, power and water facilities, and other infrastructure that are indispensable to mining operations. Any advanced mining operation can transform 'boondocks' into a highly 'industrialised' zone.

The Philippines is an attractive investment destination due to its low labour costs. But here it faces stiff competition from Vietnam, and possibly Myanmar and Cambodia a few years down the line. Many Japanese companies have transferred their factories to the Philippines because of high labour and energy costs in Japan. Korea is not far behind. Economic integration can provide the much-needed boost to industry. With an aggregate population of 620 million consumers in ASEAN, industries can benefit, especially in the area of contract manufacturing. American and European companies, drawn by low labour costs, can certainly take advantage of this integration.

Some final thoughts for AEC leadership

In my opinion, ASEAN leaders should be mindful of some strategic guidelines as they blaze new trails of regional cooperation. First, the AEC is a work in progress that may take at least 20 years to complete. It took more than 20 years for the European Economic Community (EEC) to be a real union and even now there are some members threatening to secede. On the optimistic side, the AEC as an economic union may be realised faster than the EEC because the 10 member nations are realistic enoughnot to get side-tracked by any utopian vision of a political union (which has caused a lot of distraction in Europe). Because a political union has been considered farfetched from the beginning, there will be no attempt to have a common fiscal policy and therefore, there is little chance that the AEC will try to create a common currency. To make a monetary union work, there must first be congruence in fiscal policies. This became obvious during the recent economic crisis and recession, when the Eurozone got so much flak because it could not find its way to a solution that was agreeable to all member nations.

The final message to the potential Philippine enterprises venturing into the AEC is that "perfect is the enemy of good".

Second, there is no such thing as a decoupling of the AEC from the rest of the global economy. Although trade and investment relations among ASEAN countries will grow faster than those with the rest of the world, individually, economies in the AEC will continue to be important trade and investment partners with countries outside of their region. The AEC may also discover major opportunities of linking with other emerging markets like Brazil, Russia, South Africa, Nigeria, Turkey, India, Pakistan and Bangladesh. Needless to say, China will be a dominant market and a source of foreign investment and income for the AEC. For example, spending by Chinese tourists will soon lead all other nationalities in the AEC.

Third, it will be the private sector, not the governments that will take the lead in making the AEC successful. In fact, I would expect some governments to retrogress by introducing ultra-nationalistic non-tariff barriers. This backtracking should not intimidate the private sector, which should be creative enough to roll with the punches as their predecessor companies have already done. The private sector in the Philippines should put pressure on the government, especially after 2016, to move ahead with the amendment of the restrictive provisions in its Constitution against foreign investments and the subsequent legislation to specify the actual liberalisation measures. In order to compete with its neighbours, the Philippines needs to embark on an ambitious infrastructure development programme, one that can be made possible only through foreign investment in both capital and technology.

The final message to the potential Philippine enterprises venturing into the AEC is that "perfect is the enemy of good". Do not expect the most ideal investment environment, especially in such countries as Vietnam, Myanmar and Cambodia. Without throwing caution to the wind, try to be in these countries as early as possible during their developmental or 'take-off' stages. To use a cliché, the early bird catches the worm.

The growth in the Philippines has been primarily consumption-led, rather than investment-led.

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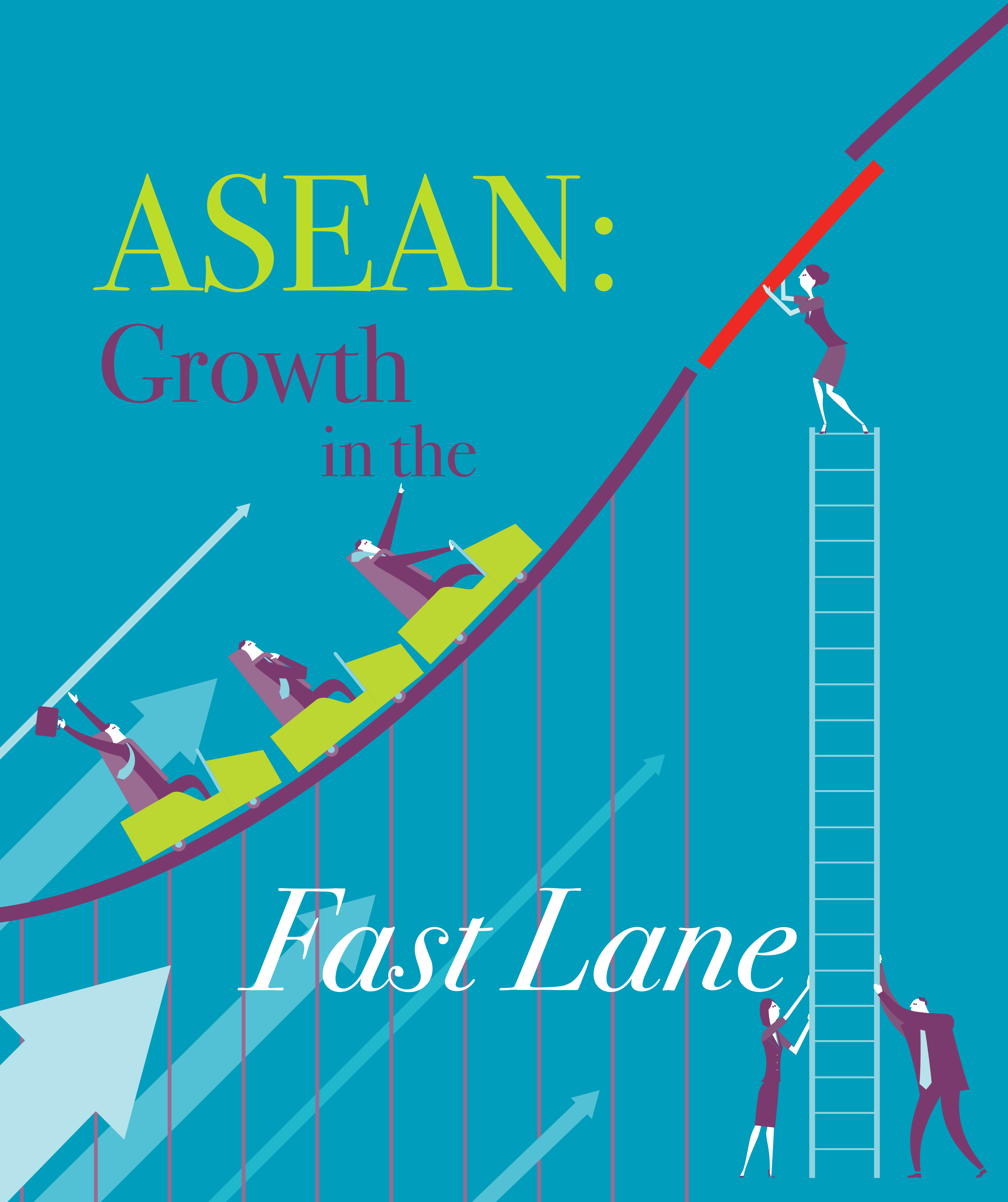
EXECUTIVE BRIEF

ASEAN: Growth in the *Fast Lane*



ASEAN's political, economic and demographic factors suggest a giant is awakening.

By Edward Lee

ASEAN has been enjoying solid growth rates over the last few decades. Since 1980, growth has averaged 5.4 percent, well above the global average of 3.4 percent over the same time period. Growth in ASEAN has also been faster than other emerging regions—Latin America, Sub-Saharan Africa, the Middle East and North Africa—since 1980. This growth outperformance has seen the gap between global GDP per capita and ASEAN GDP per capita more than halve, dropping from 6.0 times in 1980 to 2.7 times in 2013.

Strong fundamentals sustain growth

From 1980 to 2013, ASEAN's annual GDP growth was generally above 5 percent; the exceptions were the Asian Financial Crisis and the Global Financial Crisis. Growth during 1990 to 1994 was particularly strong. On hindsight, however, investments were possibly over-stretched, and the high growth rates were undermined by under-developed foreign exchange mechanisms and weak external balances. Subsequently, 1995 to 1999 was possibly the worst period for ASEAN in recent history as the Asian Financial Crisis took place and growth plummeted to an average of 3.5 percent. But since bottoming out in 1998, growth has rebounded and governments have taken the bitter pill and pushed through much needed reforms. Consequently, for the period 2000-2004, GDP growth averaged 5.1 percent, and 4.9 percent between 2005 and 2009.

Even during the Global Financial Crisis, ASEAN growth remained a step ahead of the rest of the world. ASEAN GDP growth was 4.7 percent between 2008 and 2010. This is impressive given that the region is export-driven. But exports to a pump-priming China, as well as growing domestic engines, particularly through consumption and investments, buffered ASEAN growth to some extent. From 2010 to 2013, growth strengthened to an average of 5.9 percent, although the figure may be biased upwards due to the significant rebound post crisis. Still, excluding that 2010 bounce, GDP growth averaged 5.3 percent from 2011 to 2013 (refer to Figure 1).

ASEAN HAS CONSISTENTLY OUTPERFORMED GLOBAL GROWTH (%)

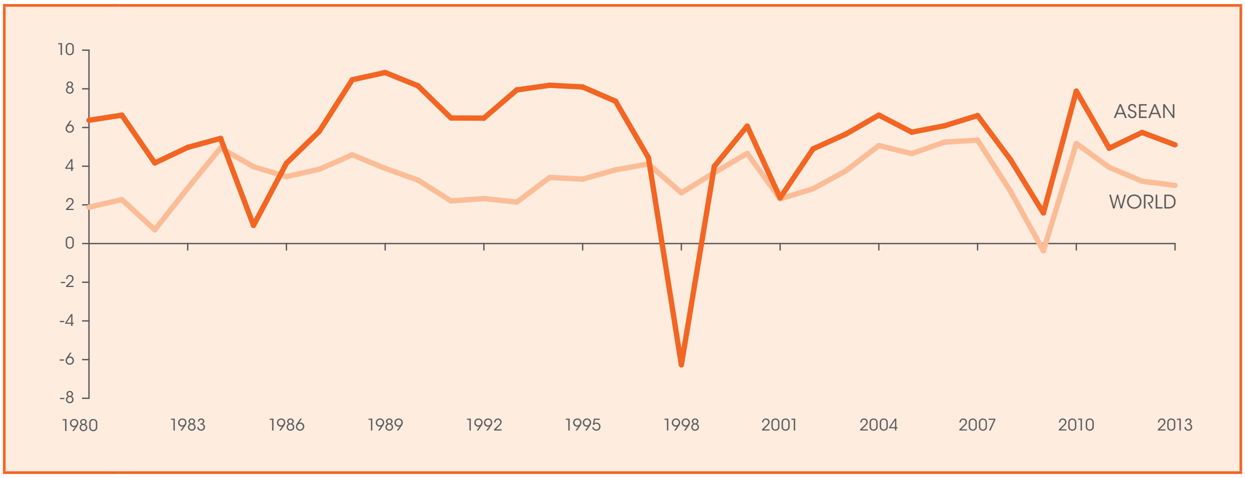


FIGURE 1

Source: IMF, World Bank, Standard Chartered Research

Low urbanisation provides room to grow

Despite the high growth the region has enjoyed over the last few decades, we believe ASEAN has considerable room for easy growth in the future. ASEAN is still relatively rural. As of 2013, ASEAN's urban population was only about 47 percent, while the world had crossed the 50 percent urbanisation mark back in 2007. Within ASEAN, only Singapore, Brunei and Malaysia are considered urbanised. If we assume that the urbanisation trend in ASEAN continues along its recent path, we estimate that GDP per capita in the region will more than double to US$8,500 in 2030 from US$3,900 in 2013. By then, 60 percent of the region could be urbanised.

There are many similarities between China in the past decades, and ASEAN today. The most important is perhaps ASEAN's acceptance of economic openness being a key requisite for growth.

LESSONS FROM CHINA
GROWTH THROUGH TRADE LIBERALISATION

China's extraordinary economic development owes much to its active participation in global trade. By 2013, it was the world's largest exporter and second largest importer. Trade has helped China to improve the efficiency of resource allocation, ensure a supply of natural resources for domestic consumption, and gain from the transfer of technological know-how through imports of capital goods. Trade growth has also contributed strongly to the creation of non-farm jobs, and reduced rural poverty.

China's experience demonstrates the importance of global trade in facilitating improvements in economic structure and propelling growth. While many factors have contributed to China's outperformance in global trade, one of the most important, in our view, is the country's strong adherence to economic openness policies. This can be seen in the creation of Special Economic Zones (SEZs) in Shenzhen and other similar regions as early as the 1980s. These were designed as areas where foreign companies (and later, domestic firms) could invest, and take advantage of lower taxes, limited trade controls, and enjoy a supportive bureaucracy. The SEZs were focused on attracting firms that would manufacture for export, although as the economy developed, many firms established in these zones turned to the domestic market.

China's accession to the World Trade Organization (WTO) in 2001 expedited its integration into the world economy. The average tariff rate dropped from 43 percent in 1992 to less than 10 percent by 2008, according to the WTO. Between 2003 and 2008, China's foreign trade grew at a record average rate of 26 percent. China also made strong commitments to liberalise services trade in the WTO General Agreement

The ASEAN-China trade corridor is one of the main trade corridors. In 2013, this trade was worth US$491 billion, 7 times that of 2000.

on Trade in Services. From China's perspective, the accession to the WTO meant much more than just securing access to the world market, as it also allowed China to implement reforms according to a more transparent and rule-based global system.

There are many similarities between China's past several decades and ASEAN today. The most important is perhaps ASEAN's acceptance of economic openness being a key requisite for growth. The region actively participates in trade negotiations and attempts to attract global companies for investments. Tax incentives are typically used to attract investments. The push to integrate partly stems from the positive impetus of being able to better attract investments as a region than as separate economies. The market may be smaller than China, but growing wealth will help to bridge some of the gap. Tariff rates within the region will be synchronised further over the next few years and that will help boost intra-regional trade. Parts of ASEAN will continue to provide a cost-competitive and abundant labour supply for manufacturers looking for a more viable option outside of China. The region's demographic profile also remains favourable compared to China.

ASEAN-China trade serves as an engine of growth

ASEAN is already one of the world's top exporters. The ASEAN-China trade corridor alone accounted for US$491 billion in 2013, and has grown seven times since 2000. ASEAN is poised to benefit from the shift of low value-add manufacturing out of China. Today, ASEAN is the fourth largest exporter in the world after China, the U.S. and Germany. In 2013, ASEAN accounted for 7 percent of global exports, a share held steady since 2000, even as China rose to become the largest exporter in the world. Assuming 15 percent of China's exports (which are considered low value add) are produced out of ASEAN, the region will become the second largest exporter in the world.

Intra-ASEAN trade is also receiving strong investor interest. Currently, around 26 percent of the region's total trade is amongst member states. Closer regional cooperation will likely further raise the intra-regional trade volume.

An investment magnet

THE NEW LOW-COST DESTINATION

ASEAN's attractiveness is not lost on foreign investors. In fact, ASEAN overtook China for the first time in terms of foreign direct investment (FDI) in 2013. Following the development of the original four Asian dragons—Korea, Hong Kong, Taiwan and Singapore—investment was anticipated to shift to the four tigers—Indonesia, Philippines, Malaysia and Thailand. However, the onset of the 2008 Asian Financial Crisis and the opening up of China tempered such expectations. But with China having developed furiously over the last two to three decades and losing its cost competitiveness in the process, the investment focus is now back on ASEAN. With the right policies, ASEAN can stand to benefit greatly from China's higher-cost environment.

Mekong (referring to Cambodia, Laos, Myanmar and Vietnam here), in particular, provides an attractive option for manufacturers who are searching for new production bases. Mekong's young and abundant labour force and relatively low operation costs attract global manufacturers, particularly those in labour-intensive industries. As an estimate, a Chinese worker in the manufacturing sector in the Pearl River Delta earns around US$700 per month, while in Myanmar, a comparable worker may only draw US$110 per month.

OPEN DOOR APPROACH

One of the key characteristics of a successful economy is that the country is typically open to foreign investments. This point is not lost on ASEAN policy makers. ASEAN countries have courted FDI by improving the ease of conducting business in their markets, increasing infrastructure investments and providing various investment incentives. Since the Asian Financial Crisis, ASEAN has come a long way and the increase in FDI is reflective of the improvement in the business and investment environment.

According to the United Nations Conference on Trade and Development data, FDI into ASEAN rose 7 percent to US$125 billion in 2013. The region attracted nearly 9 percent of global FDI, a significant increase from 4.1 percent in 2005. While East Asia still draws in the bulk of the FDI coming into Asia, ASEAN's share is increasing rapidly. In 2013, ASEAN attracted nearly 30 percent of total FDI into Asia, up from 19 percent in 2005. Japan is the third-largest source of FDI to ASEAN. It has invested more into ASEAN than into China in recent years, likely owing to geopolitical tensions and China's diminishing cost competitiveness (refer to Figure 2). In 2013, ASEAN attracted more FDI than China, albeit by a marginal US$2 billion.

TOP 10 SOURCES OF FDI TO ASEAN (USD BN; 2011-13)

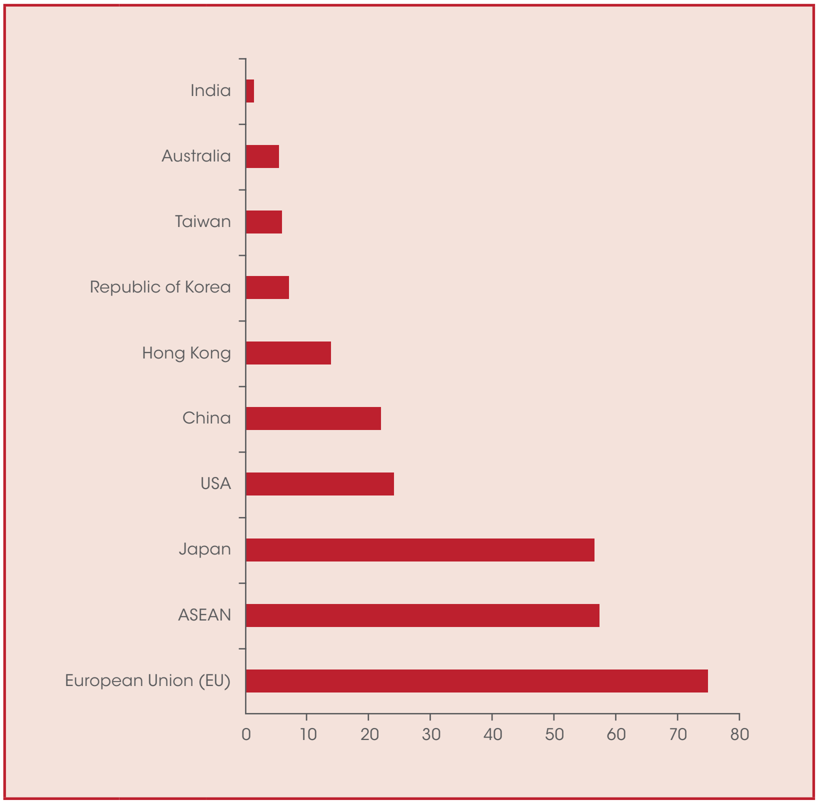


FIGURE 2 *Source: ASEAN Secretariat, Standard Chartered Research*

A FOCUS ON MANUFACTURING

A dominant portion of FDI into ASEAN goes into the manufacturing sector. This reflects the positive attributes ASEAN provides for investments in manufacturing facilities. Manufacturing tops the list for Vietnam, where we have seen significant investments in the electronics sector. The ability to compartmentalise the manufacturing process in the electronics sector allows companies to source from the most cost-competitive location for their operations. In that respect, Vietnam provides an attractive avenue for companies looking for more competitive cost options. Indonesia, Malaysia and Thailand also receive a large amount of investments in their manufacturing sector. Myanmar receives investment looking to tap its mining and power sectors. For Singapore, the bulk of the FDI is received in the financial sector (refer to Figure 3).

DEMOGRAPHICS

ASEAN also has an edge in terms of demographics relative to China. As of 2013, ASEAN's median age was about 27 years old–much younger than that of China, which was estimated at 32 years. ASEAN will also continue to add to the labour force over the next few decades. Compared to 2010, ASEAN's labour force is expected to grow by about 70 million by 2030, while China's labour force is expected to contract by almost 70 million. Indonesia and the Philippines are among those poised to reap the benefits of this demographic dividend, and will achieve faster and more resilient growth. This, combined with the low levels of household debt, rising urbanisation and potential increase in productivity in the workforce, will position these countries to become key economic powerhouses in the region in the coming few decades. At the less favourable end, the median age of Thailand and Singapore is forecast to be over 45 by 2045. In fact, Thailand's labour force is expected to shrink by almost 5 million between 2010 and 2030.

ASEAN's consumer market: awakening the giant

The ASEAN region is not just attracting investment because of its production capacity. Investors also perceive it as a huge market. Indeed, looking at ASEAN as a single country, it would be the third largest market in the world after China and India, with a population of 620 million. Indonesia is the largest country with about 250 million people. The Mekong region also provides a large market for investors. The total population of Mekong is around 170 million, with 90 million in Vietnam. Importantly, Myanmar has about 60 million people with the market largely untapped, providing a very attractive option for invest or seeking a first-mover advantage.

TOP 10 SOURCES OF FDI TO ASEAN (USD BN; 2011-13)

	Agriculture	Mining	Manufacturing	Utilities	Construction	Services
Vietnam	Neg.	Neg.	70	15	Neg.	13
Indonesia	6	17	55	8	Neg.	12
Malaysia	Neg.	19	41	Neg.	Neg.	38
Thailand	Neg.	Neg.	40	Neg.	Neg.	60
Philippines	Neg.	Neg.	28	27	Neg.	43
Myanmar	Neg.	11	16	65	Neg.	8
Singapore	Neg.	Neg.	17	Neg.	Neg.	83

FIGURE 3

**Neg. – less than 5%; Source: Various official websites, Standard Chartered Research*

Low labour and operating costs are cited as the top reasons why companies move their operations to Mekong. The large domestic market is another key reason—although income levels are low currently, the local populace is becoming wealthy at a fast pace. For example, in a recent questionnaire we conducted, companies in Vietnam expected average wages to rise 5 to 10 percent in 2014, even though the local economy's performance is currently lacklustre. The Mekong Delta economies have experienced the fastest rise in GDP per capita from 2000 to 2013 (refer to Figure 4).

We see tremendous growth potential for the ASEAN consumer market, owing to rising urbanisation and income growth. The anticipated shift in labour structure and demographics is expected to create significant new demand. It is also expected to cause a shift in consumption patterns as ASEAN consumers allocate larger shares of spending to high-quality products and services. We believe demand in Indonesia, Vietnam and Myanmar will see explosive growth, given their relatively large population sizes as well as low penetration rates for consumer durables and services. Yet there are potential challenges. Despite cultural similarities with China, the region's diversity suggests that companies looking to tap its strong growth potential will need to develop multi-pronged strategies in order to cater to different cultures, tastes and preferences. Furthermore, local governments may introduce trade barriers for strategic industries in the absence of strong domestic players. Nonetheless, this should not undermine the vast potential opportunity offered by the ASEAN consumer market.

But there is work to be done

INFRASTRUCTURE

ASEAN economies need infrastructure development to shift investment from China and rival neighbours such as India. ASEAN economies are relatively advanced in telecommunications and have good access to electricity. But improvements are needed in transport infrastructure. Furthermore, a regional transport infrastructure across ASEAN is needed to integrate the region more closely in the longer term. There is some reason for optimism on this front. Indonesia's new president is trying to allocate more funds to build the country's infrastructure. Thailand's new government is trying to push ahead with an ambitious THB 2 trillion (equivalent of US$61.2 billion) infrastructure spend over the next seven years. According to the Global Logistics Performance Index, ASEAN's infrastructure score improved across the board between 2007 and 2014. With the exception of Indonesia (whose global infrastructure rank dropped from 45 in 2007 to 56 in 2014) and Singapore (stable at number 2 globally), all other ASEAN economies moved up in the global infrastructure ranking. Vietnam, for instance, moved up 16 spots to rank 44.

Indeed, looking at ASEAN as a single country, it would be the third largest market in the world after China and India with a population of 620 million.

COMPOUND ANNUAL GROWTH RATE OF PER CAPITA GDP IN PURCHASING POWER PARITY (PPP) TERMS, 2013-20 (%)

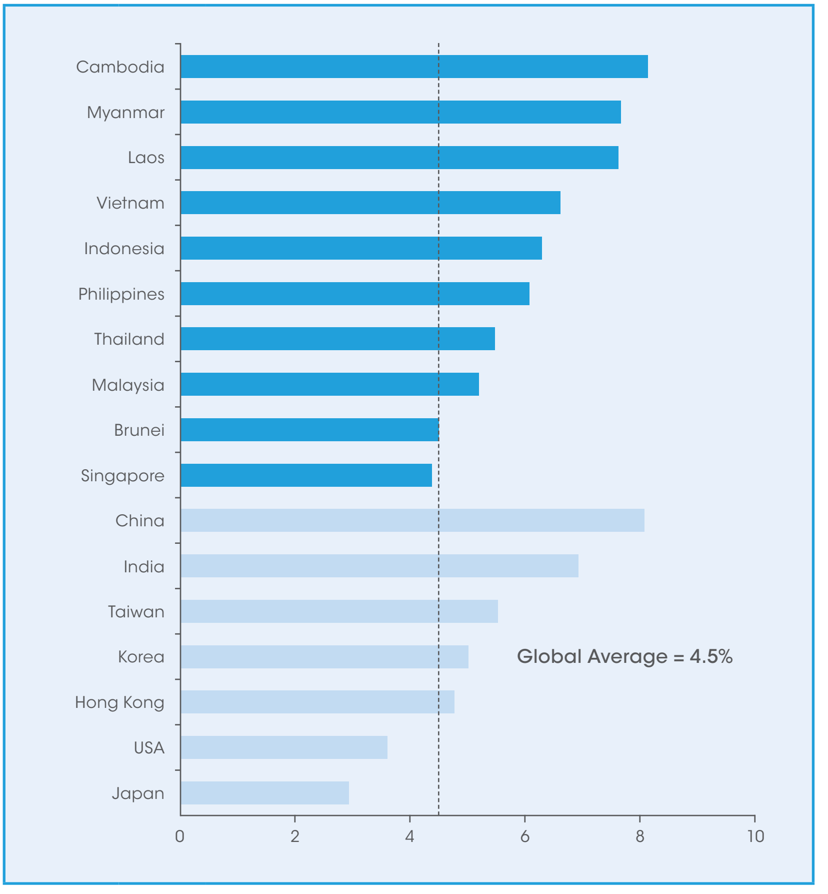


FIGURE 4 *Source: World Bank, Standard Chartered Research*

But China ranks higher than all ASEAN member states except Singapore and Malaysia in terms of its economic competitiveness and infrastructure. ASEAN member states will need to improve on both counts to attract more investment into the region. That said, China's infrastructure was also weak 30 years ago, but this did not stop investors from seeking to take advantage of its low-cost environment. However, the lack of infrastructural development will ultimately limit the overall amount of investments a country can attract, as a business will take into account all costs on a holistic basis.

PRODUCTIVITY

ASEAN has experienced positive, consistent and constructive productivity growth over the past decade, particularly on reforms after the Asian Financial Crisis. However, most of ASEAN reports productivity levels about a third to half of those in the U.S., and are comparable to that of China. The exception is Singapore, whose productivity levels lead the rest of Asia. Outside of Singapore, Malaysia leads the rest of the region in terms of productivity and income levels, with government policy aimed at moving the economy towards high income status by the end of this decade. The Philippines lags in the region.

The Mekong Delta economies have experienced the fastest rise in GDP per capita from 2000 to 2013.

Given that most of ASEAN is at a relatively early stage of development, productivity growth requires supportive input from capital and labour force growth. ASEAN can partially bridge the productivity gap between the region and more productive economies such as Japan and Australia simply by increasing the quantity and quality of capital stock per worker. This requires investments in productive capital stock such as transport equipment, machinery, roads and factories that enhance productivity (versus investment in residential property). We estimate that the capital stock per worker in some ASEAN countries, such as the Philippines and Indonesia, is about one-fifth that of U.S. workers. ASEAN also needs to enhance training and human capital development to benefit from a higher quality of labour.

ASEAN is pro-growth

ASEAN's attractive attributes include its cost-efficient labour supply, trade pacts, supportive investment policies, regional stability, growing wealth and rapid economic growth. The region enjoys pragmatic growth policies and relatively stable political environment. ASEAN governments are focused on growth. They are keen to improve infrastructure and are generally supportive of foreign investment. The region also actively pursues trade negotiations. As of 2013, ASEAN has been involved in negotiating 90 Free Trade Agreements (FTA), of which 40 have been signed. The region is also currently involved in two large multilateral FTAs, namely the Regional Comprehensive Economic Partnership and Trans-Pacific Partnership.

The formation of the ASEAN Economic Community in 2015 brings even more reason for confidence that the region will be able to sustain its high growth rate over the medium-term. The initiative aims to push for a single market and production base in ASEAN, create a competitive economic region, and facilitate equitable economic development in the region. ASEAN works by consensus—both a strength and weakness. Most ASEAN countries are focused more on domestic development than regional development. But with competition for global opportunities becoming more challenging, ASEAN needs to integrate better as a region to face off challenges and attract investors. As an economically unified region, ASEAN will also have a more effective voice on the global stage.

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This article is based on a report "ASEAN: Growth in the Fast Lane", November 5, 2014, produced by the Global Research department of Standard Chartered Bank

The Past and the Hopeful Future of Vietnam's Economy

Reform and integration are key for tapping Vietnam's economic potential.

By Le Dang Doanh

Vietnam—with its coast line extending over 3,400 kilometres and comprising thousands of islands—has high development potential. The nation enjoys strong national cohesion and social stability. Despite hosting over 50 ethnic groups, religious and ethnic conflict is not of much concern. Moreover, 65 percent of its population is of working age, there is a high literacy rate, a growing middle class and an attractive domestic market. And yet, I believe that Vietnam has to aggressively continue reforming if it is to achieve its full potential. Vietnam has to restructure its economy—moving to higher value-added products and services, reorganising its institutions, shifting to a genuine meritocracy, and supporting innovation.

An economy in transition

In the last 30 years, Vietnam has undertaken bold reforms to move away from a centrally-planned, Soviet-moulded economic system—one that inhibited the growth of the private sector and tried to centralise every economic activity within the administration. But to understand the Vietnamese economy today, it is important to appreciate the nation's history.

Vietnam was part of French Indochina from 1887 until France's 1954 defeat at Dien Bien Phu. Under the 1954 Geneva Accords, the country was divided into the communist North and anti-communist South. In 1975, Vietnam was reunited under communist rule. After re-unification, North Vietnam tried to impose the same socio-economic model on the South, albeit with little success. While central planning was useful during the war, it seemed inefficient in peacetime.

For instance, the socialist view had, at first, collectivised the farms and dictated a fixed price for purchasing crops such as rice. But thereafter, due to soaring inflation, the price soon became less than the cost of production—so the more the farmer produced, the more he lost. As a result, Vietnam began moving from a highly productive agrarian economy to a crop importing one, and the Soviet Union had to provide huge assistance to Vietnam. As per my calculations, the

GDP of Vietnam in 1975 was around US$2.5 billion, and Soviet assistance contributed an additional US$2 billion! This created a false sense of economic success for the Vietnamese leadership.

Over the next decade or so, Vietnam experienced little economic growth, largely on account of closed economic policies. But as the Soviet Union began to collapse and its financial assistance dried up, the Vietnamese economy too began to break down as there were insufficient funds to import essential commodities such as oil, fertiliser and steel. In order to survive, the Vietnamese authorities had to shift to a market economy. In 1986, the country introduced the 'Doi Moi' or economic renovation policy—a commitment to increased economic liberalisation and structural reforms necessary to modernise the economy.

And I believe these reforms have been largely successful. Poverty levels have dropped significantly. At the time of the reforms, over 60 percent of Vietnam was living in poverty (based on the World Bank's criterion of living on less than US$1.25 per day). But by 2010, this had been reduced to around 12 percent—a truly impressive achievement (refer to Figure 1).

SUCCESSFUL POVERTY REDUCTION

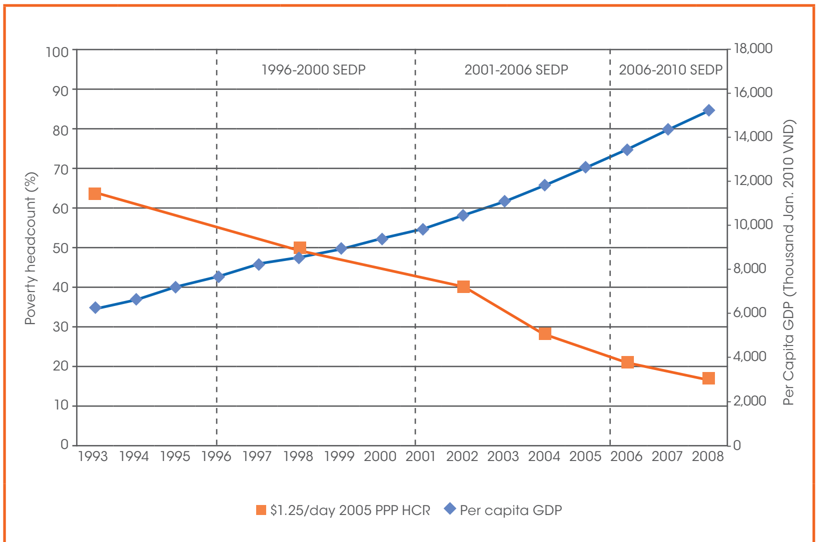

FIGURE 1 *Source: UNDP, Hanoi, Author's analysis*

The reforms incentivised the farmers, who were given packages of land to grow their own crops, and to freely sell their product at market prices. This led to an earnings increase of as high as 150 to 300 percent over the two decades since Doi Moi was introduced. Vietnam was transformed from a crop importer to an exporter of rice, fish, cashews, black pepper, coffee and others. So in the agricultural sector, the success story has been quite obvious.

As for industry, the government has been promoting private sector development by making it easier to do business. Let me give an example. Prior to 1999, a businessman would need to provide a plethora of documents and get permission from the chairman of a province before commencing an enterprise. The model was similar to the Company Law followed by France and was a great impediment to the development of the private sector. But in 1999, while I was the head of the Central Institute of Economic Management, we conducted a study and found that there were more than 300 licences and permits—most of which did nothing other than producing unnecessary bureaucratic burden. Since then, we have assisted the prime minister in cancelling 286 such licenses. Some of these were replaced by 'business conditions'. So for instance, if you wanted to open a gasoline station, a condition would necessitate the acquisition of a permit concerning fire and environmental protection. The condition clearly lays out what materials need to be submitted to the authorities in order to obtain the necessary permission, and officials have little scope to harass applicants for additional documents. Hence, we successfully introduced a very liberal Enterprise Law, and I believe this has contributed immensely to the growth in Vietnam's economy—in both the agricultural and private sectors.

GDP GROWTH

1997-98 was the time of the Asian Financial Crisis, and the per capita GDP growth rate began to slow (refer to Figure 2).

In 2007, Vietnam joined the World Trade Organization, which provided a boost to the reform drive. Subsequently, there was a huge inflow of Foreign Direct Investment (FDI) into the securities market. The government also began allowing state-owned companies to diversify their investments. Authority was further decentralised from the centre to the provinces, and was combined with a system to measure provincial performance based on GDP growth. The provinces found that the easiest way to increase GDP was to sell land. Consequently, minerals

GDP PER CAPITA (US$)—1990 TO 2010

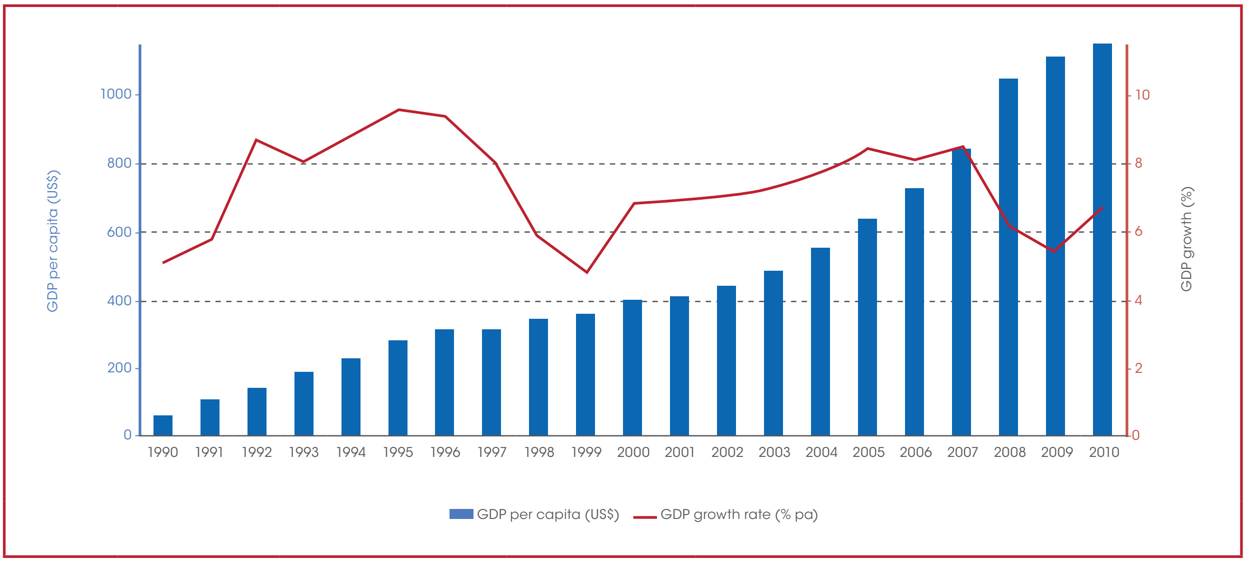

FIGURE 2

Source: Vietnam General Statistics Office

and forestry were commercialised, and the provinces soon began competing to attract foreign investment—instead of investing in science, technology and developing human capital. There was a push for easy money to speculate in real estate and securities. As a result, 2008-09 became a period of soaring inflation–during a real estate bubble, prices went up by as much as ten times. By 2011, inflation had reached 23 percent.

The government had to reduce the money supply and credit supply to cool the economy, and in February 2011, it focused its policies towards stabilising the economy, rather than striving for higher economic growth, which had fuelled inflation.

The economy has since recovered–but is still below its past 10-year average. Today, Vietnam's economy faces a secular decline in growth rates (refer to Figure 3).

There is now an urgency to continue on the reform path – externally integrating with the rest of the world, and internally to make it easier to do business.

REAL GDP GROWTH RATE (IN PERCENT)—1990 TO 2013

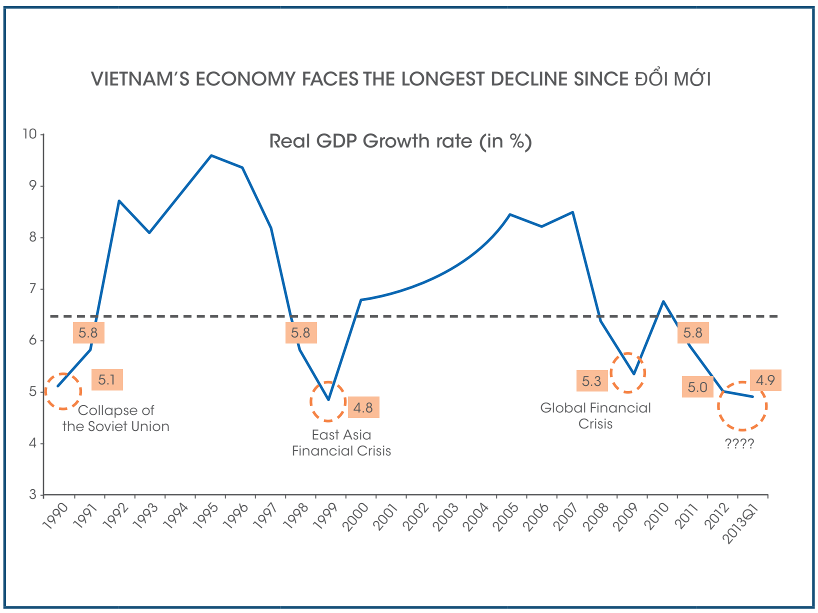

FIGURE 3

Source: Author's analysis

Bold measures to integrate with the world

Vietnam's integration with the rest of the world is so far impressive. It has joined the Association of Southeast Asian Nations (ASEAN), signed bilateral trade agreements with the U.S. and several other countries (refer to Figure 4), and is now negotiating to join the Trans-Pacific Partnership (TPP).[1] If all goes well, Vietnam will soon have signed free trade agreements with 55 economies in the world—making it a pioneer in integration.

Overall, Vietnam can expect to earn some additional GDP growth from the TPP and the ASEAN Economic Community (AEC), while the Regional Comprehensive Economic Partnership (RCEP)[2] will result in tough competition with China. Figure 5 shows the agenda of the integration process in times to come.

In my opinion, Vietnam will benefit more from the TPP than from the AEC. Being a primarily agrarian economy, Vietnam will compete with all the AEC member countries, with the exception of Singapore. It will have to compete with Thailand on farm products, with Cambodia on garments, and with Indonesia on cars. But if Vietnam joins the TPP, it will enjoy complementary efficiencies with many more advanced economies such as the U.S., Japan and Chile. Exports of products, such as rice to the U.S., are expected to rise exponentially once tariff rates drop to zero post-TPP. Many of Vietnam's competitors are outside the TPP, giving the country considerable trade advantage (refer to Figure 5). Hence Vietnam's eagerness to sign the TPP and restructure its economy so that it can be prepared for future competition, and benefit from the common market and lower restrictions on movement of labour.

Vietnamese businesses must be linked to the global value chain.

VIETNAM'S EXTERNAL INTEGRATION PROCESS

2010-2011	Vietnam-EU; Vietnam-Chile FTAs; TPP
2009	FTA ASEAN-Australia-New Zealand FTA India-ASEAN
2008	FTA Vietnam-Japan-ASEAN
2007	WTO-membership FTA Korea-ASEAN
2005	Free Trade Agreement China-ASEAN
2004	Agreement on Market Opening with EU
2001	Bilateral Trade Agreement with U.S.
1995	Start the negotiation to join WTO Framework Agreement with EU
1993	ASEAN Free Trade Agreement
1992	Textile-Agreement with EU
1986	Start of the "Đổi mới"

FIGURE 4 *Source: Author's analysis*

VIETNAM'S INTEGRATION PROCESS IN ASIA-PACIFIC

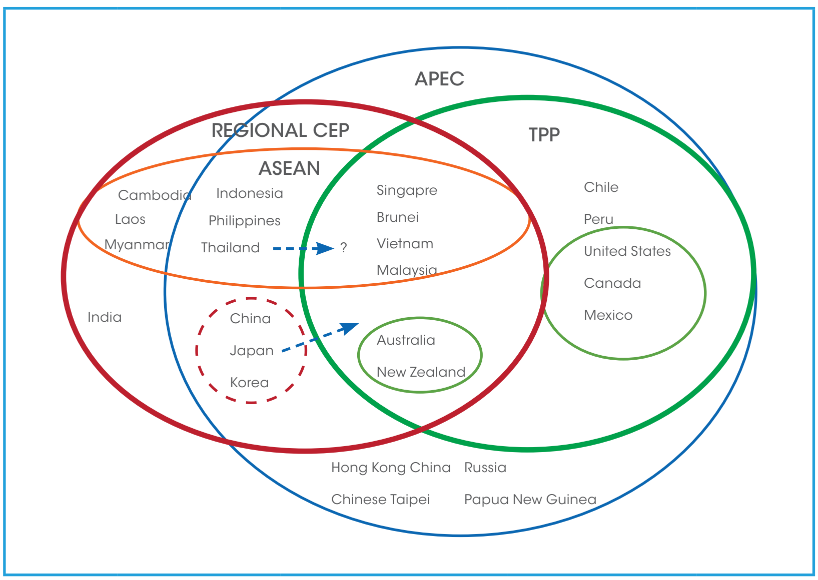

FIGURE 5 *Source: Author's analysis*

>60%
in poverty–1986

12%
in poverty–2010

Internal reforms, making it easier to do business, are a must

If we review the World Bank report for ease of doing business (benchmarked to June 2014), it becomes apparent that there is a long way to go. Out of the 189 countries in the report, Vietnam is ranked 78 overall.

Similarly, on the World Economic Forum's (WEF) Global Competitiveness Index for 2014-2015, Vietnam is ranked 68 out of 144 economies, after its neighbours Malaysia, Thailand and Indonesia (refer to Figure 6).

Hence there is much room for improvement, and Vietnam needs to continue its reforms, or else it faces the risk of falling into the middle-income trap, where productivity falls behind rising earnings and costs.

If we look specifically within ASEAN (refer to Figure 7), the global competitive index of Singapore is the best. Vietnam has advantages in terms of its market size, health and primary education, and labour market efficiency–but suffers from infrastructure issues, and deficiencies in higher education, technical readiness and business sophistication.

In the past, the government did not want to recognise the relevancy of these rankings and insisted on producing their own rankings to convince themselves that the results

Economic growth is stagnating, and Vietnam is growing below its potential. Restructuring and reform of the economy must be urgently implemented.

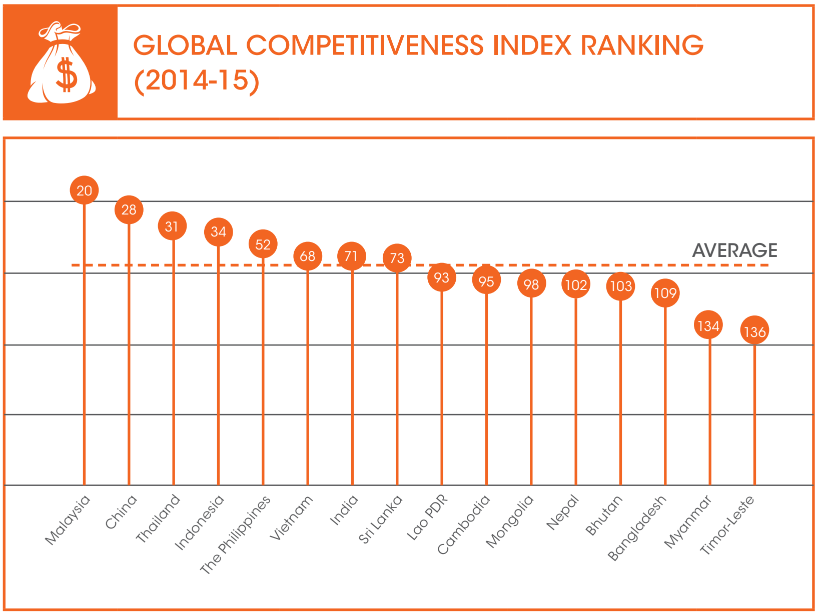

FIGURE 6 Source: World Economic Forum Website, Competitive Rankings, 2014-15

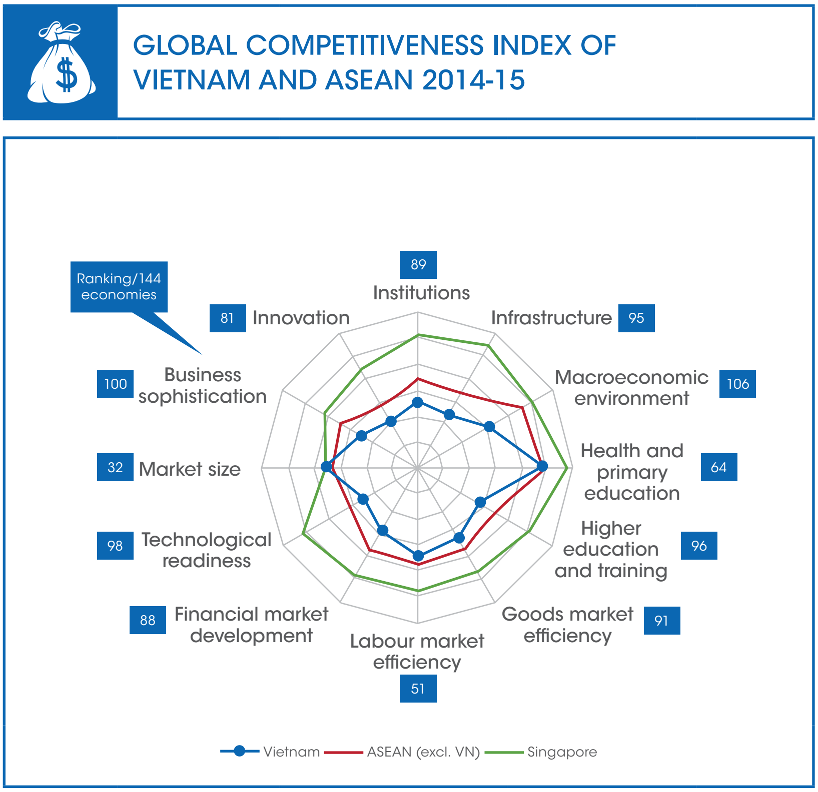

FIGURE 7 Source: Economic profile data sourced from World Economic Forum Website, Author's analysis

were good. But they have now publicly accepted the World Bank and WEF rankings, and issued Resolution 19—a policy to improve competitiveness and reduce the ranking gap between Vietnam and the ASEAN-6.[3]

The intention and determination is welcome—but how can the public institutions be reformed such that they become less of an administrative body and more of a cooperative, pro-business development body? How can the bureaucracy be pushed to promote innovation and motivate businesses to invest in science and technology?

What must be done next?

The situation in Vietnam is quite challenging. Economic growth is still based on resource-related industries and low value-added processing. Labour costs remain low (monthly pay for manufacturing workers in Vietnam is roughly 43 percent of that in China[4]), so the economy is currently competitive and FDI is flowing in.

However, Vietnam must move from a low-wage economy to one that comprises a highly skilled, well-trained and sophisticated labour force. Samsung is an example of a corporation successfully tapping Vietnam's potential. Vietnam is their largest manufacturing centre in the world, and the company has also established an R&D centre here. Recently Samsung called for 170 supporting products and services to be provided from Vietnam. About 1,000 Vietnamese companies applied to be part of the initiative, but only 12 were selected, and each needs to invest around US$12-15 million to modernise their plants. While these companies can produce what Samsung requires, their costs are too high owing to their manual processes, and so they must implement automatic systems in order to improve productivity. Although foreign-invested sectors accounted for about 70 percent of Vietnam's total exports, they remained limited added value.

To attract more global production, Southeast Asia must raise labour productivity. A McKinsey report put the annual manufacturing output per worker in 2012 at US$3,800 in Vietnam, as compared to US$14,200 in Indonesia, US$21,200 in Thailand, US$33,200 in Malaysia and US$57,100 in China. For companies looking to set up shop, these statistics negate any advantage of cheap labour that Vietnam may have to offer. One of the main reasons that labour productivity in Vietnam is so low is because the share of agricultural and informal household industries is still very high, at 20 percent and 30 percent of output respectively. Moreover, informal households are not very competitive as they lack access to capital for investing in training or IT, and pay little adherence to corporate governance. Vietnam must turn these households into a registered formal private sector (which only makes up 12 percent of industry), and also develop agriculture to accommodate large-scale production.

Moreover, Vietnamese businesses must be linked to the global value chain. Vietnam has been quickly integrating into the world economy, but has not joined the value chain. For example, the country exports fish, but not fish-derived products. So the problem is now to reorganise the economy such that the agenda in Vietnam is not only institutional and market reforms, but also policies aimed at restructuring the economy. If Vietnam wants to truly prosper, the country must transition from a low labour cost economy to one based on science and technology in order to produce high-value products and services. The farmers must be trained,

Ranked 68

on the World Economic Forum's Global Competitiveness Index for 2014 to 2015 organised and equipped to capture economies of scale and move up the value chain. Policymakers must accept market discipline and stand by their commitments.

Similarly, I believe that international integration, including that with the AEC, will be the necessary external pressure that pushes for internal restructuring and reform in Vietnam. And it will apply not only to the public institutions, but also to every sector and society as a whole. We are talking not only about education, but also say, vocational training or any other imaginable mechanism to further develop human capital.

The Vietnamese government has recognised the problem and shown determination to deal with it—as it looks at streamlining the bureaucracy and improving the role of civil society and that of responsible mass media, which can act as a constructive and yet critical counterpart of government. Social media and mobile connectivity is another channel that is key to democratising and creating these kinds of discussions. Especially when one considers Vietnam's 34 million and growing Facebook users who typically access the network via their smartphones.

Optimism for the future

If one looks at other transition economies such as Mongolia and Cuba, it becomes apparent that Vietnam is relatively advanced in terms of implementing internal reforms and integrating with the rest of the world. Further integration will require new standards on fair competition and transparency from the government.

If you look at Vietnam's history, reform was the product of a survival strategy. Vietnam is still a one-party communist country, and there continues to be a debate on how people can raise their voice and contribute to the reform of institutions, improving transparency, openness and accountability. Reform has been a gradual process—one of learning by doing. But we cannot relax. Economic growth is stagnating and Vietnam is growing below its potential. Restructuring and reform of the economy must be urgently implemented.

I am optimistic about the future, and believe that if Vietnam can ignite the creativity and dynamism of its people, miracles can be achieved. There are many excellent people in the business community here, and if there is a restructuring of the business process, monitoring of monopolies and controlling of vested interest groups, Vietnam should be well set to prosper and take great advantage of its integration into the world economy.

Le Dang Doanh

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[1] The Trans-Pacific Partnership, or TPP, is a proposed regional regulatory and investment treaty. As of 2014, 12 countries have participated in negotiations on the TPP: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. It is expected that the TPP would eliminate tariffs on goods and services, reduce a host of non-tariff barriers and promote economic growth and development.

[2] The RCEP is a 16-party Free Trade Agreement (FTA) that has been launched by the ASEAN members and their current FTA Partners of Australia, China, India, Japan, Korea and New Zealand. It is hoped that the RCEP would lead to greater economic integration, support equitable economic development and strengthen economic cooperation among the countries involved. Refer to http://www.asean.org.

[3] ASEAN-6 refers to Indonesia, Malaysia, the Philippines, Singapore, Thailand and Brunei.

[4] Japan External Trade Organization, "Survey of Japanese Affiliated-Firms in Asia and Oceania", December 2014.

EXECUTIVE BRIEF

THINKING BIGGER

Pushing Singaporean Entrepreneurship to the Next Level

The environment in Singapore has become more conducive for entrepreneurship. What lies ahead and what lessons can other Asian countries learn?

By Desai Arcot Narasimhalu

In 2015, among a sample of 130 countries, Singapore ranked as the tenth most entrepreneurial, based on an aggregate index accounting for entrepreneurial attitude, ability and aspiration.[1] The island state was also noted to be the second most competitive country for business globally, and has retained the number two position worldwide for having the best intellectual property (IP) protection four years in a row.[2]

Starting from the bare basics where most entrepreneurs were non-Singaporeans, the country's entrepreneurship landscape has blossomed over the last decade. Business entities formed in Singapore rose from 41,713 in 2004/2005 to 62,229 in 2013/2014.[3] Although exact numbers are not readily available, industry experts believe that employment at these young start-ups has risen by about 80 percent during the same period.[4]

This progress is the result of sustained efforts by the government to develop a conducive environment and a robust ecosystem that caters to the needs of entrepreneurs. But what is it that Singapore is doing right? And what more needs to be done in order for it to further climb the ranks, and become Asia's nucleus for thriving entrepreneurship?

Key enablers—building Singapore's entrepreneur 'ship'

As a young and fast-growing economy, Singapore has a healthy cluster of motivated entrepreneurs with solid education, savvy business skills and a plethora of good business ideas. And the momentum is building, as many more Singaporeans are willing to try entrepreneurship as a career option. Unsurprisingly, the bulk of start-ups are in the technology sector, though Singaporeans have applied technological innovations to an array of industries, such as retail, finance, food and beverage, hospitality, talent management and even social enterprises.

With a booming financial sector, Singapore is also fortunate to have a large number of cash-rich investors looking for lucrative investment opportunities. These range from angel investors and venture capitalists to corporates looking to support the development and commercialisation of new inventions or business propositions.

However, the recipe for Singapore's entrepreneurial success so far has needed more than just entrepreneurs with good ideas and investors with money. It has come about because of the proactive role of the government to create and develop a supportive ecosystem in which the island's entrepreneurial capabilities could develop and flourish. The government has undoubtedly been the key enabling institution in developing the entrepreneurship sector in Singapore. Through efforts on multiple fronts, a nascent ecosystem has developed leading to the robust growth of start-ups (refer to Figure 1).

In 2015, Singapore ranked as the tenth most entrepreneurial country among a sample of 130 countries.

The proactive role of the government

REGULATORY INCENTIVES

The Singapore government has supported entrepreneurship by creating a favourable regulatory environment. Over the years, the government has provided substantial indirect support to angel investors and entrepreneurs through tax benefits. Entrepreneurs can qualify for the Productivity and Innovation tax credit, R&D Expenditure tax credit and a Tax Deferral option. There is also an Angel Investors Tax Deduction Scheme under which 50 percent of the investment in a Singapore-based start-up is eligible for tax relief. To incentivise risk-taking, bankruptcy laws were revised in 2013 to give relief to young companies trying to build credibility in the market.

R&D SUPPORT

The government has purposefully fostered a supportive environment for scientific discoveries and technological inventions. Four Science & Technology (S&T) five-year plans have been implemented between 1991 and 2010. During this time, the total R&D expenditure has increased almost tenfold, from US$760 million in 1991 to US$6.04 billion in 2009.[5] These efforts have brought about positive results, and Singapore has developed a unique spectrum of deep capabilities across the fields of biomedical sciences, physical sciences and engineering, and created a robust knowledge-based economy. In a 2013 ranking of more than 200 countries, Singapore was the seventh most innovative country in the world, based on factors such as R&D expenditure, percentage of public high-tech companies and patent activity.[6]

SEED FUNDING

The Ministry of Trade and Industry has also been proactive in creating multiple channels through which start-ups can access funding, recognising a gap between the demand and supply of seed funding. In addition, there are many incubators where start-ups can experiment and develop new technologies.

COMMERCIALISATION

The translation of research into commercial use is a process systematically engineered by government and public sector agencies to create a vibrant innovation value chain. Agencies such as the Economic Development Board (EDB), SPRING Singapore, Agency for Science, Technology and Research (A*STAR) and the National Research Foundation (NRF) administer programmes and funding schemes to provide support throughout the innovation value chain, from basic research to applied and translational research, through to commercialisation. A holistic R&D framework ensures the long-term relevance of Singapore's R&D investments (refer to Figure 2).

The government has undoubtedly been the key enabling institution in developing the entrepreneurship sector in Singapore.

THE ENTREPRENEURSHIP ECOSYSTEM

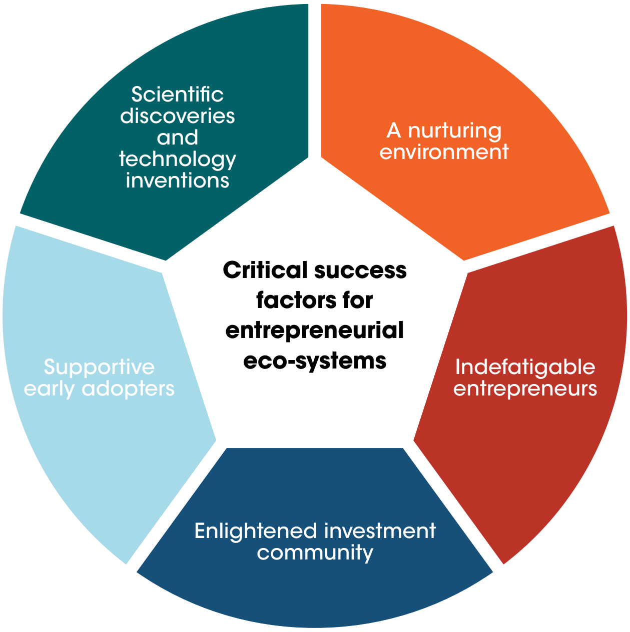
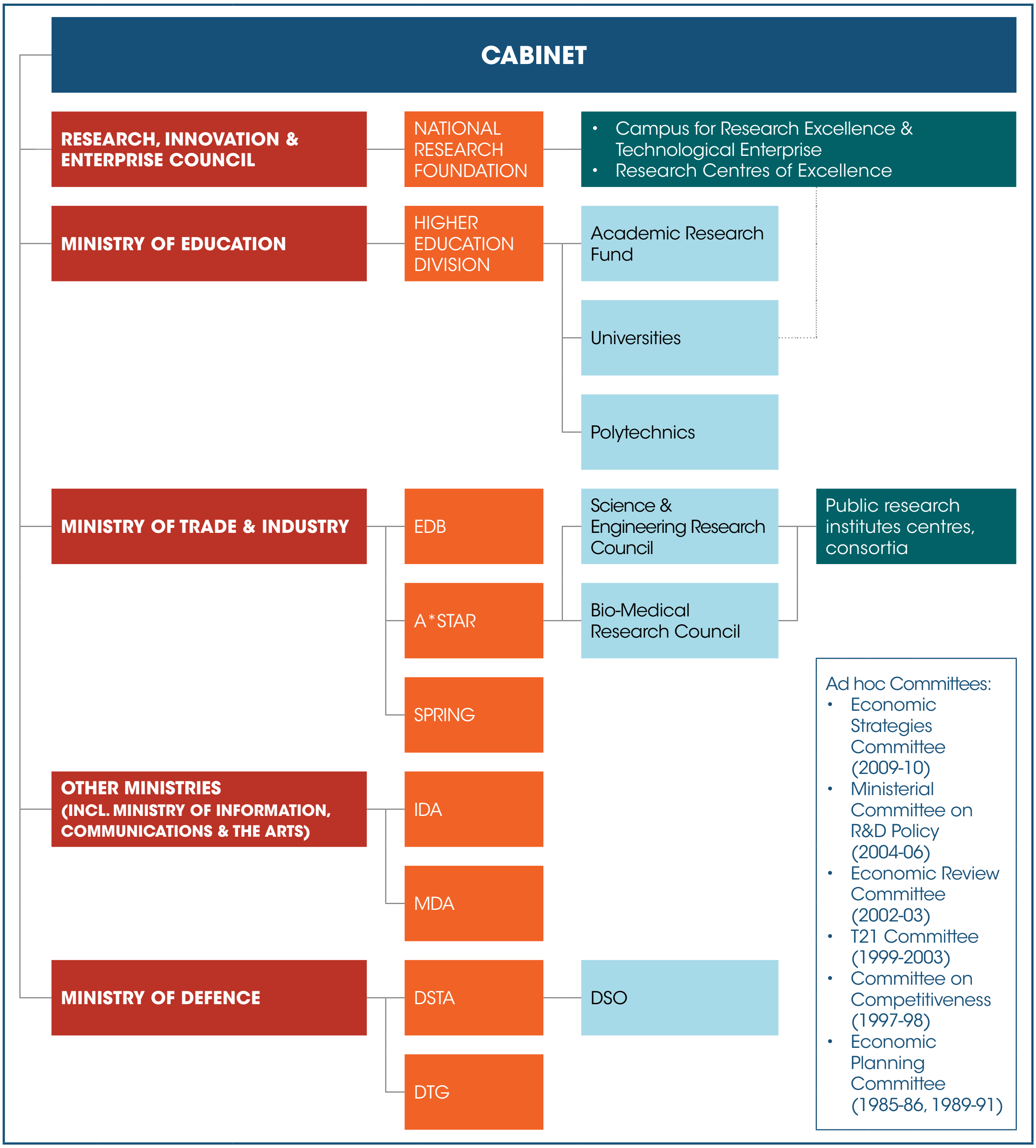


FIGURE 1

ENTREPRENEURSHIP VERSUS SMALL BUSINESS DEVELOPMENT

The word 'entrepreneur' is sometimes used to denote a person who runs a small business. However, there are important differences between building a small business and entrepreneurship. A small business, such as a café, is a well-known type of business. In starting such a business, the main challenge the owner has to face is the business risk. Business risk refers to factors such as adequate capitalisation, business location, operational and marketing costs, and hiring the right people. An entrepreneur has to manage two additional risks—market risk and technology risk. Market risk refers to the customer discovery phase or product market fit. Entrepreneurs offer new value, or deliver value through new channels, to their customers, and so they have to manage the risk of identifying or predicting the correct target customers and the right price point at which they would be willing to buy the product or service being offered. The second additional risk is the technology risk. Entrepreneurs often build their solutions using new technologies, which perhaps have never been used before. There is always the possibility that the chosen technology may not help implement the proposed solution satisfactorily. These major differences between small business development and entrepreneurship are often overlooked.

A HOLISTIC R&D FRAMEWORK



EDB – Economic Development Board
A*STAR – Agency for Science, Technology & Research
SPRING – Standards, Productivity and Innovation Board
IDA – Infocomm Development Authority
MDA – Media Development Authority
DSTA – Defence Science & Technology Administration
DTG – Defence Technology Group
DSO – Defence Science Organisation

FIGURE 2

Source: Innovation in Southeast Asia, OECD, 2013

Missing parts—developing an entrepreneurial culture

Singapore today possesses many of the elements of a successful entrepreneurial economy. But what will it take to move the entrepreneurship industry to the next level, and make Singapore the innovation and entrepreneurship capital of Asia? I now take up some of the challenges facing Singaporean start-ups today.

SOCIETAL MINDSET

One of the pre-emptive constraints faced by young start-ups in Singapore is the societal perception of seeing entrepreneurship as a risky career in comparison with a salaried job. The first obstacle for an eager entrepreneur starts at home with, "How do I convince my parents?" For the most part, youth are actively discouraged from taking up entrepreneurial activities. Families often find the odds of a start-up's success unfavourable, and encourage their children to take up 'secure' employment.

EARLY ADOPTION

In order to thrive, entrepreneurs need a receptive market. I find that Singaporean customers are hesitant to adopt new products and solutions that have not been tried and tested in other markets. This conservatism and lack of willingness to spend on and experiment with innovative technologies, combined with the small size of the Singapore market, become a serious impediment for start-ups looking to prove the success of their product in their home market before expanding to other countries.

INVESTOR CONSERVATISM

Despite the availability of cash-rich investors, start-ups often struggle to get funding, especially in the early stages of the business. Investors tend to be conservative in terms of valuation and look at a start-up purely in terms of a financial play. They typically prefer to get in the business after the proof of concept stage; or when some risks have already been removed (refer to Figure 3). I know of people who call themselves angel investors but want to pick up a stake in a start-up only after the company has started making profit and is cash positive. To me, they are not angel investors.

MAVEN INVESTORS

The profile of the investor community in Singapore, and in Asia in general, differs from that of Silicon Valley. In the latter, many investors, or 'Mavens'[7], are ex-entrepreneurs and successful business leaders who have developed deep knowledge and extensive experience in a particular industry. Often wanting to pay forward their successes, these investors can foresee the value of a business idea and their assessment of a start-up goes beyond a simple financial valuation.

These Mavens bring much more than money to the table–they are visionaries and risk managers who use their domain knowledge and Rolodex of contacts to support and guide entrepreneurs right from the idea conception stage. They know whom to call, and they know what works and what doesn't. They can create significant value for the business, in addition to supplying start-up capital.

THE FUNDING FUNNEL FOR START-UPS IN SINGAPORE

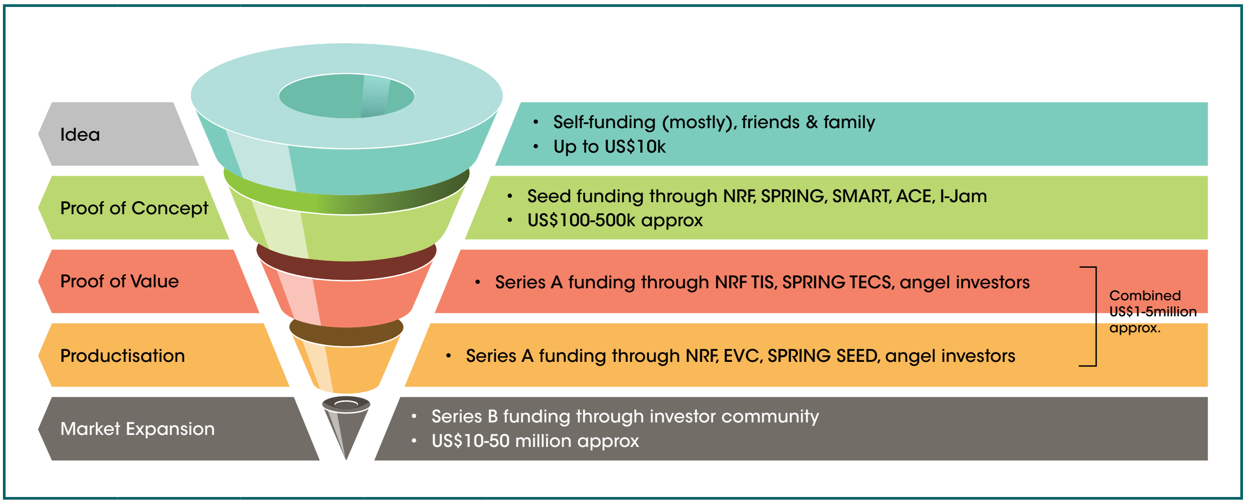


FIGURE 3

SERIAL ENTREPRENEURS

For Singapore to develop a stronger entrepreneurial culture, the business community needs to learn from the previous generation of business leaders. Just like the strength of an economy is measured by the number of times a single dollar is used or churned in a given unit of time, the strength of a nation's entrepreneurship sector can be judged by how many new start-ups benefit from the 'entrepreneurial intelligence' of successful entrepreneurs.

Being relatively new in the game, Singapore lacks a critical mass of successful serial entrepreneurs. Our entrepreneurs think small and sometimes give up easily. There are very few start-ups that have the potential to grow to a US$1 billion business. Over time, I expect successful Singaporean entrepreneurs to invest their knowledge, expertise and experience into helping new business ideas to be crafted into billion dollar businesses, and only then the momentum will catch on.

SERVICE PROVIDERS

In Silicon Valley, a start-up company can find lawyers, accountants and other service providers that will offer their services at a discounted rate (below the market rate) in return for equity in the company. But we don't have such practices in Singapore. In fact, the rates that service providers quote for start-ups in Singapore are exorbitant, and they seem to ignore that start-ups cannot afford to pay that kind of money. A change in the mind-set of the service providers–instead of focusing on money on the table now, they should place their bets with companies that have good prospects–will accelerate the development of Singapore's entrepreneurship eco-system.

UNBALANCED RISK PROFILE

From a financial perspective, the Singapore government has been doing a lot of heavy lifting to support entrepreneurship. In many cases, its stake is 85 cents for every dollar, or even a dollar for every dollar of investment, which makes the government the principal risk-taker in the venture. While this is helpful in the early years, a mature entrepreneurial ecosystem can emerge only when the private sector becomes the main player.

Also, when the government has deep financial interests in a start-up, it leads to suspicions about the neutrality of the company, especially when the business expands overseas to our nearest neighbours. In my view, the government can play a big role in the early stages by developing the environment and the ecosystem, but it cannot be a major investor in the country's entrepreneurship portfolio forever.

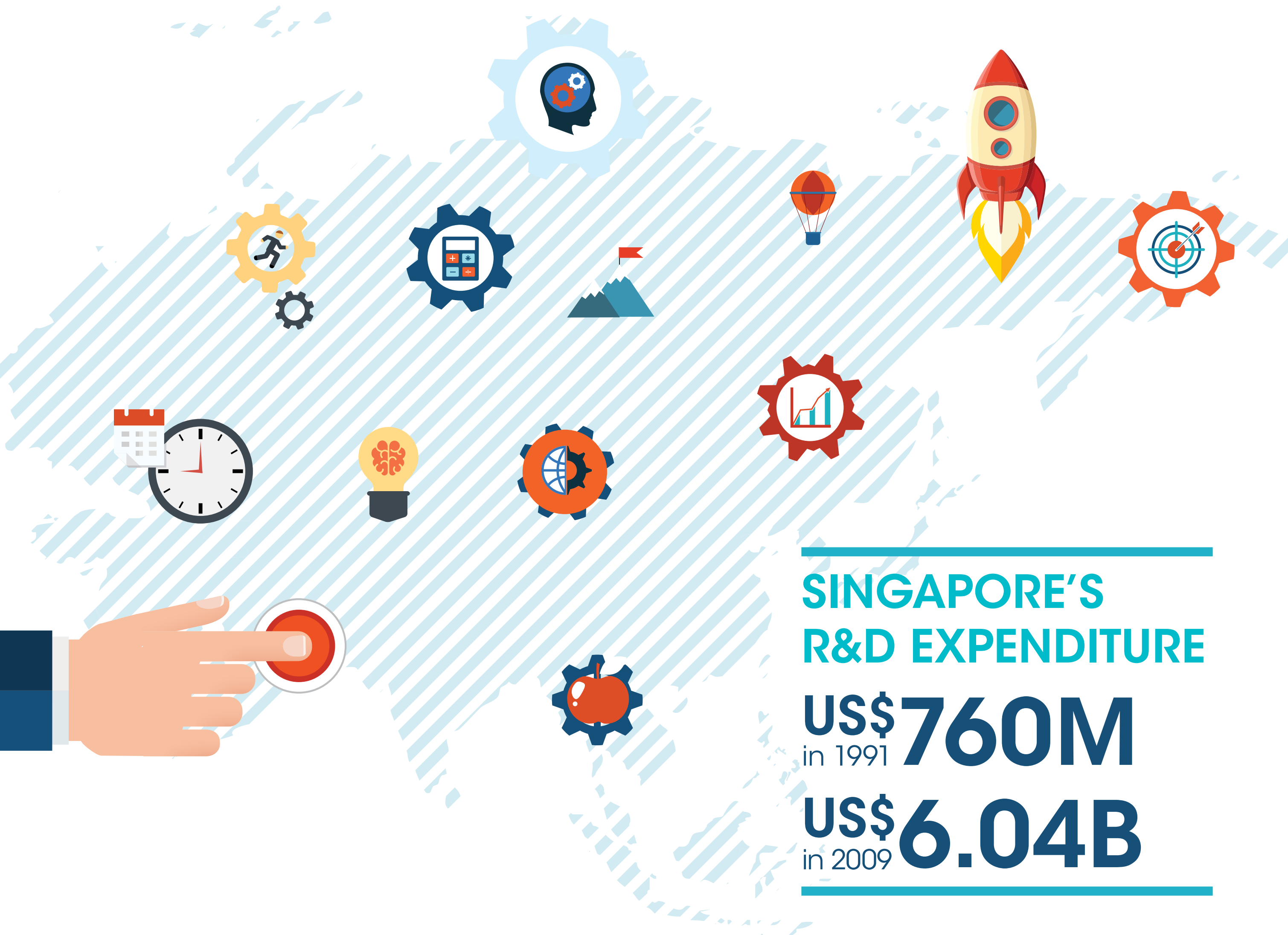
In summary, it is fair to say that every nascent entrepreneurship sector needs the support of the government in the initial stages. Singapore has already established a dynamic ecosystem to cultivate and nurture research, innovation and entrepreneurship. It now has to embark on the next steps to change the mindsets of young entrepreneurs (and their parents), the investor community and even service providers.

I know of people who call themselves angel investors but want to pick up a stake in a start-up only after the company has started making profits and is cash positive. To me, they are not angel investors.

BEYOND SINGAPORE—ENTREPRENEURSHIP IN ASIA

Asian countries exhibit a wide diversity in terms of their level of entrepreneurship development. As remarked in the 2015 Global Entrepreneurship Index report, "On the one hand, the region (Asia) includes some of the world's leading entrepreneurial economies, such as Australia (3rd), Taiwan (8th), and Singapore (10th). On the other hand, it also has global laggards such as Myanmar (109th), Indonesia (120th), Pakistan (123rd), and Bangladesh (at 130th place, it is the bottom performer in the global GEI ranking)."[8]

The entrepreneurship models also differ—while the government is the key player in Singapore and Malaysia, the private sector has taken the lead in Hong Kong and Indonesia. Asia offers a big, albeit fragmented, market for all types of businesses. In my experience, the overheads in customising solutions for different countries can often be as high as 20 to 30 percent.



Indonesia, for example, is a large market and Indonesians are quite active in the world of Facebook, Twitter, and other social networking services. As Indonesia's economy grows, there will be aspirations from the local population and this will create consumer demand for new products and services. So every entrepreneur, whether in Singapore or elsewhere in Asia, should keep Indonesia on their radar screens. It is not easy to do business there, but they must learn to do business there.

Singapore's open economy and government-supported development of entrepreneurship provide some lessons for other Asian countries that are beginning to embark on this journey. At the political level, a stable, democratic government that is pro-entrepreneurship is the first necessary step. For some countries such as Malaysia and Thailand, this will mean improving the infrastructure and shielding the start-ups from a possible onslaught by industrial conglomerates that currently dominate the business landscape. Developing nations, such as Cambodia, Laos, and Bangladesh, will first require a strengthening of the institutional and regulatory frameworks and then gradually develop entrepreneurial skills through investments in human capital. India has to gradually shift its focus from creating new service-oriented companies to product innovation-oriented start-ups.

The absence of a risk-taking investor community and a large, receptive market deters Singaporean entrepreneurs from engaging in or pursuing disruptive innovation and breakthrough technologies.

Thinking big

High risk and high reward go hand-in-hand. Every entrepreneur knows that.

Although I believe that Singaporean entrepreneurs are capable of keen ideas and forward-looking business ventures, the absence of a risk-taking investor community and a large, receptive market deters Singaporean entrepreneurs from engaging in or pursuing disruptive innovation and breakthrough technologies. I find that the majority of start-ups work on incremental innovations or on copies of innovative models that have proven to be successful elsewhere. A recent report by KPMG stated, "Invariably, most start-ups struggle to grow and failure rates are extremely high. Although young entrepreneurs may demonstrate ideas, motivation and expertise, they lack experience and capital assets."[9]

So far, not many start-ups have shown significant exits through trade sales or initial public offerings (IPOs). The largest exit by a Singapore-based company was by Viki, a video streaming website bought out for US$200 million by Japan's Ratuken. And although Viki was registered in Singapore, none of its founders were Singaporeans. Other examples include Zopim, a live chat software, which was bought out recently for US$30 million, and prior to that, tenCube, a mobile security firm, that was acquired by McAfee for about US$10 million. But these buyouts are small, and small market size is often mooted as a key structural constraint for Singaporean enterprises.

I recollect one savvy Silicon Valley-based investor saying that he would prefer to invest in a start-up that has a one percent chance of becoming a billion dollar company, as opposed to one that has a 90 percent chance of becoming a 10 million dollar company. From that point of view, Singapore still has some ground to cover.

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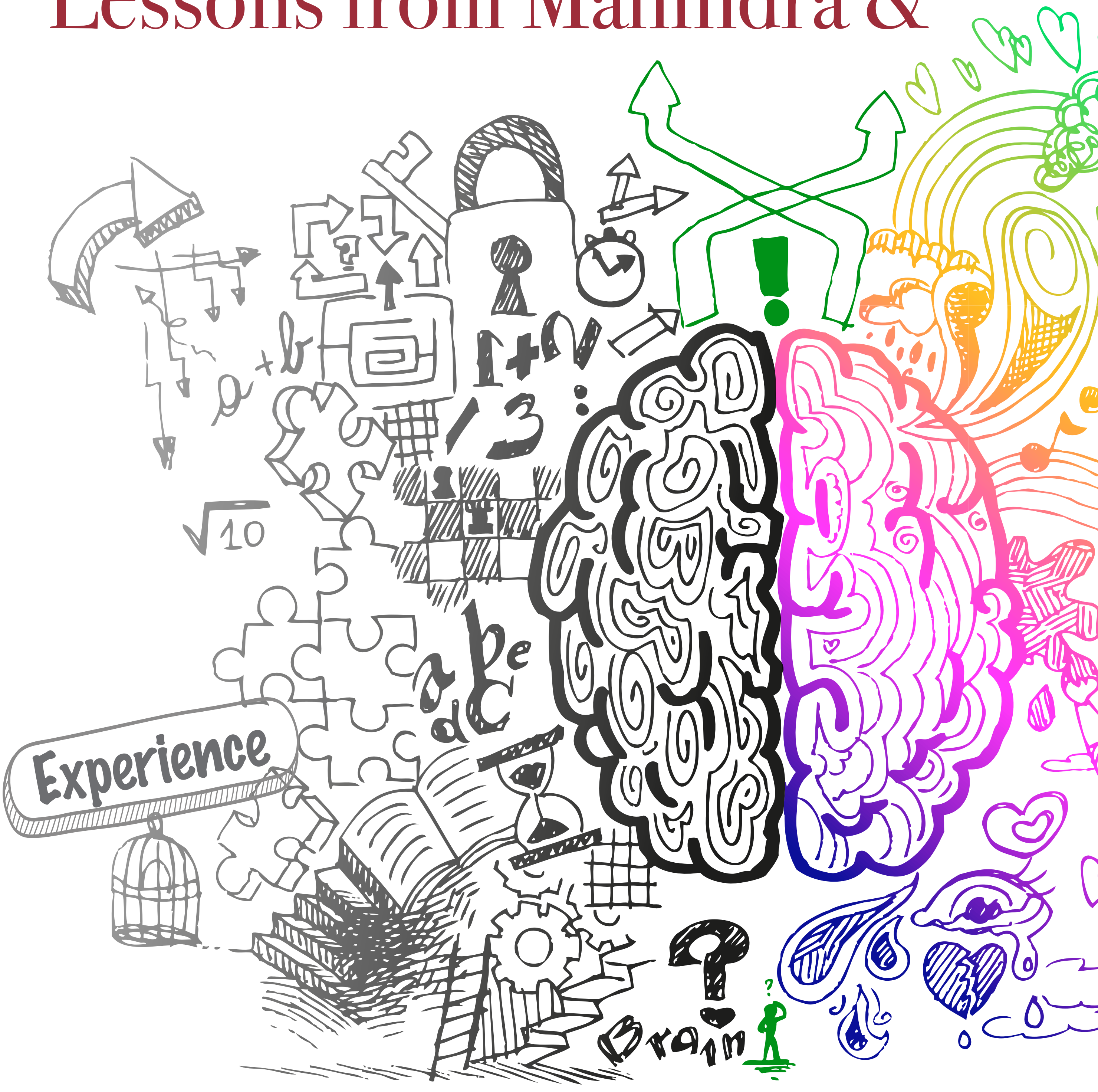
DEVELOPING

Lessons from Mahindra &



LEADERS
Mahindra

Investing in human resources and leadership potential to develop sustained competitive advantage.

By Rajeev Dubey

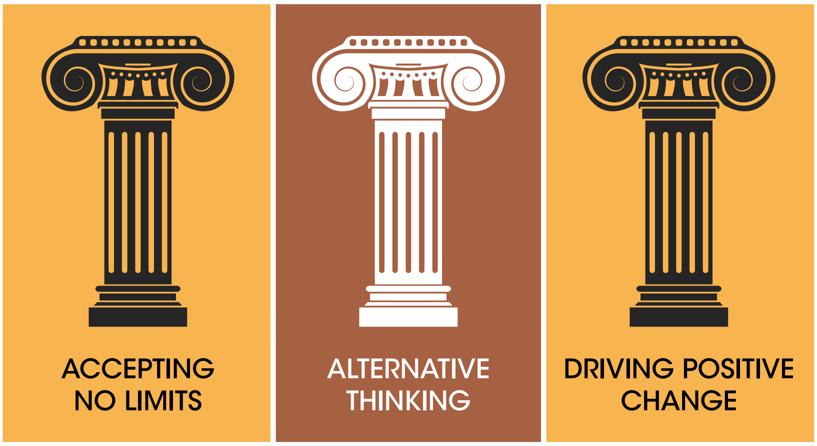
Human Resources (HR) is often regarded as a support function of an organisation—rarely invited to sit at the strategic table. But restricting HR to administrative tasks and a cost-saving role is short-sighted, and curtails innovation and delivery of business value. Instead, HR needs to be positioned as a strategic business partner, integral to creating a sustained competitive advantage and an engine for business performance.

The Mahindra Group has grown from less than a half billion dollars in annual turnover in the late 1990s and the early 2000s, to current revenues of over US$16.5 billion. Market capitalisation is up 80 times over the last decade. This kind of growth required investing in, and developing, a strong core leadership team.

THE MAHINDRA GROUP

The Mahindra Group can trace its origins to 1945, as a steel trading company before entering the automotive manufacturing industry in 1947. Today the Group has diversified operations across 18 different industries. Mahindra has a federated structure that enables each business to chart its own future and simultaneously leverage synergies across the entire Group's competencies.

One of the key initiatives that the Group undertook in 2009 was implementing a massive change management programme, 'Mahindra Rise', which became the foundation of its talent and leadership ecosystem. 'Rise' seeks to create sustained business outperformance and competitive advantage through a cultural transformation that rests on three attitudes, which we call the 'Rise Pillars':



This framework guides all our business and human capital initiatives, and at its heart is the unleashing of human potential through empowerment and driving positive change, both within the organisation and in the larger ecosystem in which we operate. This increases the total factor productivity of our human capital and is a compelling value proposition in creating the Rise culture.

The role of culture

Corporate culture plays a vital part in shaping organisational behaviour. It reflects the firm's core ethics and values, and is the basis for how employees make both long-term and day-to-day business decisions. Having the right kind of culture is thus critical for ensuring choices and behaviours that reflect the core values of the business, taking into account all stakeholders and contributing to sustained business outperformance. But to shape behaviour and empower productive decisions that are in line with the values and ethical standards of the company, the firm's culture needs to be organisation-wide and pervasive.

The core values of a firm must therefore be aligned to all HR levers and corporate functions in order to create shared characteristics across the organisation. This includes work design, organisational structure, the recruitment and induction process, performance management system, communication strategies and the talent management system. These values must then become synonymous with the corporate culture and identity, which ultimately affect the everyday behaviour of employees. It is not enough to focus on just one or two parts of the firm's functions. What is desired is a holistic approach that maximises the chances of creating the intention, attitude and resultant behaviour among employees.

So, for example, if we want to create a culture of innovation where 'alternative thinking' is encouraged—but only the annual appraisal lever is aligned to this objective, and other levers like communication, talent management and recruitment are not included—we are unlikely to create such an organisation where alternative thinking is widely practised in everyday behaviour and decision-making. Hence, the entire organisational structure needs to be geared towards innovation across all activities.

This is one of the key reasons why an increasing number of firms are abandoning their old command and control-style bureaucracies, and are instead adopting a more decentralised model. The basic principle is that flatter, decentralised structures are more nimble, responsive and adaptable, which help to create greater cross-functional synergies and innovation. However, it can also make a highly focused strategy more difficult to implement, as the ability to command and direct troops is more challenging when decentralised. This kind of holistic systems approach requires committed and empowering leadership, and the right kind of cohesive culture to keep it all together.

For HR to adopt a holistic leadership role and drive greater cross-functional alignment, it cannot afford to operate in a silo—as it often does—because it will be unable to inculcate the right kind of culture that enables a sustained competitive advantage.

How do leaders influence culture?

There are five leadership qualities that are absolutely critical in enabling leaders to instil and influence the right kind of culture and empower employees: whole brain thinking, multipliers of engagement, innovation, mindfulness and authenticity. Mahindra has several ways to measure and build upon these characteristics. A customised psychometric test, developed for us by SHL (a global leader in talent measurement), assesses these five leadership qualities. But more importantly, we look for anecdotal evidence during the annual 360-degree feedback evaluations. We also communicate to the organisation the value of these characteristics.

> We must also recognise that the competency of our leadership team is essential to success.

WHOLE-BRAIN THINKING

The first critical quality that leaders must have is to seamlessly combine left- and right-brain thinking in any situation. People who do this are good with people, but can also handle numbers. They can think creatively and analytically; they have strong intellectual and emotional quotients. In essence, they use their whole brain.

Whole-brain thinking is developed largely though exposure. Every year at Mahindra, 30 of our senior people go for a week-long retreat at a leading business school. This is a customised programme co-created with faculty that uses business case studies and brings in guest lecturers who exhibit the leadership qualities we are looking to develop. We then bring this back to Mahindra Leadership University, a virtual university with simultaneous online and offline offerings, to further encourage our people to develop whole-brain thinking.

One way we do this is by taking these discussions out of the classroom. For example, we can have a discussion that relates Shakespeare to strategic thinking while listening to live jazz being performed at a dinner function in an art gallery. For those of us who are used to the strait-laced experiences of humdrum corporate life, something like this becomes a whole-brain experience. It helps us to build leaders that are just as comfortable talking about music, literature and art as they are about private equity and financial multiples–and relating it all back to business. It encourages thinking that can pull ideas from any direction.

> It is important for HR to use a holistic framework to be truly successful in enabling a firm's competitive advantage.

MULTIPLIERS OF ENGAGEMENT

Second, leaders must be multipliers of engagement, passion and ownership–as opposed to the old command and control style. Rather than giving answers, they need to ask questions, and hence be good listeners, respectful of other people's ideas. We do not want leaders who think they know best and tell others what to do. When leaders are open to outside opinion and ask questions, they encourage rich conversations that produce different answers and new ideas. This further inculcates leadership, as employees feel more comfortable sharing their ideas and taking ownership.

INNOVATION

The third leadership quality supports innovation. Leaders need to encourage a culture of risk taking and innovation, which involves knowing how to manage the fear of failure–the enemy of innovation. Failure must not be penalised, but instead be used as a learning tool and leveraged to create success.

For example, Mahindra has a business vertical that deals in multi-brand used cars. It was doing poorly, so we tested several new business models, allowing ourselves to make mistakes. Through experimentation and persistence, we were able to develop a successful hybrid 'click-and-brick' business. Today Mahindra is using data analytics and algorithms to redefine this industry, which was previously unorganised with very little structured information available.

MINDFULNESS

The fourth quality is mindfulness. Leaders need to have the ability to get deep into the flow, to be fully in the 'here and now' and be open to all possibilities for creating value. Thus, when leaders meet someone, they give him or her their undivided attention, signalling that they are listening and engaged.

When mindful, the conversation rises to a more meaningful level. When the leader becomes so engaged, other are drawn in and their focus is increased, which can positively impact overall performance.

AUTHENTICITY

The fifth leadership quality, and the most important, is creating a culture of trust, whereby people trust the leader and the leader, in turn, trusts his or her people. Most important is authenticity and credibility, to 'walk the talk', so to speak. If leaders are truthful people, there is no second-guessing their meaning. Authenticity and genuineness must be developed by encouraging leaders to be themselves—with regard to both their strengths and weaknesses. Leaders must not be ashamed to say, "Sorry, I made a mistake and I stand corrected." This encourages others to open up and speak, which increases the quantity and quality of the dialogue.

Taken together, these qualities are essential for leaders to empower others and create the right kind of innovative culture. But leadership qualities may not necessarily be innate, and in some cases needs to be developed. And just as importantly, employees must also accept empowerment.

So what can HR do to inculcate leadership that fosters the 'right kind of culture' that enables sustained competitive advantage?

Building leaders and investing in talent

Surprisingly, a lot of employees find it difficult to accept empowerment—it is, after all, much safer to do as told—but the bigger reason is that they are not used to it. The educational system, particularly in India, does not create the level of skills that we need for recruits to hit the ground running. This is a key factor to keep in mind when recruiting, and there needs to be a strategic view when acquiring talent.

At Mahindra, we are now focusing not only on the skills, but the potential that people bring to the organisation. There is, in fact, a trend in the talent management space to take a closer look at potential versus acquired skill sets. However, this demands a far more rigorous selection and recruitment process, as the evaluation criteria are significantly more nuanced. Our end-goal is to look for future leaders, so we are developing a whole ecosystem that will create skilled talent as well as leadership mindsets. This has resulted in a shift from a transactional, short-term approach of filling organisational needs to putting much more emphasis on long-term human capital development aligned to our business strategy.

We do this through a robust talent management system with HR acting as the process keeper. We try to keep to a 70-20-10 model—70 percent emphasis on learning by doing (for instance, through job assignments with management providing plenty of empowerment to future leaders), 20 percent on coaching and mentoring, and the remaining 10 percent on formal training. This architecture dictates that our business leaders become heavily involved in the talent management process.

This model is not new and most HR practitioners agree with its principles. However, it is rarely executed. Many people in the field still tend to put too much emphasis on formal education, probably because it is easily measured. But experience, coaching and mentoring are far more important. Firms need to recognise the power of the '70-20' opportunities, which are not expensive and beyond reach, but do require focus and dedication. The returns can be significant, provided they are done strategically.

How Mahindra does it

While we want empowered and inspired leaders, we must also recognise that the competency of our leadership team is essential to success. Our approach to developing and maintaining competency is structured along three angles. The **first** is from the perspective of the organisation itself. We evaluate our long-term business strategies and identify the competencies required to realise company goals and objectives. If we don't have these competencies now, then how do we create them? The **second** is to look at our talent pipeline and compare it to our critical positions to ascertain if the pipeline is fit to fill those positions. These first two angles are from the organisational perspective. The **third** angle is from the individual perspective, where individuals have a personal development action plan designed to meet their own career aspirations within the context of meeting the organisation's needs as a whole.

70%
learning by doing
20%
coaching and mentoring
10%
formal training

The key to our talent management process is its strong link to our performance management system, which is aligned to our leadership ideals embodied by the Mahindra Rise programme. Our talent management process comes to life through a network of Talent Councils, both at the business and function level, overseen by the Apex Talent Council, which is chaired by Anand Mahindra, the Group Chairman. This is critical to our holistic approach.

There are a total of 10 such Councils, including the Apex Council. These councils consist largely of business leaders, with the process being facilitated by HR, to ensure that talent management is aligned to strategic business needs. While the business and functional councils meet regularly throughout the year, the Apex Talent Council spends roughly two weeks every year interacting with, and integrating the activities of, the business and functional councils. The possibility of moving talent across businesses, functions and geographies is an important part of the conversations that take place during these interactions, particularly since cross-sector movement is essential to gaining the experience and exposure necessary to build leadership.

We try to align the career of an individual with his or her aspirations and strengths. This kind of structured talent management approach enables us to create a win-win situation for both the organisation and the individual.

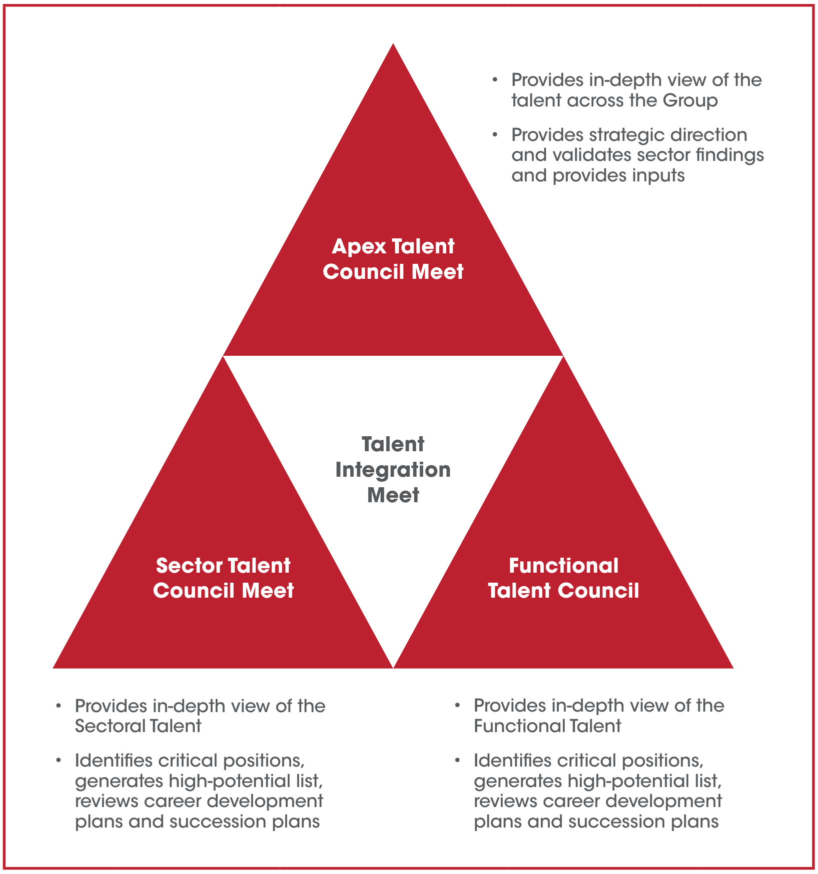
There is an enormous amount of rigour that goes into our talent management process. In the early years, there was scepticism and some resistance from the business leaders who felt that their time could be better utilised attending to business imperatives rather than on human talent. But as they got deeper into the process, they started realising the immense value of this exercise. Today, Mahindra can rightfully claim that this is a vital and integral part of the way we do business and creates competitive advantage in the businesses that we operate in. However, this was not a quick win; it was a gradual mindset shift that took time.

An important development was the creation of the Mahindra Leadership University, which focuses on the development of leadership and domain capability across all levels. The pedagogy is based on our belief in the '3Es' (Experience, Exposure and Education), which of course is an embodiment of the 70-20-10 approach of learning, and helps us create a signature 'One Mahindra Learning' experience for our employees.

With the objective of sustaining a rich and robust leadership pipeline, we have built programmes that help us in identifying talent at an early stage, and investing in them to develop tomorrow's leaders. As an example, at the Group level we have the Mahindra Group Management Cadre (GMC), which is an elite leadership programme aimed at grooming young talent selected from leading business schools. We support these young women and men in realising their potential by providing them with a diversity of experiences to shape their careers, and complementing these experiences with coaching, mentoring and knowledge inputs covering diverse disciplines and multi-cultural settings. We put them in key positions throughout the Group to jumpstart their career and empower them to 'Rise' and make a mark in the Group.

At the various business/sector levels we have focused programmes, such as the Early Leaders programme and the Young CEO programme, which identify and develop high-potential employees with the aim of building a leadership pipeline right from the junior management levels. And for senior leaders, we have programmes such as the Mahindra Universe programme (a customised programme at the Harvard Business School), which takes place every year, along with a

NETWORK OF TALENT COUNCILS



couple of other well-respected programmes, one of which is run in India by the Ross School of Business.

HOUSE OF MAHINDRA

Measuring the returns on human capital

Today we are recognised as having some of the best people processes in the world. Mahindra was recently ranked by Aon Hewitt as among one of the top 10 companies globally for creating leaders.

Our approach is that we will invest in talent at all levels, and not limit it to just senior leaders or high potentials. We have a laddered approach towards development, where relevant interventions are provided at each level of management, starting from junior management to the senior-most leaders. It is our belief that as long as people are with Mahindra, they should be given every opportunity to be productive and innovative, and have exciting career prospects. Our employees need to see that a lot of value is being added to them, and recognise that as long as they are with us, we enable them to give 100 percent of themselves.

I also cannot overstate the importance of investing in the development of good leadership. And hence, although it is exceedingly difficult to measure the short-term return (especially for leadership programmes), it would be a mistake to not make smart investments in such programmes. While in the short-run these programmes are time consuming and often expensive, in the longer-term–say over a 10-year period–it should become clear that they benefit the business. After all, a firm that develops strong leadership qualities will be able to create the 'right' kind of culture, and that influences performance to create sustained long-term competitive advantage. For us, this is the 'Rise Culture'.

But training and leadership development is just one part. I think it is important to use a holistic framework. For HR to be truly successful in enabling a firm's competitive advantage, all the HR levers must be aligned. And not only do these have to be aligned, but HR leaders must also know how to balance between the short and the long term.

How much of this is science and how much is art, I do not know. But as we have done in the past, we suggest to keep experimenting.

Rajeev Dubey
is President of Group HR, Corporate Services & After-Market and Member of the Group Executive Board, Mahindra Rise, Mahindra & Mahindra Ltd

Rinse
but no need to repeat

Unilever promotes water sustainability through product innovation

By Srinivas K. Reddy

By October 2007, it had become apparent that competition in the laundry products segment in Vietnam was heating up rapidly. Huyen Bui, the senior brand manager for Comfort at Unilever Vietnam, was contemplating how to stay ahead of long-time rival, Procter & Gamble (P&G), in terms of market share. In April 2007, Unilever launched Comfort One Rinse, a fabric conditioner designed to reduce water use in hand-washed laundry by 66 percent. Six months later, P&G responded by launching Downy One Rinse, a nearly identical product.

Comfort One Rinse was an added-value variant marketed as a premium product in the Comfort concentrate range. As the name implies, it reduces the average number of rinse cycles from three to just one. Comfort's brand extension strategy for the laundry care category in Vietnam largely hinged on the successful consumer adoption of One Rinse.

Unilever Vietnam had already invested significant resources into marketing Comfort One Rinse through extensive brand awareness building since the product was launched in April 2007. However, by October, One Rinse was struggling to gain customer traction. "The customers didn't believe that One Rinse would work. Even those who were converted One Rinse users preferred to do two rinses in order to make sure no residue was leftover," said Bui, recalling her experiences with the Comfort team. "One Rinse was an effective product, but it had serious credibility issues at the time. It also required customers to change the way they habitually washed their clothes. And then all of a sudden, Downy came along and launched a challenger product."

It was believed that whoever could secure 50 percent market penetration first would hold significant advantage as an early market leader. "Looking back, we did some things right. By 2009 we were driving the category with over 60 percent market penetration," said Bui. Indeed, lessons from Vietnam proved crucial to successful launches of One Rinse in other markets.

Unilever Vietnam

Unilever Vietnam began operations in 1995 as a subsidiary of the Anglo-Dutch Unilever Corporation—a leader in fast-moving consumer goods. It carried out manufacturing and distribution operations for attractively priced home and personal care, as well as food products tailored to Vietnamese tastes. Since operations began, Unilever Vietnam had experienced constant double-digit annual revenue growth. Many of its brands had become household names, including the 'Surf' line of laundry detergents, a product complemented by the Comfort fabric conditioner range.

Unilever and Procter & Gamble saw a market for more efficient laundry conditioners in Vietnam. The challenge was getting consumers to forego their engrained, but less efficient, habits.

SUSTAINABILITY

Sustainability initiatives were part of Unilever's larger global strategy, which emphasised sustainability at all points along the value chain. Bui explained, "There is a worldwide mega-trend—driven by technological change—of drastically increasing market fragmentation. This is a major challenge. There are different ways of keeping our big brands relevant to different consumers, but we need to keep the overall brand image constant across the products. We want that image and the message of that product to be for a sustainable planet. We think this message will be important and resonate across segments."

Water scarcity is a primary threat to global environmental and socio-economic sustainability, and many of Unilever's products were water-intensive. Bui confirmed, "An assessment of our product portfolio showed that our laundry, skin and hair products accounted for the majority of our water footprint. Water can also have an impact on the affordability of our products. In developing countries, water scarcity means that it is often too costly for consumers to use the product."

The One Rinse innovation was not just a means to meet Unilever's global brand promise, but as Bui pointed out, to fulfil Unilever Vietnam's own slogan: "Make Vietnamese Lives Better".

Unilever emphasised sustainability at all points along the value chain.

The market for laundry products in Vietnam

Laundry detergent powder had reached full saturation in both urban and rural markets in Vietnam by 2001. Future growth would require an added-value product, such as fabric conditioner, to unlock greater market potential. Fabric conditioners provide benefits such as fewer wrinkles, added softness, various fragrances and even greater stain resistance. Unilever market research discovered that fabric conditioners had only penetrated a small portion of the market—26 percent in urban areas and a mere one percent in rural areas—a clear indication that there was much more potential for growth in the laundry care category, particularly in rural areas, which accounted for some 75 percent of the population.

COMPETITION

P&G too had noticed the potential for fabric conditioners and introduced its Downy brand to Vietnam in 2002. Downy was a concentrated fabric conditioner that, in their words, established a "new level of long-lasting freshness". By 2003, P&G had garnered a 35 percent market share in the overall concentrate range, and had put itself in a dominant position to influence consumer choice.

In response, Unilever expanded the Comfort concentrate range to include its own line of long-lasting freshness products. By the end of 2004, Comfort established itself as the leading concentrate brand, and in doing so decreased P&G's market share to 30 percent.

Since 2005, fabric conditioners consistently unlocked more and more market potential in laundry care–driving overall market penetration for concentrates to an annual growth rate of over 20 percent. Moreover, concentrated fabric conditioners were a high consumption category once the market was penetrated. By 2007, concentrated fabric conditioners had penetrated 21 percent of the overall laundry care market. This reflected 80 percent urban penetration, though rural penetration remained at only 38 percent.

Despite this success, Unilever sought to establish product differentiation in order to maintain its newly won lead.

Comfort One Rinse

As of 2007, only 16 percent of Vietnamese households owned washing machines. The majority hand-washed their clothes. Most of them, typically women, used three rinse cycles to remove detergent after washing, according to a 2004 Nielsen Report. But rinsing was time consuming and water intensive. Anyone hand-washing and using three rinse cycles would save an estimated 9,600 litres of water and 89 hours of labour per year by reducing their rinse cycles to one.

Unilever made the decision to focus on driving rural growth while leveraging on its sustainability emphasis in order to further differentiate its concentrate range. In this case, the sustainability focus was on water conservation. There was also emphasis on gender empowerment, given that women were most often responsible for domestic chores and were the ones who would benefit directly by spending less time rinsing their laundry.

With this value proposition in mind, Comfort One Rinse was launched in April 2007. It was intended to meet the rising demand for high quality branded products in Vietnam, while recognising the fact that consumers faced specific socio-economic and environmental conditions, such as water scarcity.

THE PRODUCT

Comfort One Rinse promised "soft and fragrant clothes in just one-rinse". It was packaged in small 24 millilitre-sized sachets and three different bottle sizes and refill pouches between 400 millilitres and 1.8 litres. As an added-value variant, One Rinse was premium priced at 12 to 15 percent above the regular Comfort concentrate.

MARKETING

Between mid-April and June 2007, Unilever Vietnam ran its marketing programme with the objective of building awareness of the 'one-rinse' promise. The company put up a plethora of massive outdoor displays in Vietnam's 15 largest cities, with some of the most visible advertisements in 206 bus shelters around the eight largest metropolitan areas. There were endorsements from dermatology institutes that conducted demonstration tests in shopping malls. Print campaigns were run in all magazines that covered the urban markets, and women's magazines contained small single-wash trial packets. In all, a million trial packets were distributed door-to-door, inside magazines and through face-to-face interactions in shopping areas. The product even received some news coverage, which further complemented their television advertising campaign.

EARLY RESULTS

By October 2007, Comfort One Rince was available throughout the country at most major retailers in urban areas, and wholesalers and distributors were making headway getting the product into the smaller and dispersed rural retailers.

However, despite Unilever's marketing and distribution efforts, Comfort One Rinse was not finding its way into households. Consumers were sceptical. They had long been accustomed to using at least three rinse cycles to remove detergent and did not believe the One Rinse value proposition. They were also risk averse and not open to paying a premium for everyday household goods.

"A lot of people here are on a really tight budget.They're accustomed to doing things, like laundry, in a certain way. Change entails a certain amount of risk–why would they risk money on a product that they don't think will work? This was especially true in the rural areas, where our activation was lowest," reflected Bui.

Since 2005, fabric conditioners consistently unlocked more and more market potential in laundry care—driving overall market penetration rates for concentrates to an annual growth rate of over 20 percent.

A new threat

While Bui's team was busy convincing their customers about the value of One Rinse, Comfort lost its claim to being the sole one-rinse concentrate after only six months on the market. In October 2007, P&G launched Downy One Rinse, a product offering the same one-rinse benefits as Comfort, but also claiming an additional benefit of being safe for the skin.

Both P&G's and Unilever's one-rinse concentrates were similarly packaged in terms of size, though Downy One Rinse was slightly larger and priced at 15 percent above the core Downy concentrate and Comfort One Rinse. Both one-rinse products had the same perfumes as their respective core brands. The most troubling concern for Unilever was that Downy One Rinse appeared to be more effective at removing foam and detergent in a single rinse.

The concentrate market was nearing saturation in the urban areas, yet this only represented a quarter of Vietnam's population. The rural areas held much greater opportunity and Bui felt that the One Rinse proposition was perfectly suited to their needs. Unilever only needed to activate this segment.

> Anyone hand-washing and using three rinse cycles would save an estimated 9,600 litres of water and 89 hours of labour per year by reducing their rinse cycles from three to one.

"It's important that we have price parity with Downy and own the message of 'leave the long-lasting freshness on your clothes' as part of our core concentrate range," said Bui, as she recalled planning for the next big marketing push. "We also need to make sure we have distinct graphics and packaging from our normal long-lasting freshness concentrate range."

The next big push

From early- to mid-2008, Unilever Vietnam focused on two key objectives. The first was to consolidate the One Rinse value proposition to further ensure that the One Rinse range was sufficiently differentiated from Unilever's other concentrate fabric conditioner products. To do this, Unilever Vietnam added a new perfume variant to bolster the product's fragrance with a greater variety of long-lasting freshness. This proved to be a key strategic move as research confirmed that the long-lasting freshness feature continued to be the main driver behind fabric conditioner sales. A new pink bottle was also introduced for this variant to further differentiate it from Downy. Different perfume variants for One Rinse were communicated through a different drop colour on the pack.

The second objective was to tackle the concerns about foam residue and convince customers that the One Rinse product would perform as promised. "It's not easy to change someone's mind when certain beliefs are ingrained and reinforced through habit," said Bui. "Our customers are accustomed to three rinses–they've been doing it this way their whole life. It'll take a stellar campaign to overcome these residue anxieties." To overcome this challenge, Unilever Vietnam launched the 'One Rinse Revolution' campaign.

MARKET PENETRATION OF COMFORT ONE RINSE IN VIETNAM IN 2009

>60%
Rural laundry care market

>75%
Urban market for fabric conditioners

The One Rinse Revolution

The 'One Rinse Revolution' campaign significantly ramped up Unilever's marketing activity. Numerous advertisements were shown in print, on television and on the Internet. Outdoor advertisements and in-door store displays appeared all over the country. A million more samples were given out as Unilever promoted the product through various channels.

Thousands of trial demonstrations were held at smaller venues throughout the countryside that created direct contact with millions of consumers. Unilever also conducted the 'One Rinse Challenge', a highly publicised event featured on Internet media and television, where two teams faced-off in a timed hand-washing competition. The team using Comfort One Rinse won.

RESULTS OF THE REVOLUTION

The 'One Rinse Revolution' was a resounding success in terms of rural activation. Distribution expanded to over 60 percent of retail outlets countrywide. Unilever diagnostics estimated that consumer awareness jumped to 8 percent of potential consumers, well above their target of 5 percent. The 16 percent trial rate that had been targeted was also surpassed, and it was estimated that the majority of consumers who sampled Comfort One Rinse later went on to purchase the product.

Comfort One Rinse was even beating Downy One Rinse two to one in terms of market share, and by 24.4 percent in value share performance (ie, the amount of revenue generated by one company versus competitors selling the same or a similar product). Simultaneously, Unilever Vietnam gradually began closing the price gap between Comfort One Rinse and Downy One Rinse.

The One Rinse Revolution was a resounding success in terms of rural activation.

In terms of critical success factors, Bui said, "It was important that we built up a lot of credibility through our demos and sampling. Although we had already generated lots of awareness through our earlier marketing activities, we continued to communicate a consistent message. There was also good media support–which helps a lot when it comes to impressions and habit change. We also had strong alignment between our sales force and marketing plan."

By December 2008, the campaign was delivering good results. Comfort One Rinse was not only gaining market share for Comfort in the laundry care market, but also driving segment movement away from dilute conditioners and into concentrate. Still, victory in the concentrate space was not yet certain. The Comfort One Rinse range had not yet reached the coveted 50 percent market penetration rate. But neither had Downy.

In 2009 Unilever improved upon the One Rinse formula to remove any doubts over foam residue and closed the price gap with Downy. The company also launched a new green fragrance variant–further expanding the One Rinse range to three different scent offerings. At the same time, Bui's team continued to push the marketing effort: they aligned their marketing plans with the sales team, worked with their channels on promotions and in-store displays, established strong media support that further bolstered advertising, and helped build credibility with their widespread demonstrations and trials.

In April 2009, two years after Comfort One Rinse was launched in Vietnam, Bui and her team had cause to celebrate. Comfort had penetrated over 60 percent of the rural laundry care market and over 75 percent of the urban market for fabric conditioners. Bui smiled with cautious optimism, "We're now driving the category in Vietnam, but we need to stay vigilant; these are very uncertain times for the global economy. That said, we've already started to take what we've learned here in Vietnam, and apply it to other markets in Southeast Asia and beyond."

Srinivas K. Reddy

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Hospital to home: Interoperability in the health ecosystem

Mobile health solutions have created a revolution in the global healthcare ecosystem.

By Francis Puno

The primary purpose of a nation's healthcare system is to provide easy and high quality access to healthcare, and deliver it at an affordable price to its citizens. This is amid an onslaught of unceasing societal change. Population growth, the prevalence of chronic diseases, ageing and threats of epidemics—combined with the limitations of hospital infrastructure and number of doctors—imply that the time-honoured but costly method of delivering healthcare through face-to-face consultation and interaction between the patient and doctor can no longer match the huge demand.

The incidence of chronic diseases—lifelong conditions that cannot be cured, such as diabetes, hypertension and asthma—is on the rise. This is a point of concern for governments and their public policy advisors, who warn that the financial burden of healthcare will require significant sacrifices through increased taxation or the peeling back of benefits to citizens. Today, up to 860 million people worldwide have one or more chronic conditions.[1] In the case of diabetes alone, the World Health Organization (WHO) statistics show that the number of diabetics the world over will increase from 171 million in 2000 to 366 million in 2030 (refer to Figure 1).[2]

WORLD HEALTH ORGANIZATION STATISTICS ON PREVALENCE OF DIABETES

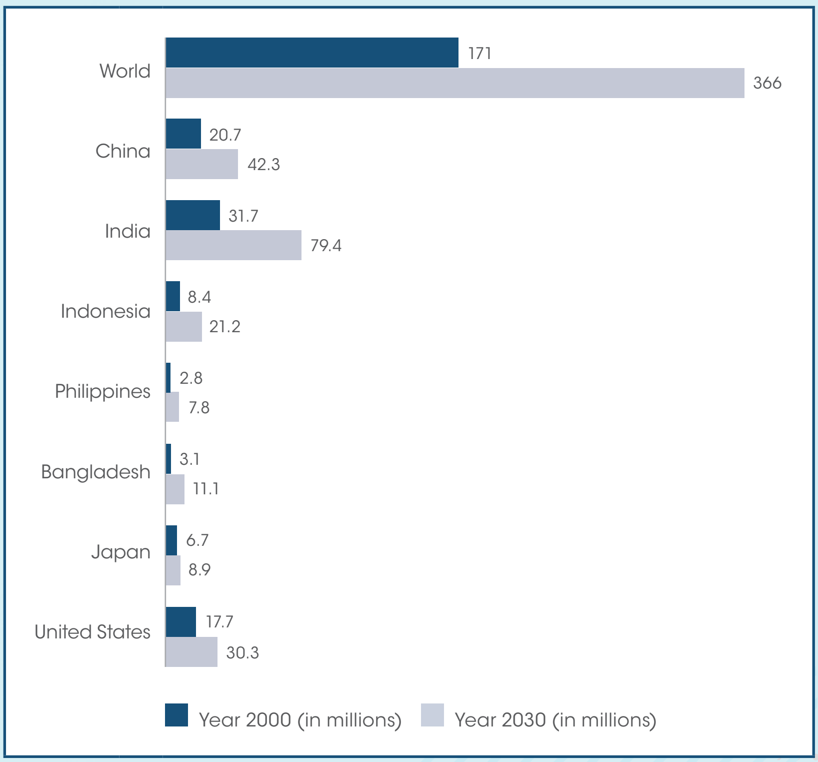


FIGURE 1 *Source: World Health Organization, Country and Regional Data on Diabetes*

A particular challenge is how to bring healthcare to needy citizens, especially in remote or rural areas, where a patient may need to travel up to hundreds of kilometres to reach a tertiary medical centre. Physician density gravitates towards urban centres where healthcare infrastructure, including specialist facilities, is more developed. Doctors and healthcare providers prefer to practice in these centres as they provide enhanced income opportunities.

Meanwhile physician density in rural and provincial locations continues to be limited, partly due to undeveloped or underdeveloped infrastructure. And often, in the absence of medical staff and infrastructure, many patients in countries such as Malaysia, Indonesia, the Philippines and even India choose to rely on alternative remedies and medicines. While it is acknowledged that such medicines will always co-exist with and complement modern medicine, self-medication remains unregulated and dangerous, many a time leading to the worsening of an already chronic condition (refer to Figure 2).

PHYSICIAN DENSITY PER 1,000 POPULATION

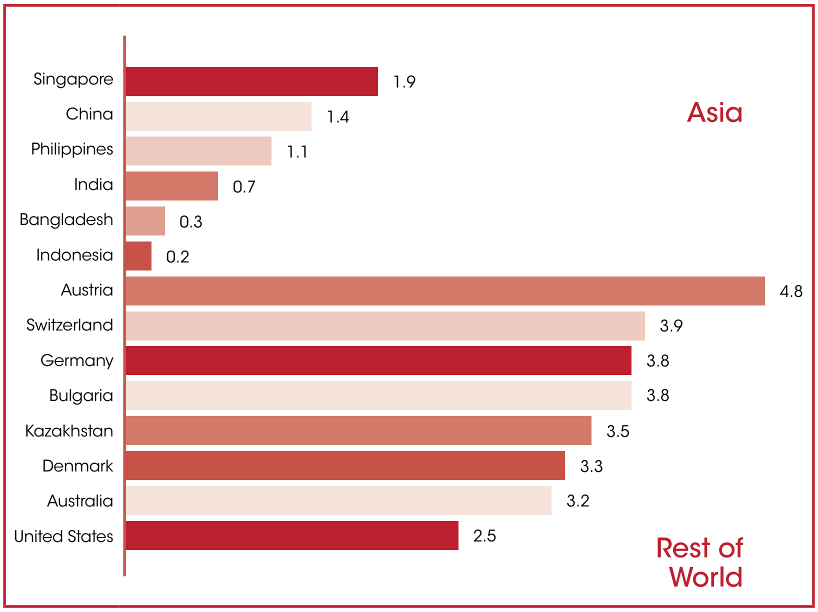


FIGURE 2 *Source: World Health Organization, Global Health Observatory Data Repository*

The technology-enabled wellness revolution

Aided by advances in information and communications technology (ICT), the evolution of healthcare is continuing—it is a work in progress that has evolved from curative, to preventive, to pre-emptive (or wellness). So thorough has the progress been that there would be few people today who have not undertaken some form of wellness activity in the last 30 days—be it a fitness programme, a dose of vitamins or a pre-emptive test for hypertension or cardiovascular health. Many of these are sponsored workplace activities or part of an employee benefits package.

Aimed at keeping the human machine in prime condition, consumers are being seduced by wearable technology such as wristbands, health trackers and mobile phones that monitor wellness indicators. Over the last five years, thousands of apps have been developed to cover every life event from pregnancy (BabyBump PregnancyPro) to diabetes support (GlucoseBuddy). Many are free. A limited number of apps are also available for medical professionals, such as ones that provide reference material on drugs (MIMS) and other content, or help with administrative tasks (timekeeping).[3]

In some countries, physicians have access to government administered Electronic Medical Records (EMR) repositories, but this is a patient preference and approval is not automatically given to medical staff. Hospitals are generally better served than individual physicians when it comes to adopting information technology, with hospital information systems as well as EMR facilities meeting the need for continuity of care from hospital to home.

To address the rising incidence of chronic disease, the shortage of facilities and staff, and the need for extending care outside the hospital or clinic, a new healthcare ecosystem is emerging that leverages mobile technology. It is another step in the transformation of medical care and mirrors the changes in patient management that have taken place over the last few decades. While mobile technology is an obvious solution, the critical factor here is not only the technology solutions developed, but also their interoperability in relation to technology standards. Here, interoperability relates to the connections between the various elements of the integrated solutions–such as medical devices, applications and the seamless flow of medical information– and the healthcare system.

Evolution of a new mobile health (mHealth) ecosystem

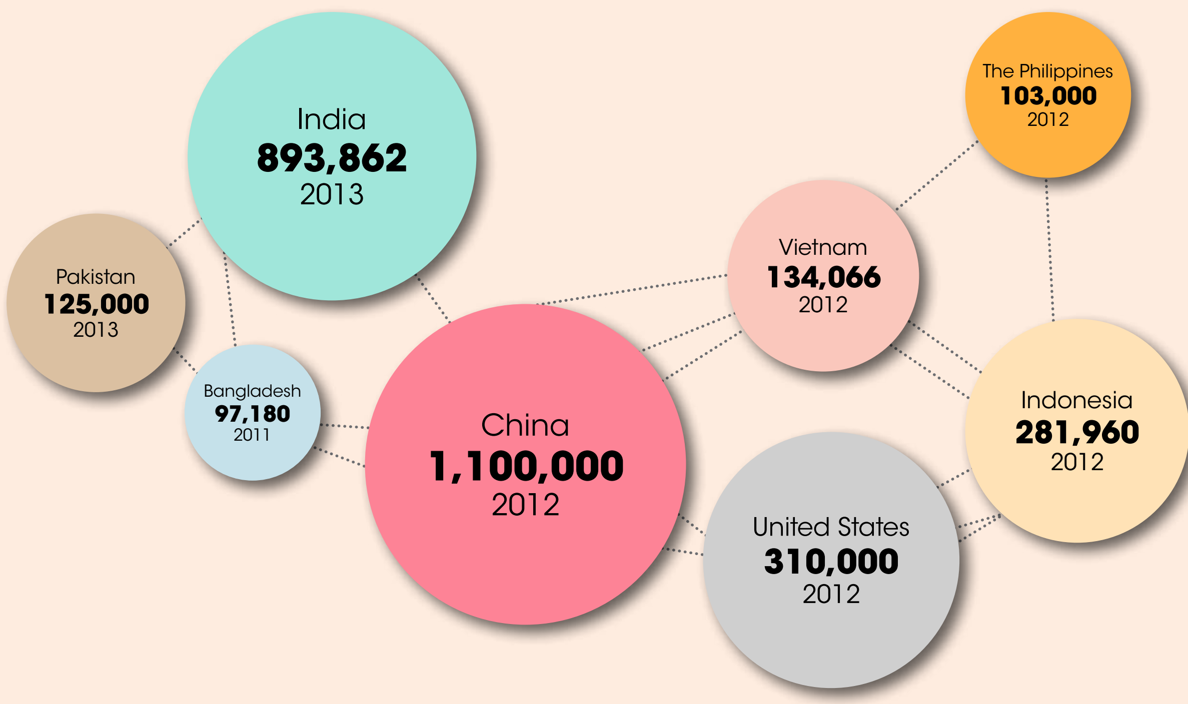
Improvement in telecommunications and technology implies doctors are now able to receive details of a patient's vital signs, medical images and laboratory results ahead of an initial assessment. At the core of the new approach to 'telehealth' is mobile technology, which provides a communications platform between patients and healthcare providers, and enables remote and isolated communities to access healthcare.

The distant communication between healthcare providers and patients is known as 'telemedicine', which comes from the Greek word 'tele' meaning 'at or over a distance, far, complete and end of a task'. But telehealth is broader in scope than

WORLDWIDE MOBILE PENETRATION

The mobile platform is the world's most ubiquitous platform. Most people have better access to a mobile phone than to drinking water, electricity or decent sanitation services. Although exact numbers are not available, it is estimated that mobile devices have nearly overtaken the world's population. It is also claimed that Asia has nearly as many mobile connections as people, and the mobile device is now the number one mode of communication for people in this part of the world.

TOTAL NUMBER OF MOBILE CELLULAR TELEPHONE SUBSCRIBERS (IN MILLIONS)



Source: The World Fact Book, Central Intelligence Agency telemedicine. The myriad technology solutions and services offered under telehealth include teleconsulting via mobile phone between doctors; remote surgery; chronic disease management (CDM) and preventive care; specialised care support centres for hypertension, diabetes and dementia; patient education and support services; home monitoring and many more. Meanwhile, the use of mobile devices such as handsets, tablets and similar devices employed in the practice of medicine and public health is referred to as mHealth or mobile health. The devices are used to receive, send and monitor personal and clinical health data via cellular transmission to healthcare providers in real time, in order to enable an immediate response to a patient. Following the growing sophistication of cellular or mobile connectivity, telehealth and mHealth are now converging.

There is nothing new about telehealth; and its emergence probably dates back to the passing of the house call era. The next stage was one of simple phone calls—physician or patient initiated—that enabled monitoring of healthcare delivery and follow-up at home. However, drawbacks to this system included the fact that most calls were informal consultations and lacked quantifiable information. While physicians were probably happy to accept calls from the patients they were close to, problems arose when the volume of calls escalated and began eating into their face-to-face practice and personal time.

Nowadays, many modern clinics offer a concierge service. Operated by private companies, these call desks screen and/or address questions from patients. Hospitals, too, have a similar service with hotlines available and connected to the Accident and Emergency (A&E) unit. But both systems are at a loss when it comes to providing care for patients who are unable to come to a hospital or other health facilities. In days gone by, lengthy stays in hospital would have been followed by house calls, visits from the district nurse, or private nursing services (which are still available at a cost to the patient or the government).

Since the turn of this century, telehealth systems supported by mobile devices have been increasingly used to address chronic disease monitoring, health education, and treatment and support services. Use of telehealth solutions can also provide data collection and remote monitoring services, disease surveillance and drug adherence, health information systems, point-of-care, and emergency medical services. As such, they easily fulfil the primary aims of an efficient health service—to improve access, affordability and quality.

In Singapore, telehealth solutions for patients suffering from chronic diseases, such as hypertension and diabetes, have helped government hospitals manage their patient flow more efficiently. Examples of such companies include TeleMetrix+, a commercial cloud-based telehealth service that enables doctors to remotely monitor and track patient vital signs in the comfort of the patient's home; Connected Health, a remote health monitoring solution that allows healthcare, nursing, and fitness service providers to improve care, reduce costs and increase productivity; and REKA Health which develops and markets innovative telehealth solutions through an interactive health technology platform consisting of electrocardiogram (ECG) medical devices, application software, mobile apps, cloud-based web applications and Personal Health Records (PHR).

Similarly, in Japan there are more than 20 such solutions, including primary care clinics that cater to self-monitoring individuals. Both Malaysia and the Philippines, too, have active telehealth associations.

The development of telehealth and remote monitoring systems over the last ten years has enabled medical staff to reduce congestion at the hospital and other health facilities by extending medical facilities and enabling recovery at home. A major benefit of efficient telehealth solutions is the seamless transmission of medical data from the patient to the hospital, which allows patients and healthcare providers to access feedback and communicate whenever and from wherever they desire.

TELEHEALTH INITIATIVES IN THE PHILIPPINES

The University of the Philippines College of Medicine uses telemedicine to reach out to 'barrios' or villages and poor communities in remote areas. The University's clinical specialists work at the Philippine General Hospital, Baguio General Hospital and East Visayas Regional Medical Center to provide support for a wide range of clinical specialties. It also conducts specific research in telederma ophthalmology surgery, medicine/diabetes care, tuberculosis, screening of newborns, screening of the hearing impaired, amputee treatment, rabies, leprosy, malaria and parasitology. The Center works with an interdisciplinary pool of individuals and stakeholders to ensure that the technologies being developed and introduced on the ground are culturally acceptable and within the reach of users.

Since the turn of this century, telehealth systems, supported by mobile devices, have been increasingly used to address chronic disease monitoring, health education, treatment, and support services.

BANGLADESH'S TELEMEDICINE REFERENCE CENTER

The Telemedicine Reference Center Ltd (TRCL) opened in 1999 and is one of Bangladesh's longest-serving companies in the telemedicine sector. In 2003, the Center introduced a mobile health programme, which was an extension of its telemedicine health platform. By 2007, TRCL's first mHealth project had received a global award from Group Speciale Mobile Association (GSMA), an industry group formed in 1995 and comprising mobile operators and related companies devoted to the standardisation, deployment and promotion of the Global System for Mobile communication (GSM). In 2009, TRCL launched its AMCARE chronic disease management programme. In 2010, AMCARE signed an exclusive collaboration agreement with the Diabetes Association of Bangladesh to provide diabetes care services nationwide. The agreement was designed to bring 100 percent of diabetes patients under treatment and monitoring using TRCL's patient management platform and medical call centre system, which was a much-needed initiative given the alarming increase in the incidence of diabetes in Bangladesh from 4 percent in 1997 to 11 percent in 2011.

INDONESIA'S 'DOKTER GRATIS'

In the same way that mobile technologies and technological innovation brought access to financial systems and services to the largely unbanked poorer communities in Africa, Dokter Gratis uses mobile platforms to provide a telemedicine service and medical consultations to almost two million users in Indonesia. Established in Indonesia two years ago, Dokter Gratis is operated by Singapore-based Health2i Pte Ltd., and up to 1,000 Indonesians receive free medical advice on a daily basis from a team of online doctors.

Interoperability

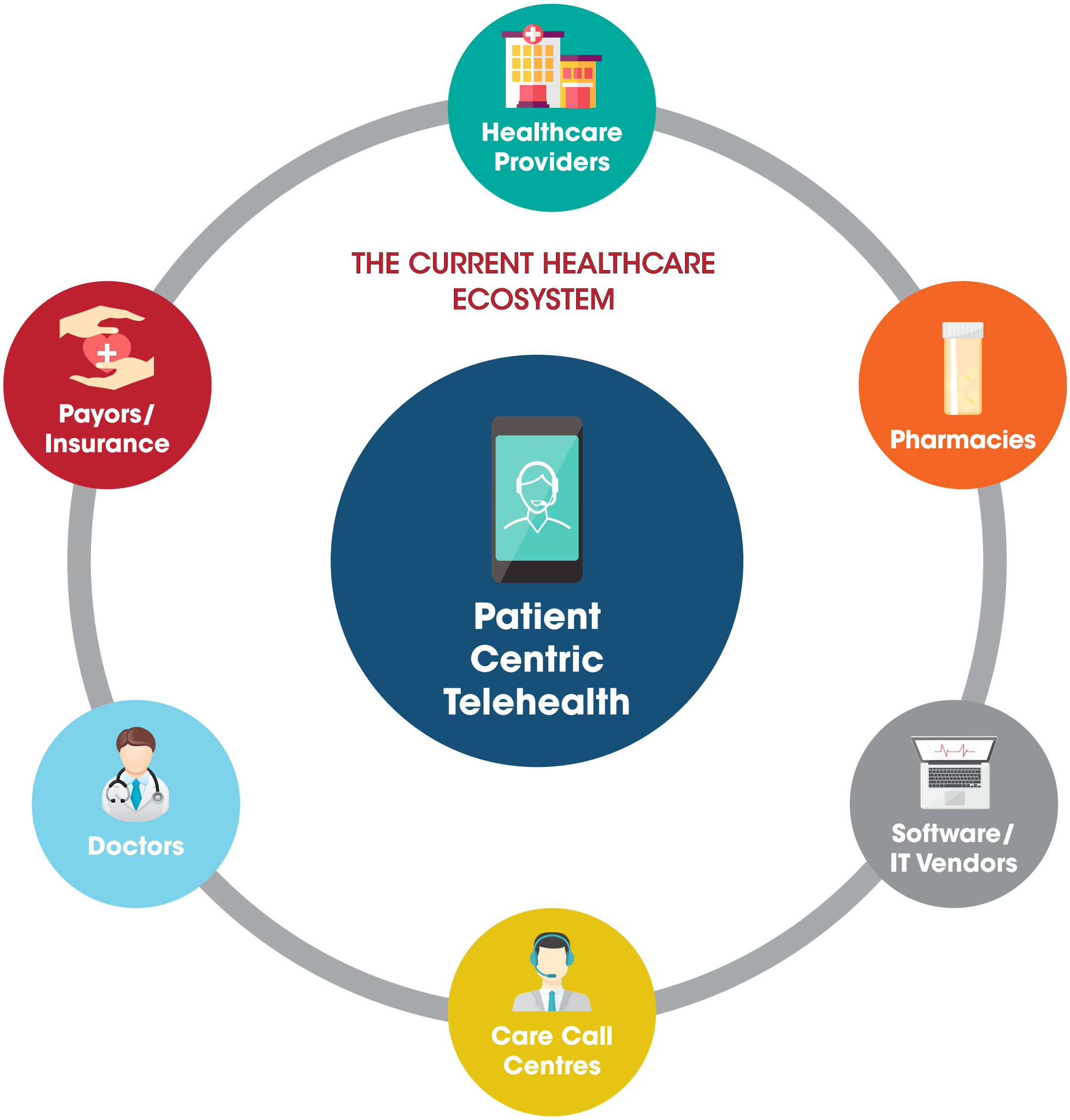
Interoperability involves the design of standardised guidelines for wireless medical devices at home, and a mode of transmission in a format that is compatible with the health information exchange standards followed by connected health devices and systems. These include tablets, smartphones, gateways and remote monitoring devices. The standards provide a framework for delivering clinical quality medical information from a remote consumer environment to the hospital through the devices.

For example, in the hospital environment, information about the patient is kept in the hospital EMR. However it is equally important to have vitals signs measured and followed up on after the hospital stay, in order to have full documentation of the patient's recovery. But vital signs taken at home can only be recorded if they are in a format compatible with the relevant EMR and health information system.

For patients, standardisation will enable easy connectivity with personal connected health tools to allow consumers to create individual, interoperable, customised networks of devices and services to manage their health.

While telehealth can function in the absence of interoperability, interoperability in technology and solutions design standards fuels telehealth adoption and is a key factor in ensuring access and affordability. When functioning effectively, it can dramatically improve health management, clinical outcomes and quality of life by empowering information-driven health self-management.

While telehealth can take place in the absence of interoperability, interoperability fuels telehealth adoption.



SEAMLESS INFORMATION AND METADATA: THE SINGAPORE EXPERIENCE

In recent years, Singapore's public hospitals have experienced occupancy levels of up to 95 percent, a figure that may compromise patients requiring immediate admission. This has seen Singapore's Ministry of Health implement step-down care models to reduce hospital waiting times by providing cost-effective chronic disease monitoring services at primary care centres, and reserving the tertiary hospitals for more specialised care.

In early 2014, one major public hospital implemented a remote cardio monitoring solution, which consisted of elements certified for standardisation. These included a software platform that received biometric information; blood pressure, glucose and weighing scale devices; a receiving hub placed at the patient's home to receive data from the devices used by the patients; and chronic disease 'kits' including a hub and corresponding medical devices.

The overall solution was designed to be as simple as possible, even for the elderly. Patients received the kits to be used at home to record vital signs, which were then sent wirelessly to the hospital caregiver. From a technology perspective, the monitoring services proved effective in assisting hospitals in the efficient monitoring of patients, as well as doing away with the need for patients to make periodic visits to the hospital.

THE 2011 JAPAN EARTHQUAKE

The availability of certified, interoperable health monitoring devices greatly helped Japan during the earthquake that struck Miyagi Prefecture in March 2011. During and after the crisis, interoperable technologies and solutions were utilised to mitigate the risk of cardiovascular disease (CVD) among elderly patients and other survivors.

Earthquake exposure as well as the impact of living in an evacuation camp within the devastated area were factors associated with elevated cardiac risk, making CVD management an important element in the recovery of hundreds of survivors. Given the urgency of delivering healthcare support, Dr. Kazuomi Kario, Chairman of Cardiovascular Medicine at Jichi Medical University in Tochigi, worked with Continua Health Alliance—an organisation of healthcare and technology companies that certifies interoperable personal connected healthcare solutions—to deploy a remote monitoring solution.

The technological components were sourced from various companies—automatic blood pressure monitors from A&D, Inc.; gateway firmware from Alive, Inc.; data server from Ryoto Electro Corp.; clinical PC from Panasonic; patient ID cards from Toppan Forms; and web application development from Qute—with project coordination carried out by Intel.

The integrated solution was in operation within two weeks. At a set up cost of US$26,000, it compared most favourably to the non-integrated solutions that would have required up to 12 weeks and about six times the cost (around US$165,000) to set up.

Clinicians monitored the data and alerted on-site physicians by phone of any significant developments. High-risk patients were then moved from the evacuation camp into temporary housing provided by the government, and given individual blood pressure monitors capable of storing one month's readings.

Nearly a year and a half after the earthquake, every one of the 400 high-risk evacuees was still alive and the programme remained in operation. The disaster CVD solution has been credited with saving lives and illustrates the clinical, time and cost advantages of interoperability, especially in a crisis, when time is of the essence.

The current healthcare ecosystem

An integrated, interoperable telehealth solution would go a long way towards offering the three factors that are key for any successful health programme: access, affordability and quality. However, it is also a fact that technology-dependent telehealth solutions are more likely to be found in countries where the government subsidises healthcare, such as Japan and Singapore.

One of the greatest challenges to increasing the adoption of telehealth services is the need for better and closer collaboration among all partners and stakeholders in the telehealth ecosystem, including the government, insurance companies, regulatory bodies, hospitals, technology companies and medical device companies.

A more nuanced issue here is the proliferation of proprietary apps and systems, which represent factors that hinder scalability. Why? Because 'closed' or proprietary systems are generally costly, even though telehealth solutions have helped extend care to outside the hospital. Too many different companies delivering similar solutions will tend to result in more expense as their applications solutions are not technology standardised and therefore access is limited. Moreover, not only will the access goal be unmet, but a lot of data is likely to get lost or not used in the process. On the technology side, mobile device manufacturers and mobile service providers will need to work together as currently, there are far too many devices and solutions working independently.

Given the uneven physician-to-population density and increasing mobile access, there is no doubt that in the near future, there will be tremendous growth in telehealth as a means of delivering healthcare. A concerted effort to achieve common goals among the ecosystem's stakeholders will see telehealth become mainstream practice.

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is chair of the Southeast Asia Working Group of Continua Health Alliance (Continua) and senior partner of Holista Health Inc.

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Muddling through or knee deep in the big muddy?

A widening gulf between the practice of management and academic organisations characterises the state of affairs in business schools today.

By Howard Thomas

What do educators think?

Educators have had to answer criticism that business schools have failed to keep their 'eye on the ball', that is, the very core, purpose and value of management education. In pursuing academic scientific rigour, critics claim business schools have swung too far down the path of rigour at the expense of relevance. More deeply offending for those who strive for relevance and value above all, is the assertion that schools are failing to adequately prepare students to deal with real-world management problems. In essence, there is a disconnect between business schools and the perceptions of the wider management audience they serve.

It is against this backdrop that one might ask what the future of management education might look like. Bleak as the situation might seem, heightened awareness of the dangers on the horizon should prompt action and lead to innovations in business school models. But on the other hand, given the inertia that has been characterising business schools, management education might also find itself sinking in quicksand.

> Critics claim that schools are failing to adequately prepare students to deal with real-world management problems.

To anticipate likely shifts in the management education landscape, my team and I surveyed 39 leaders in management education to establish possible future scenarios for the field. We then sought their insights on what they perceive to be the most likely, best-case, and worst-case scenarios for the next decade. While not forecasts in the strict sense, the scenarios are better considered as a mapping of possible long-term outcomes based on a range of trends, events and pathways. Leaders also volunteered their perceptions of the challenges and likely impact on the evolution of the field.

The time is right for change. However whether management education as a field, and its leaders as its strategists, have the will and the capacity to respond to the challenges that confront it remains to be seen.

Heads in the sand versus re-aligning the compass for change

Consistent themes emerged. Viewed together, they represent a 'compass for change' and a response to various external and internal challenges faced by individual business schools. The first challenge mentioned was the culture of business schools. Characterised by inertia and a certain resistance to change, their currently problematic nature is due largely to conservatism, complacency and a 'head-in-the-sand' attitude towards the challenges that confront management education. This attitude, which demonstrates an entrenchment in the existing ways of doing things, is a cognitive issue. Business school deans who are comfortable in their roles would favour in their minds a 'dominant recipe' for approaching management education. This would in turn lead to 'blind spots' when it comes to recognising and seizing innovative opportunities to bring about positive change.

The actual purpose of management education is another matter, and the debate as to whether or not it should enhance managerial capabilities or generate intellectual capital is intense. Pedagogy used and curricula content were other factors identified as being in need of revitalisation. Deeper still were the challenges of the faculty structure itself, and the funding of business schools.

Leaders acknowledged the themes during the process of developing the three scenarios, which the team and I have described as 'muddling through' (for most likely), 'shakeout' or 'stagnation' (for worst-case) and an 'ideal' scenario (for best-case), which are presented in Table 1. The modal response for the most likely scenario was one where intense competition pushes schools to specialise and better differentiate their offerings, as they attempt to strengthen their position in the market. The best-case scenario was one where schools move closer to globalisation and practice in an attempt to regain relevance and legitimacy, with the worst-case scenario described as a situation where management education as a whole fails to respond to the criticisms and challenges, leading the field down the path of greater and greater irrelevance.

CHARACTERISTICS OF FUTURE SCENARIOS GENERATED BY INTERVIEWEES

Scenario	Descriptive labels	Characteristics
Best-case	'Ideal' • Inspiring • Innovative • Valuable • High quality • Practical	• Improved pedagogy—how and what is taught • Purpose—seen as valuable in defining and justifying the role of management • Closer to practice • Aligned with public and private management • Global—instilling cultural and contextual intelligence • High-quality positioning
Most likely case	'Still muddling but not yet through'	• Follow the market trends • Incremental change—market-led portfolio management • Practical relevance • Market saturation—elite schools win • Competition—particularly private competition • Disaggregation of the value chain
Worst-case	• 'Shakeout' • 'Stagnation' • 'Knee deep in the big muddy'	• Irrelevance to businesses and society • 'Sink to the bottom' • 'Head in the sand'—ostracism • 'Cash cow' becomes 'Starved cow' for universities

TABLE 1

Best-case scenario: 'Ideal'

The research revealed significant differences from the status quo when it came to best-case scenarios. Scenarios articulated are aspirational, and often quite removed from the way that business schools and their offerings are currently arranged. Almost three-quarters of responses stressed the creation of more value for stakeholders, while the remainder covered the structure of the management education field itself. Table 2 provides the characteristics identified during the interviews with educators.

Key findings related to the nature of pedagogy in business schools, the refocusing of management education and bringing schools of business closer to management practice. Of interest was the observation that a small number of responses viewed the quality of management education in the best-case scenario as *being significantly higher* than current levels.

Interestingly, the best-case scenario also incorporates pedagogical improvements that are viewed as providing value to stakeholders, inspiring better managers and being

BEST-CASE SCENARIO: THEMES AND DISTINCTIVE CHARACTERISTICS OF SCENARIO

Themes	Distinctive characteristics	Count of Mentions	Percentage of respondents highlighting characteristics (35 respondents)
Value to stakeholders (good and bad)	Pedagogy	13	37%
	Purpose	12	34%
	Move closer to practice	12	34%
	Improve quality	3	9%
Structure of the field	Become global	8	23%
	Structure of business schools/universities	6	17%

TABLE 2

of greater relevance. The comments reflect the debate about curricula over-emphasis on business and analytical skills, and under-emphasis on skills such as leadership, global awareness, problem framing, problem solving and integrative thinking. Or, put another way, the balance between domain knowledge and the skills of problem solving, criticism and synthesis that is necessary to operate in an ambiguous and multi-disciplinary management environment. More pragmatic interviewees asked whether we, as educators, really understand our 'end product' and whether we feel confident that we are producing good managers; and called for closer alignment with practice. Once business school research is perceived as more relevant to the business world, they reason, the more respect for the business school that would be engendered, and the greater likelihood of sponsorship for school events and projects.

The structure of the sector itself piqued the attention of just over 26 percent of responses, drawing attention to two aspects of management education: the organisation of business schools (often, but not always, as part of a university system) and the capabilities of schools. Some of the best schools are perceived as part of a university system, where, through reputational capital, they obtain greater autonomy and thus have greater agility in responding to market conditions. It allows them to innovate—rather than, for example, focus on the preparation of students to meet accreditation requirements. Yet there are also 'standalone' business schools of high quality, such as INSEAD, IMD and London Business School, which often take risks, innovate and more flexibly address opportunities.

There can be few other disciplines where there is such a marketplace emphasis on getting your students into good jobs. Good business schools excite the passion and acumen of outstanding students, which in turn enhances reputation, as well as attracts premium faculty.

The best-case scenario also accommodated the need to become more global, a state that goes hand in hand with the rise of players in Asia and Latin America, providing strong diversity and the creation of a range of different models of management education. In 2015, it is understood that the great global corporations cannot just go to the very few business schools that are global. Global is more than geography; it has to do with the mentality of people becoming globally aware, that is, culturally and contextually intelligent. Business schools need to produce 'go anywhere, global graduates'. The development of global capability married with local knowledge is an urgent need for management education in the current era.

Management educators interviewed also felt it was time for proper reflection on the purpose of business schools in particular, and the Holy Grail of management education in general.

Most-likely scenario: 'Muddling through'

Given the previous comments, it is hardly surprising that in the most likely scenarios, interviewees placed far greater emphasis on the structure of the field than in either the best- or worst-case situations. Competitive pressure is seen as playing a strong role in how respondents perceived the future unfolding, while value to stakeholders and no change respectively received less attention.

The distinctive characteristics differentiating the most likely scenario from the status quo are given in Table 3, and reflect the four basic themes mentioned earlier.

More schools are expected to differentiate themselves by moving in a range of strategic directions such as internationalisation strategies, more specialised (niche) strategies, and adoption of lower-cost provision by private providers as they reinforce their market entry strategies. As one interviewee noted: “I see in the developed world a stronger specialisation. We will have a stronger push for business schools to be more specific on their positioning. I think the growth of portfolio-type business schools will increase this pressure very heavily. So competition will push things, at least in the most developed countries in which our selling market is more mature…towards a kind of specialisation.”

One of the key elements here is the decline in government-level funding for management education and the ensuing struggle for financial resources. It impacts not just public universities. Major private universities too are vulnerable, especially if government funds and grants are withdrawn—perhaps even half the university would go, says one educator, although the business school could probably still operate.

Declining funding might see governments more likely to meddle more than they currently do, but it is also seen as leading to disaggregation in the value chain and a strong review of such elements as technology-enhanced learning. One likely scenario is the fragmentation of education outside of the university, where diversity is encouraged, with some people doing self-study and consuming shorter programmes, including the massive open online courses (MOOCs). Others, including MOOCs, may also provide and offer ways of flexible degree certification.

MOST LIKELY SCENARIO: THEMES AND DISTINCTIVE CHARACTERISTICS OF SCENARIO

Themes	Distinctive characteristics	Count of Mentions	Percentage of respondents highlighting characteristics (35 respondents)
Structure of the field	Specialisation of schools	7	20%
	Globalisation	6	17%
	Private providers	5	14%
	Technology-driven change	3	9%
	Changes to faculty structure	2	6%
	Stable elite	2	6%
	More corporate degrees	2	6%
	Reduced state funding	1	3%
Competition	Decrease in competition	8	23%
	Decrease in demand	4	11%
	Shakeout	2	6%
	Greater importance of rankings	1	3%
Value to stakeholders (good and bad)	Increase in relevance	7	20%
	Improvement in teaching	4	11%
	Less relevance	1	3%
No change	No change	7	20%

TABLE 3

Worst-case scenario: ‘Shakeout’ or ‘stagnation’

Four main themes became apparent: no change; where management education fails to provide value for its stakeholders; where intense competition damages the field; and where the field’s structural qualities undermine its effectiveness. A combination of the above themes too emerged.

Just over a quarter (26 percent) of comments were related to the problem of no change and over one-third (36 percent) were concerned with not providing value to stakeholders in management education. There was broad consensus (40 percent) that no change was the worst-case scenario, a fifth (19 percent) discussed concerns about the damaging effect of competition within the sector and the same proportion of responses (19 percent) indicated that structural issues in the sector would underpin the worst possible case for management education. To deepen our understanding of areas that trouble leaders, the four themes are explored in further detail in Table 4.

Forty percent of educators considered the worst-case scenario as involving complacency, no change, and a 'head-in-the-sand' position. However, maintaining the status quo is inappropriate for business school programmes. Change is essential. As one interviewee noted, some business schools have been churning out programmes that have not been materially revised, updated or redesigned in 20 years.

However concern that the value proposition is not being articulated well for stakeholders is a more nuanced and multi-faceted argument than the argument that there would simply be 'no change' in the worst-case scenario: 43 percent thought the worst-case scenario would be one where the value of management education would be an issue. The lack of value leads ultimately to a situation where stakeholders choose to ignore or substitute the content of management education. Without a credible value proposition, business schools become somewhat redundant in both business and academia. The absolute worst, said one interviewee is that "we don't really need an MBA anymore, that it's not something that is relevant and not worth paying for".

Competition in the worst-case context takes the form of two types of threats. The first arises from strategies private providers are likely to use and how these strategies would affect the competitive dynamics in the industry. The second focuses on the competition for scarce resources that occurs particularly in the realm of universities. This predominantly concerns competition for students and faculty, as more global players develop and as schools in some countries make the transition away from a state-funded model. As a result, financial sustainability and ultimately survival becomes an issue, leading to a shakeout in the field.

WORST-CASE SCENARIO: THEMES AND DISTINCTIVE CHARACTERISTICS OF SCENARIO

Themes	Distinctive characteristics	Count of Mentions	Percentage of respondents highlighting characteristics (35 respondents)
No change	No change	14	40%
Value to stakeholders	No value to stakeholders	7	20%
	Lack of relevance	3	9%
	No legitimacy	2	6%
	Specialisation and fragmentation	1	3%
	Lack of quality	1	3%
	Question of purpose	1	3%
	Too broad	1	3%
	Too narrow	1	3%
	Too much rigour	1	3%
	Lack of specialisation	1	3%
Competition	Competition	4	11%
	Shakeout	5	14%
	Race to the bottom	1	3%
Structure of the field	Business school/ university structure	4	11%
	Powerful faculty	3	9%
	Become agents of business	2	6%
	Switch to private schools	1	3%

TABLE 4

In such worst-case scenarios, a sense of despondence is palpable in management education and it becomes increasingly irrelevant to stakeholders under these circumstances.

The shifting landscape could have heralded innovation, but it has not. The lack of innovation in turn reflects resource constraints as management education evolves in an easterly and southerly direction. For example, Asian management education is diverse and heterogeneous, and has its own context and priorities. While India faces a shortage of faculty, China faces constraints in academic autonomy.

There is no single management model in Asia, as the experiences of India and Japan show. India, for example, has produced many key educators and thought leaders such as C.K. Prahalad (Michigan), Vijay Govindarajan (Tuck), The most likely scenario is probably one where competition is intense, with the biggest threat from for-profit providers with the capabilities to offer the same product or even a higher quality one at a lower cost, as well as an increasing number of international players.

Nitin Nohria (Harvard), Sumantra Ghoshal (LBS), Lord Desai (LSE), Ram Charan (author and consultant) and Jagdish Sheth (Emory). Yet despite producing some of the most influential of educators, the Indian system has its drawbacks. Only four institutions are accredited by key international agencies (e.g. AACSB/EQUIS). It is low on research output: there is no Indian School in the UT Dallas ratings and little international/global impact/reputation, as shown from the *Financial Times* and *Economist* rankings. There are also many suppliers of uneven quality of instruction outside of the elites (such as the IIMs, and IITs and the like).

Meanwhile although the Japanese management education environment has many business-related departments at undergraduate level, there are relatively few graduate business schools (other Asian powers have expanded faster). Nevertheless, the science-based engineering-oriented culture has produced many national and international champions that include Fujitsu, Canon, Toyota, Honda and Sony, as well as resulted in a respected international business profile.

In 2003, a change in the Japanese regulatory environment established 'professional graduate schools'. MBAs are mostly studied on a part-time/evening basis and have a relatively lighter workload if compared to Western schools. In common with India, there are quality standards and accreditation issues: few Japanese schools are accredited by key international agencies and the system has issues of economic growth, globalisation, the internationalisation of human resources and the strategic use of human capital. The question for Japan is whether it can influence the growth of management education and fulfil its considerable promise in this field.

In the Asian Management Model, there is 'no meaning without context'. Asian management education is diverse, and there is no single, dominant model. There are different cultural and contextual priorities in China, India, Indonesia, Japan, Korea, Malaysia, Thailand, the Philippines and Vietnam. Each country is unique. The question for the Asian management countries is how they can help each other and forge greater ties in developing Asian management education.

Here in Singapore, business schools benefit from strong government backing and healthy public funding of higher education. However there is significant government oversight and the larger goals of the nation, such as the manpower needs of the economy, impose performance expectations on business schools and have an influence on their strategic direction. In contrast, business schools in the U.K. face the challenge of drastic cuts in funding and a limit on how much tuition fees can be raised to increase revenues.

And then there's the competition

In both best- and worst-case scenarios, competition was particularly mentioned as a key driver of change. The pressure is intense and is likely to impact management education in many ways, including the shakeout of weaker schools due to underinvestment in teaching and poor pedagogy. Business education can be done very cheaply and can also appear credible with the inclusion of a few teachers from industry. However their inclusion doesn't mean that they are necessarily good.

Increased competition may well intensify market segmentation and drive schools to search for distinctive differentiation strategies. However it also has a negative side, including use of 'creative approaches' to scaling new heights in the reputational rankings and doubtful strategic alliances. Proprietary (for-profit) institutions are also going to be stronger, and able to deliver better content more effectively, using a myriad of channels.

The value proposition of the research-driven business school is also destined to come under increasing scrutiny, forcing university-based business schools to justify their positioning and clearly rationalise what they do. Given the competition from low-cost providers, this will likely lead to a focus on issues of relevance (in research and teaching) and the need to provide value in a sustainable way.

But other educators have flagged 'no change' as likely, that is 'business as usual with some frills' or 'business as usual and muddling through'.

The road to 'muddling through'

There are clearly prescriptive implications in our findings if schools are to avoid being driven out of the market and falling under the wheel of for-profit competition. They will need to negotiate around the constraints mentioned earlier

Without the presaging of a movement towards real-world management and the sharpening of their positioning, schools risk becoming drowned out in the cacophony of competitive marketing, or simply sinking knee-deep in the muddy.

and hurdle such barriers by creating innovative solutions.

Firstly, the fact that the worst-case scenario is described as one where there is a lack of change suggests more flexible models of education, with the pure brick-and-mortar approach superseded by new learning technologies that offer greater flexibility in the delivery of programmes, accommodate distance learning, and are less reliant on case studies as the value of experiential, action-based learning is increasingly acknowledged. MOOCs can, for example, offer flexibility in the pace and mode of learning and may bring cost efficiencies, and schools ignoring the potential of MOOC platforms do so at the risk of their own demise.

Secondly, efforts must be made towards a closer alignment with practice as research becomes more applied. There is also a great need to develop individuals holistically and to change the language used in classrooms from shareholder- to stakeholder-speak. Business schools can no longer afford to ignore larger societal issues. Curricula content is another area mentioned as having failed to keep up with its environment and has therefore lost its currency.

Thirdly, the ecosystem cannot support a growing number of business schools all competing for the same limited pool of faculty, limited numbers of pages in journals and a limited pool of MBA candidates. The biggest threat is likely to come from for-profit providers with the capabilities to offer the same product or even a higher quality one at a lower cost, as well as increasing numbers of international players.

Fourthly, differentiation is an imperative for survival but requires a keen understanding of the competitive landscape and points of difference that will be valued by the market. This could mean re-engineering the mix of programmes and the introduction of short-term courses, mergers and partnerships between universities, business schools and others.

Lastly, the university system itself needs to change. Governance policies, internal bureaucracies, tenure, autonomy or the lack of it, all limit the agility needed to respond to challenges. A combination of balance of power favouring faculty and incentives skewed towards research publication creates a fairly imposing roadblock to change. In the case of tenure, the relatively short-term nature of the tenure of deans—around four years—also works against the introduction of change, and lessens courageous and authentic leadership, especially when drastic or unpopular change is required.

Ultimately, there is a need for the field to secure its own future by going back to the fundamental purpose of management education—that is, to produce effective business leaders and to conduct research that has impact on the practice of management. Without the presaging of a movement towards real-world management and the sharpening of their positioning, schools risk becoming drowned out in the cacophony of competitive marketing, or simply sinking knee-deep in the big muddy.

Management education is most definitely at a crossroads, and the path forward is obscure. While it is tempting to stand still, we, as custodians of the field, must reflect on the changes we need to enact, so that the legitimacy and the future of management education is ensured.

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The material in this article is derived from the author's recently published book: "Securing the Future of Management Education: Competitive Destruction or Constructive Innovation?", co-authored with Michelle Lee, Lynne Thomas, and Alexander Wilson, Emerald Group Publishing, U.K., 2014

Foreign Investors are Finding Vietnam Increasingly Attractive

A new wave of mergers and acquisitions and foreign direct investments is coming into Vietnam thanks to macro stability, an emerging middle class and changes in Asia's manufacturing landscape.

By Tony Diep and Hawkins Pham

Following the opening of the Vietnamese economy to foreign direct investment (FDI) in 1986, Vietnam became an exciting, albeit difficult, place to do business in the 1990s. Then came the Asian Economic Crisis in 1997, and investors began pulling out in droves. The next decade was a challenging time for the Vietnamese economy, and it was only in January 2007, after Vietnam joined the World Trade Organization (WTO), that a second wave of investor interest followed. However, there was a large difference between committed FDI, which reached a high of over US$70 billion in 2008, and disbursed FDI, which fluctuated between US$10-12 billion annually.[1]

Fast forward to today, Vietnam is embarking on its third wave of foreign investment. Given its increased macroeconomic stability, an emerging consumer class, and changes in Asia's manufacturing landscape, the country is now better positioned to obtain a fuller extent of committed FDI.

Vietnam: becoming an attractive investment destination

INTRODUCING MACROECONOMIC STABILITY

The years 2007 to 2011 were marked by high credit growth, which lead to high inflation and rapid devaluation of the Vietnamese Dong (VND). In early 2012, facing the realities of an overheating economy, the government shifted focus from a high growth strategy to one that would bring about macroeconomic stability. A number of monetary and fiscal policies were implemented. In particular, tighter monetary policies reduced credit growth from about 27 percent per annum in 2010, down to 12.5 percent in 2013.[2]

Correspondingly, gross domestic product (GDP) growth declined to 5.2 percent in 2012 and 5.4 percent in 2013, from a five-year high of 7.6 percent in 2007.[3]

In turn, inflation has significantly contracted, from 22 percent in 2011 to less than 5 percent in 2014.[4] For 2015, the government is projecting GDP to expand by 6.2 percent and analyst estimates expect inflation to remain in the low single digit territory.

With low inflation, the government has been able to cut interest rates by a total of 850 basis points since 2012, and position the VND as the most stable currency in the region, with only a 3 percent devaluation against the USD since February 2012.[5] The VND has also appreciated against the Euro and Japanese Yen during this period and won the confidence of foreign investors.

Today, Vietnam is embarking on its third wave of foreign investment.

ATTRACTIVE DEMOGRAPHICS

Beyond the government's focus on economic stability, one cannot ignore Vietnam's large, young and educated population and expanding middle class as a draw for foreign investment. While other countries in the region–Japan, Singapore, and even China–grapple with the challenges of an ageing population, Vietnam has an enviable demographic structure, with its ratio of independent to dependent people among the healthiest in the region.

Moreover, the country is homogenous–with one common language, a single political party, one predominant religion and a contiguous landmass–which provides for greater socio-political stability. This is in stark contrast to neighbouring countries, such as Thailand, Indonesia, Myanmar and even the Philippines, where political and social disorder is more common.

But most of all, it is the rapidly expanding consumer class which attracts investors to this emerging market. For a country with 90 million people, the promise of a strong middle class is alluring. According to Boston Consulting Group, Vietnam's middle and affluent class is the fastest-growing in Southeast Asia, with expectations that it will nearly triple in size from 12 million in 2012 to 33 million by 2020.[6]

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CHANGES IN THE MANUFACTURING LANDSCAPE

Given the above factors, it is not surprising that there is renewed interest from international investors. Moreover, FDI that is now coming into Vietnam is stickier, and the investors are far more sophisticated and committed to doing business for the long haul.

FDI was previously directed towards real estate and other sectors,

REGISTERED FDI INTO VIETNAM 2007-2014

Foreign Direct Investment into Vietnam: The composition of FDI into Vietnam has transitioned to manufacturing-oriented investments, which account for over 70% of registered FDI.

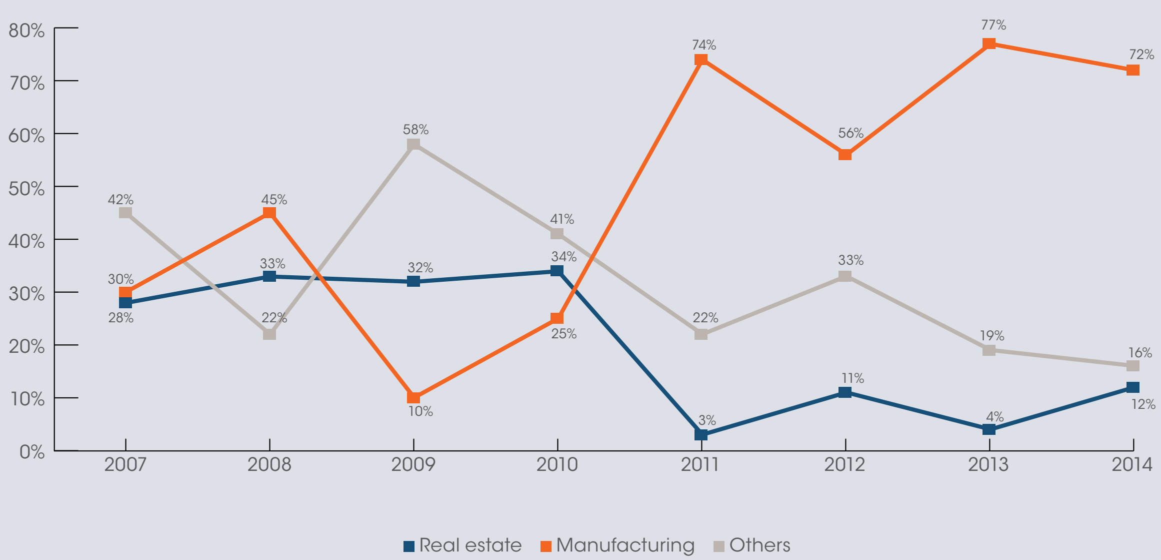


FIGURE 1

Source: Vietnam General Statistics Office

VIETNAM'S EXPORT BASKET (US$ BILLIONS)

Moving up the Value Chain: Vietnam's export basket has evolved from relying heavily on agriculture and natural resources to now being dominated by textiles and consumer electronics. The country is also rapidly moving up the value chain with mobile phones and electronics representing the second and third largest export categories.

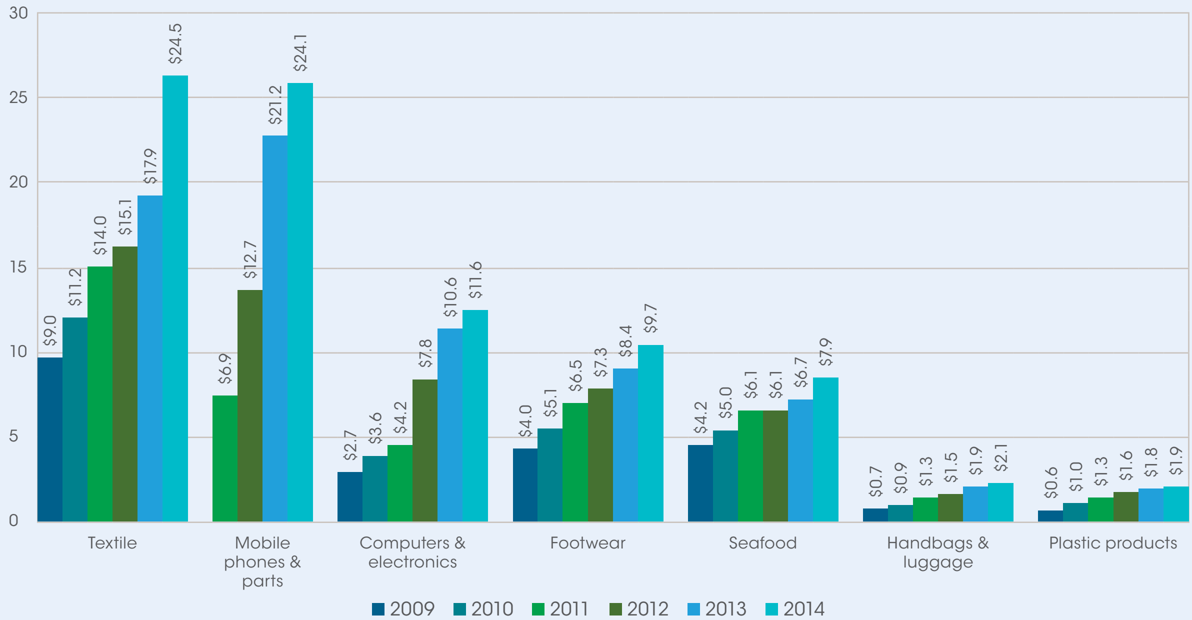


FIGURE 2

Source: Vietnam General Statistics Office

but is now transitioning back towards manufacturing-oriented investments. As data from the Vietnam General Statistics Office reveal (refer to Figure 1), manufacturing represented only 10 percent of FDI in 2009, but has accounted for 70 percent of registered commitments for the past four years.

This trend will likely persist as manufacturers migrate out of China into lower-cost destinations like Vietnam.

Total FDI in 2014 amounted to US$20.2 billion. Actual disbursements increased 7.4 percent over the previous year, reaching US$12.4 billion.[7] South Korea, Hong Kong, Singapore and Japan were the primary sources of FDI into Vietnam. South Korea is the largest foreign investor group, driven by hallmark investments from Samsung. Other investors from North Asia have also been highly active in their search to relocate their factories out of China into lower-cost production bases like Vietnam. And while there is a pain point in terms of improving Vietnam's labour productivity, it has been the experience of multinational corporations (MNCs) that the Vietnamese are quick to learn, and have higher education levels relative to some of their Association of Southeast Asian Nations (ASEAN) counterparts, with literacy rates higher than 90 percent. As a result, MNCs have been willing to make significant commitments to the country and invest substantially in training their Vietnamese staff.

Positive inflow of FDI into export-oriented sectors has led to a 13.6 percent increase in export turnover, reaching US$150 billion in 2014.[8] After running a trade deficit for 20 years, Vietnam has generated a nominal surplus for the past three years. In addition to accelerating export values, Vietnam has moved up the export value chain, with smartphones and computer parts becoming the second and third largest export items, respectively, in 2014 (refer to Figure 2). Industry analysts have estimated that Samsung now ships 25 percent of all their smartphones worldwide from Vietnam, with plans to increase this figure to 40 percent in the next 12 months.[9] Intel's largest chip plant in the world is located just outside of Ho Chi Minh City.

CHANGES ON THE FACTORY FLOOR

Over the last decade, exports as a percentage of GDP have fallen in most Asian economies, with one major exception—Vietnam.

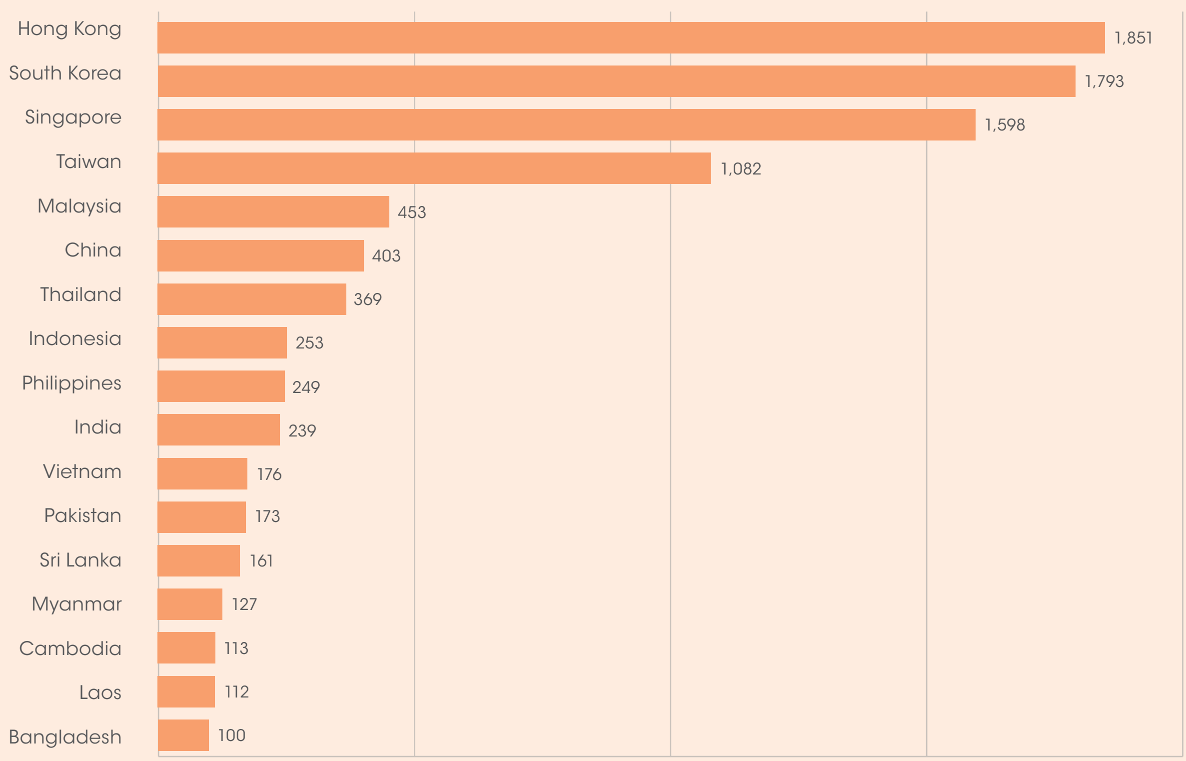
Export growth in Vietnam has only barely let up, maintaining a 23 percent year-on-year growth in the period between 2011 and 2013 compared to 25 percent growth between 2004 and 2011, according to data from HSBC. This is in stark contrast to markets like China, where average export growth collapsed following the Global Financial Crisis from 30 percent year-on-year gains between 2004 and 2007 to 10 percent year-on-year growth between 2011 and 2013.[10]

Vietnam's ability to maintain high levels of export growth is attributed to the country's gaining market share in global manufacturing. Foreign firms account for the majority of the boom, further integrating Vietnam into regional supply chains. And it is no longer about cheap apparel and shoes, as the country starts to scale the value chain into higher value-added products such as consumer electronics.

The trend for increased exports is forecasted to continue for a variety of reasons. First, Vietnam's labour costs remain among the lowest in the region. According to a JETRO report, monthly pay for manufacturing workers in Vietnam is roughly 43 percent of levels in China, 47 percent in Thailand, and approximately 70 percent compared to Indonesia and the Philippines.[11] Second, the operating environment is improving with upgrades to infrastructure, which facilitates increased integration into regional supply chains. Lastly, potential trade agreements, such as the Trans-Pacific Partnership (TPP), will give exports a major lift.

If there is any country benefiting from the decline in China's fading competitiveness as a low-end manufacturing destination, Vietnam is certainly one to watch.

MONTHLY WAGES OF MANUFACTURING WORKERS IN ASIA PACIFIC (IN US$)



Source: Japan Exernal Trade Organization, "Survey of Japanese Affiliated Firms in Asia and Oceania", December 2014.

Investor trends in public securities and M&As

THE VIETNAMESE STOCK MARKET

There is definitely far more interest in the Vietnam stock market in 2014 as compared to years past. This can be attributed to a combination of renewed interest from local investors, whose traditional investments in gold and bank deposits have been less attractive, and sustained interest from foreign investors, with 2014 marking the ninth consecutive year of foreign net inflows.

According to our analysis, the Vietnamese stock market was the second best performing in Asia in 2014, with 26 percent gains in terms of total returns. Despite the gains, Vietnam still has one of the cheapest valuations in the region with a trailing 2014 price-earnings (PE) ratio of 12.5x and the highest dividend yield. The story is even more compelling beyond the blue chips, as one-third of listed companies have PEs of 6.0 to 9.0x and dividends in the high single digits. International investors have taken notice as 2014 marked the ninth consecutive year of net foreign inflows into the Vietnamese stock market. It must also be remembered that while the Asia-based investor will generally always be more comfortable with Vietnam than a western one—for whom this is often perceived to be a far more exotic frontier market—western investors who have taken the plunge are proving to be savvy, and their investments in the Vietnam stock market have performed well.

DEAL VOLUMES–YESTERDAY, TODAY AND TOMORROW

Vietnam has also witnessed an uptick in M&A transactions. According to Thomson Financial Data, there was a 14.3 percent increase year-on-year in M&A transactions in 2014, and total deal volume reached 313 transactions, amounting to US$2.5 billion (refer to Figure 3). Consumer-oriented deals led the pack with investments into retail platforms and consumer goods companies representing 36 percent and 21 percent of deal flow, respectively.

Some of the headline consumer-oriented deals in 2014 included Mondelez International's US$370 million investment to acquire 80 percent of Kinh Do's snacks business, the Central Group from Thailand's US$98 million purchase of 49 percent of the Nguyen Kim group, and Standard Chartered Private Equity's US$35 million investment to acquire an undisclosed stake in Golden Gate, a local restaurant group.[12] And the largest deal of 2014 was Berli Jucker's US$876 million bid to buy out Metro Vietnam, though it is currently being challenged by the Thailand company's shareholders.[13]

GOVERNMENT LOOKING TO EXIT PRIVATE SECTOR

One of the primary drivers behind future deal flow will be the government's mandate to liquidate a number of state-owned enterprises (SOEs). The process of privatising SOEs is referred to locally as 'equitization' and started in earnest ten years ago. The path to equitization gummed up following the collapse of the stock market in 2008, as valuations soured.

With more buoyant market conditions, the government has come back to the table, equitizing 150 companies in 2014.[14] However, demand from international

VIETNAM M&A VALUE (US$ BILLIONS) AND VOLUME

Consumer-oriented deals driving transactions: M&A activity is starting to heat up in Vietnam as more strategic and financial investors jockey to gain a foothold in Vietnam's dynamic consumer market.

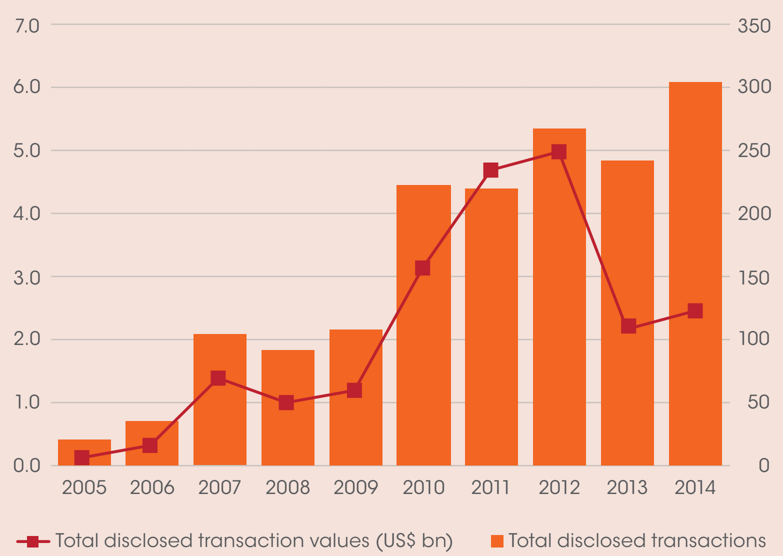


FIGURE 3

Source: Thomson Financial Data

investors has been fairly muted, even for trophy assets such as Vietnam Airlines—for whom the government sold only 3.5 percent in an IPO process, and only to local investors.[15]

We believe the government overestimates international investors' willingness to buy shares as soon as they list. And while the government is moving in the right direction, the reality is that foreign investors will not betray basic fundamentals—earnings, management and valuations—and will remain on the sidelines until market-based valuations prevail.

Looking ahead

THE IMPACT OF THE TPP

In 2010, Vietnam became an official negotiating partner in the free trade agreement, the Trans-Pacific Partnership (TPP). The crafting of the TPP between the U.S., Vietnam, and ten other countries across the Asia Pacific region is expected to bring together these economies into a single trading community that would represent approximately 40 percent of global GDP (refer to Figure 4). Once completed, the TPP should lower barriers to trade and investment and increase exports.

The TPP is anticipated to be a major game changer for Vietnam—far more than the formation of the Asian Economic Community—as it has the potential to reshape the light manufacturing industry, particularly in apparel. Vietnam is the third largest emerging market apparel supplier after China and Bangladesh. According to a report from Standard Chartered, with over US$30.6 billion in shipments, Vietnam is the largest ASEAN exporter to the U.S.[16] The trade agreement should further increase this number as it would give

NATIONAL CHAMPIONS SPREAD THEIR FOOTPRINT ACROSS ASEAN

The ten countries that make up ASEAN comprise some of the most vibrant markets in the world. ASEAN combined would be the seventh largest economy and the third most populous country globally, with a cumulative GDP of US$2.4 trillion and population of over 600 million. According to the United Nations Conference on Trade and Development (UNCTAD), annual inflows of FDI into ASEAN overtook China in 2013. Intra-regional activity is driving much of the cross-border investment, and undoubtedly the region is becoming increasingly integrated.

Much of the cross-border activity is driven by national champions from the ASEAN 5 (Singapore, Thailand, Malaysia, the Philippines and Indonesia) expanding their regional footprint. Some of the companies that have entered Vietnam include Thailand's Siam Cement Group and C.P. Group; Singapore's Keppel, Mapletree and Sembcorp; and Malaysia's Sime Darby and Berjaya. These national champions, having dominated their domestic markets, are capitalising on their strengths by taking them abroad.

Cross-border acquisitions open up opportunities for expansion. Companies are looking for growth and geographic diversification and are starting to view ASEAN as one contiguous market. According to a survey by the Economist Corporate Network of MNCs active in the region, nearly 65 percent of the MNCs responded that customers across ASEAN are becoming more similar.

In Vietnam, this trend is apparent with companies across the ASEAN 5 making direct investments into the country. This approach to expansion is forecasted to drive M&A across the region, with most of the activity focused on consumer-oriented industries. Companies within the region see a market like Vietnam developing in ways similar to theirs—rising national incomes, an emerging consumer class, increased infrastructural investment and higher standards of living. Vietnam is also attractive to such companies as it enjoys several competitive advantages, such as low labour costs, and benefits from being closer in proximity to major textile exporters China and South Korea. It also enjoys strong government support, for instance, subsidies on financing, energy and trade promotion.

In Vietnam, too, local companies are slowly looking to go overseas but mostly within ASEAN. As of 2014, there were over 900 registered overseas investments representing US$19 billion. The mining industry represented nearly half this amount with US$8.6 billion followed by the agriculture, forestry and fishing industry with US$3.1 billion. The energy industry accounted for US$2.1 billion in investments. Laos was the leading investment destination with more than US$4.7 billion in registered investment.

As of now, Vietnam's national champions in consumer-oriented industries, particularly FMCG (fast-moving consumer goods) segments, have not broadly expanded, particularly into western markets. Penetrating overseas consumer markets is incredibly challenging for emerging market consumer brands. However, there are several Vietnamese brands that are looking west. Vinamilk, the country's largest dairy company has expanded into Cambodia and is starting to eye Europe. The company invested US$3 million into a factory in Poland and is now looking to enter the French market.

PACIFIC RIM COUNTRIES INVOLVED IN THE TRANS-PACIFIC PARTNERSHIP (TPP)

The 12 countries that comprise the TPP account for nearly 40% of global GDP.

FIGURE 4

> The TPP is far more than just an economic trade alliance for the U.S. and member states in the Pacific region.

Vietnam preferential access to the U.S., the single largest consumer of apparel globally (23 percent of imports worldwide). Vietnam's market share of global apparel exports would prospectively jump to 11 percent.

In 2012, Vietnam exported almost US$7 billion worth of apparel to the U.S., which accounted for 34 percent of U.S. apparel imports.[17] Once the TPP comes into play, it would enable Vietnam to export apparel to the U.S. at a zero tariff rate, which would make Vietnamese exports even more competitive. The trade alliance will also bring Vietnam and the U.S. closer politically, as Vietnam pivots away from China towards the U.S., which in turn is looking to counterbalance China's growing regional presence. In this sense, the TPP is far more than just an economic trade alliance for the U.S. and member states in the Pacific region.

The future is not without its challenges

Vietnam's near-term prospects appear solid against the backdrop of macroeconomic stability, strengthening external accounts and sustained interest from foreign investors. The challenge for the country will be for Vietnam's policymakers to make the right decisions that will sustain growth in the medium-to-long term.

A July 2014 World Bank report stated that Vietnam faces several challenges on competitiveness that can be addressed through structural reforms, namely equitization of SOEs, recapitalisation and consolidation of the banking sector, and improvements in labour productivity. While the country's

GDP growth has been recovering steadily since the Global Financial Crisis, Vietnam is still performing below potential due to slow progress on cleaning up non-performing loans in the banking sector and removing barriers to private investment by reforming over-leveraged SOEs.

However, the overall view is that Vietnam is heading into several good years. The macroeconomic picture is better than it has ever been. There is a young and optimistic population with a real 'can-do' attitude. Trade agreements such as the TPP provide the potential to further accelerate exports. And the growth of private domestic players provides for enhanced liquidity and more attractive investments in both the public and private markets.

In 2016, Vietnam will be entering an election year of sorts, where the country's national assembly will identify the leadership for the next party congress. Despite the upcoming changes at the top, the government is in a prime position to remain steadfast with reforms—the country's monetary policy has kept inflation low, foreign reserves have been rebuilt due to a strengthening current account, and GDP growth is steadily expanding. The general consensus is that Vietnam is heading in the right direction.

The emergence of a buoyant consumer class and the shifting landscape in Asia's manufacturing industry make the country an attractive investment destination. Vietnam is at the dawn of a private sector renaissance. As it gets serious about SOE reform, and should be at the top of every investor's list of high growth emerging markets.

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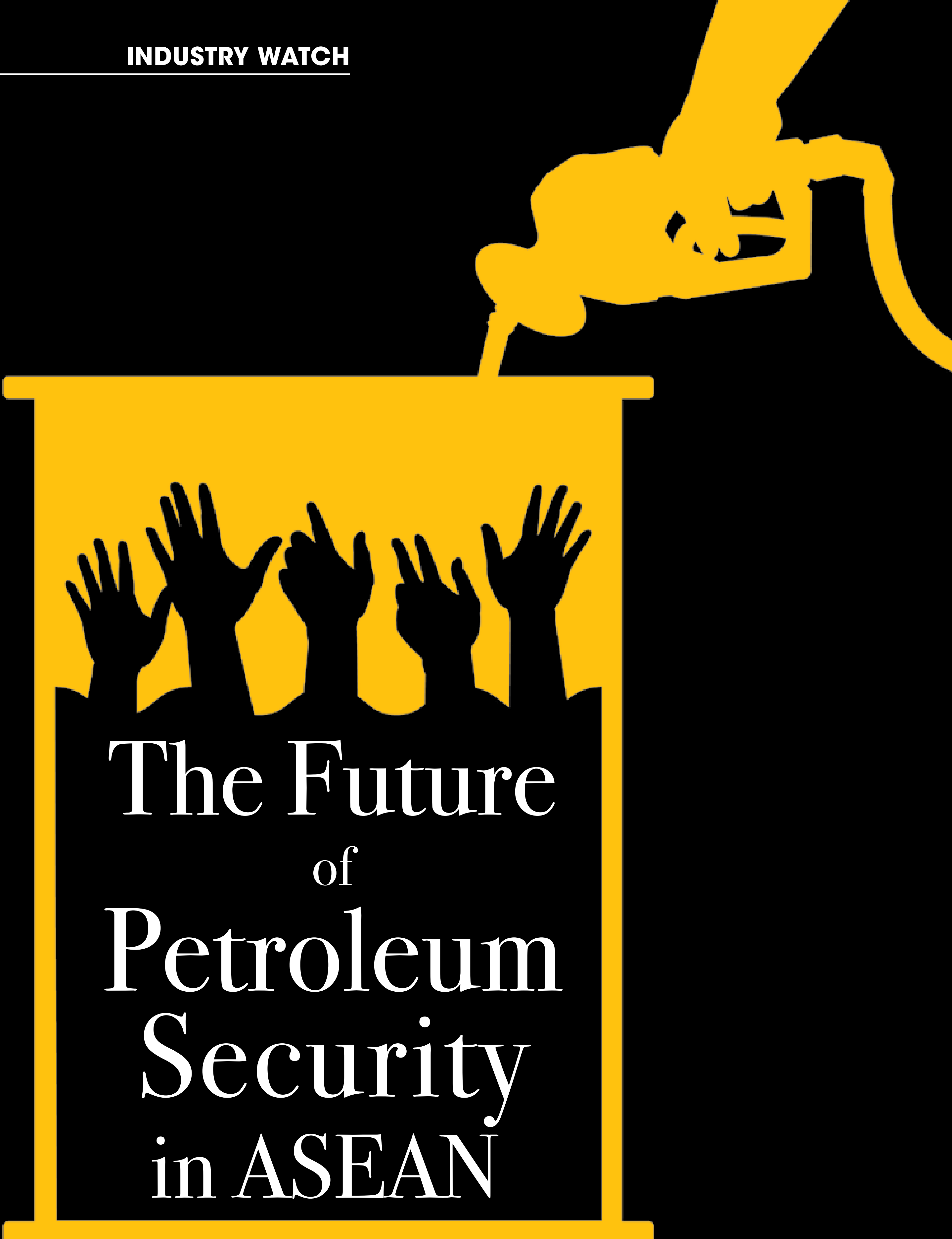


The Future of Petroleum Security in ASEAN

Structural changes in Asia's demand for petroleum threaten to disrupt supply stability, especially for Southeast Asia.

By Christopher Dula

Significant investment and cooperation between ASEAN members is required to shore up reliable and affordable access to petroleum[1].

Although the people of ASEAN consume energy at a rate of half the global average per person, the energy demand in these countries—Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam—has collectively increased more than two-and-a-half times since 1990.[2] Moreover, the International Energy Agency (IEA) projects overall energy demand in ASEAN to increase by an additional 80 percent by 2035, assuming a three-fold increase in economic output as the population of ASEAN countries approaches 750 million.

According to the IEA, the transportation and industry sectors will be among the main drivers for increasing demand, where energy consumption is expected to grow by 88 percent and 90 percent respectively over the next 15 to 20 years. Most of this demand will probably be met by a combination of coal, natural gas and oil—of which oil will continue to be the more strategic resource, given that the transportation sector cannot easily substitute other primary fuels into its energy mix.

Evolution of oil demand

Under these growth assumptions, oil demand in the ASEAN region is expected to increase to 6.8 million barrels per day (mb/d) from a current consumption rate of 4.4 mb/d. This would make ASEAN, which is already a net importer of 1.9 mb/d, the fourth largest importer after China, India and the European Union.[3] However, it is worth noting that there is quite a bit of disparity in import volume among ASEAN members, which makes coordinated policy efforts difficult—and a lack of such coordination hinders their ability to compete with increased product demand from neighbouring countries.

China is absolutely Asia's largest consumer of oil, burning some 10.8 mb/d or about 12 percent of global demand.

> Oil demand in ASEAN is expected to increase to 6.8 million barrels per day by 2035.

The second largest consumer is Japan, but as a maturing economy, its demand for oil will slowly diminish. India, ranking third at 3.7 mb/d, has been experiencing a steady annual demand increase of 3 percent, which will no doubt accelerate with economic expansion.[4] In all, Asia will account for about two-thirds of increased global demand for oil by the end of 2015 (refer to Figure 1).

This rise in demand is now shifting supply routes to different demand centres across Asia. Last year, producers in the Americas began selling crude to refiners in Northeast Asia, despite persistently cheap oil prices from increased Saudi production, Asia's dominant supplier. Just recently, U.S. and Latin American oil was shipped to refineries in China, South Korea, Japan and Taiwan for the first time in over a decade.[5]

Securing supply

The growing number of suppliers is potentially beneficial for price stability and access to oil in Asia since it reduces dependency on Saudi production and diversifies supply. However, the characteristics of crude differs depending on where it originates. Most refineries in Asia are configured to process Middle Eastern crude, which can be refined through simpler and cheaper methods in comparison to heavier variants from the Americas. This puts ASEAN countries at increasing risk of becoming captive buyers (refer to Figure 2).

Growth in new refining capacity in Asia has been sluggish, and worldwide capacity has actually declined slightly in the past few years.[6] This creates the potential for downstream bottlenecks in regional supply. China and India have thus invested in additional sophisticated refining capabilities to handle more flexible inputs. For instance, one of the largest and most versatile plants in the world is Reliance Industries' Jamnagar Refinery in Gujarat, India. Such flexibility and scale also permits a stronger bargaining posture with producers. With the exception of Singapore, other ASEAN countries lack the expertise to refine crude oil other than that which is available domestically or imported from the

WORLD PETROLEUM CONSUMPTION BY REGION (MILLION BARRELS PER DAY)

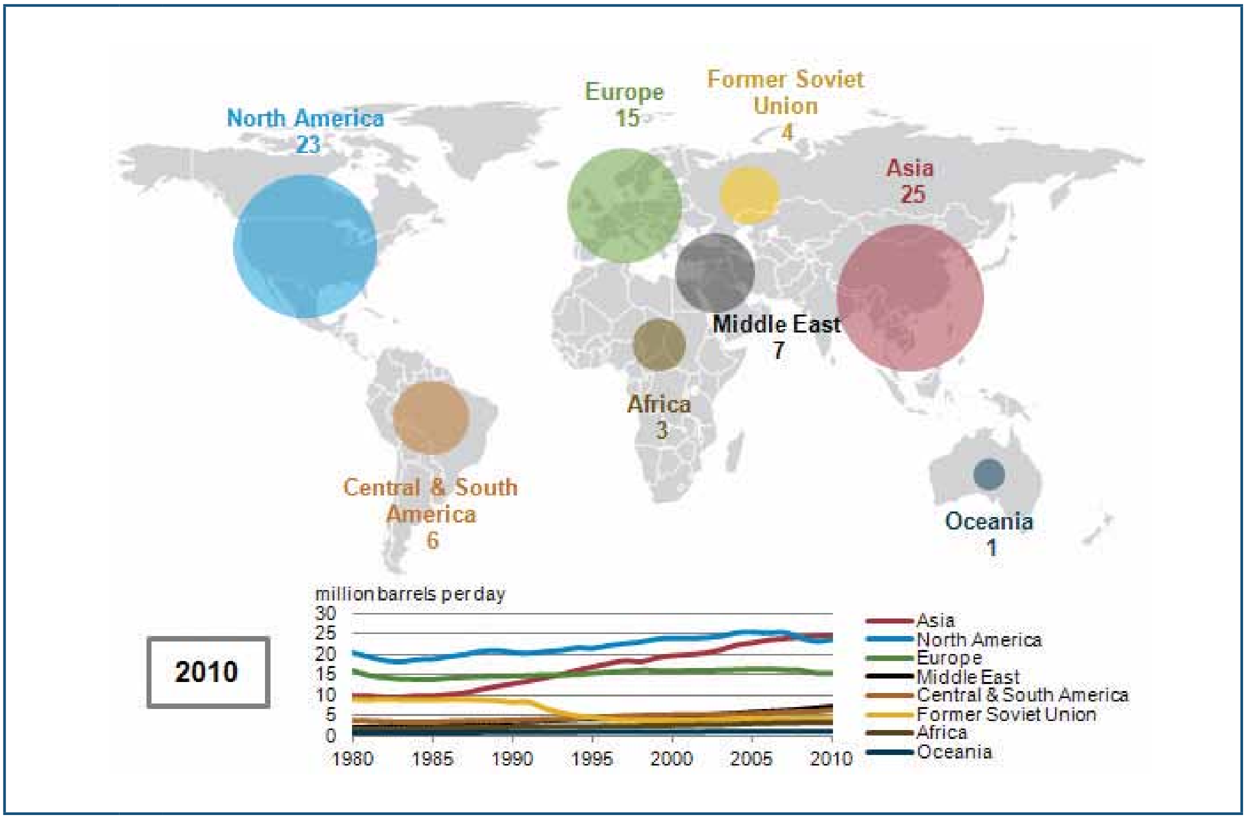


FIGURE 1

Source: U.S. Energy Information Administration (2012)

DAILY TRANSIT VOLUMES THROUGH WORLD MARITIME OIL CHOKEPOINTS (MILLION BARRELS PER DAY)

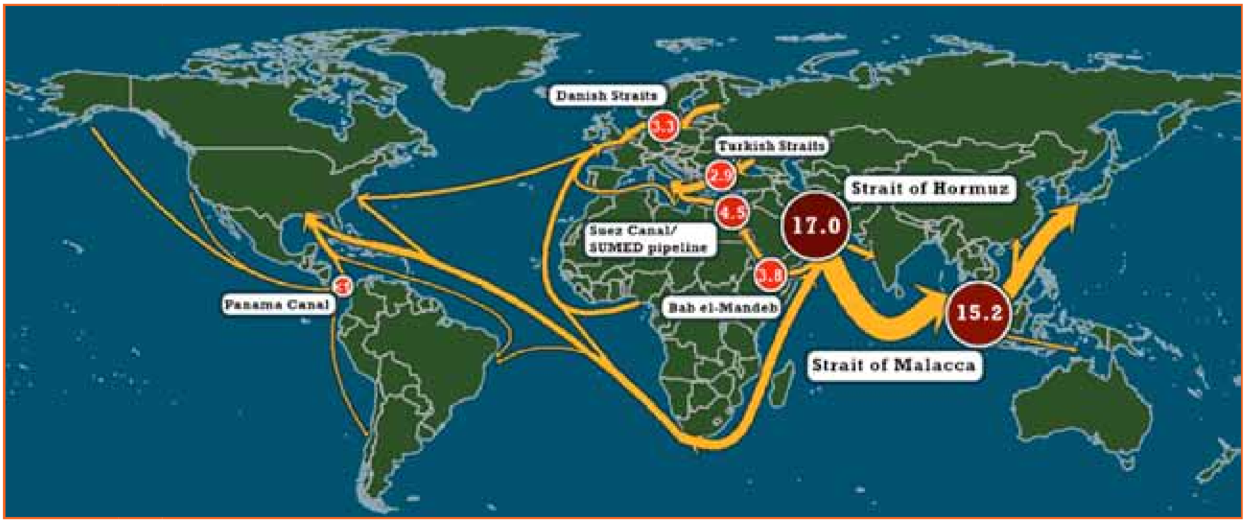


FIGURE 2

**All estimates are based on 2013 data*
Source: U.S. Energy Information Administration (2014)

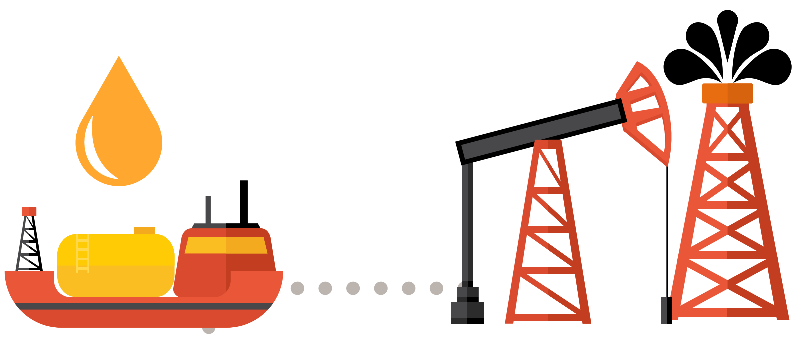
Middle East, usually from Kuwait or Saudi Arabia. And in terms of upstream domestic production, Southeast Asia faces dwindling reserves. But because ASEAN is obviously more fragmented than China and India, a shared petroleum infrastructure investment and policy is more complicated.

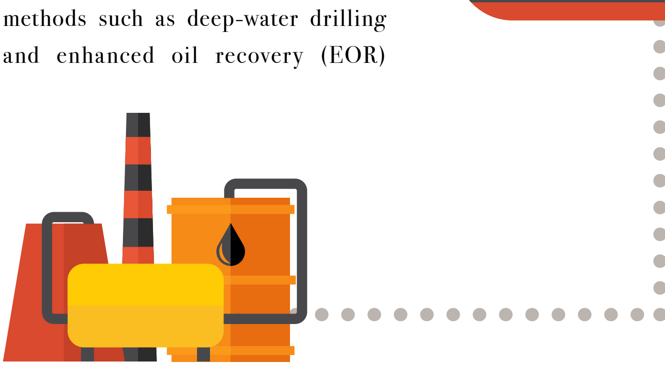
UPSTREAM WOES

Though formerly a net oil exporter, Indonesia became a net importer in 2004. The country is now a mature producer, as its productive fields have peaked. Oil output is on the decline and new developments will require more technically challenging extraction methods such as deep-water drilling and enhanced oil recovery (EOR) techniques for mature fields. Nonetheless, Indonesia remains the largest producer in ASEAN and its abundant coal reserves open the possibility of coal-to-liquid production in a pinch.

Malaysia, ASEAN's second largest producer, has seen steady declines since 2003. Its demand is expected to overtake production by the end of the decade. The government aims to slow this decline by offering tax incentives to attract investments into marginal fields and EOR developments.

Brunei, though rich in resources for its size, has insufficient reserves to meet rising regional demand. And





80%
increase in ASEAN energy demand by 2035

Thailand, with its limited production, is experiencing an ever-widening gap in net oil imports. There are a few undeveloped, yet marginal fields in the offshore areas of Cambodia, Myanmar and Vietnam. Other potential offshore and deep-water exploration opportunities exist in the region, but these are in contested areas such as the South China Sea. And even if these areas were developed, it would likely not be enough to meaningfully offset declining upstream yield. By 2035, oil production across ASEAN will have fallen by a third to 1.7 mb/d.[7]

Petroleum security in ASEAN must therefore be more downstream facing.

THE OIL SUPPLY CHAIN

The system in which oil is produced, distributed and consumed throughout the world relies on two primary functions—upstream and downstream operations. Upstream operations consist of exploration and production of crude oil, whereas downstream involves refining and distribution of the final product. Upstream operations are dominated by national oil companies operating in net producing regions such as the Middle East. This is contrasted by downstream operations that are typically owned by international oil companies operating in net consuming regions in North America, Europe, and Asia Pacific.

The separation between upstream and downstream operations is important. First, net oil producing countries, by and large, are geographically distant from net consuming countries, and they do not typically export refined product because it would diminish the economies of scale realised by shipping a single type of product—in this case crude oil. Second, the quality of crude oil is more stable than refined product, such as gasoline, which diminishes in quality over time. This makes crude oil more advantageous in terms of inventory and storage. Finally, producing countries have a greater diversity of markets to which they can sell their product by shipping crude oil. Since consuming countries use petroleum in a variety of ways, producing countries can maximise their consumer base by selling a versatile unrefined product as opposed to a specialised refined product.

FOCUSING DOWNSTREAM

The Vietnamese Government has decided to further secure its supply and limit its reliance on imported refined product by developing additional refining capacity. Take for instance, the Nhon Hoi refinery project, a 400,000 barrels per day (bpd) facility being financed through a joint venture between Vietnamese partners– the state-controlled Thai company PTT (formerly known as the Petroleum Authority of Thailand) and Saudi Aramco, which is contracted to supply the crude feedstock.[8]

Myanmar, which still imports 80 percent of its refined product, is proposing to invest in several new docking, refining and storage facilities. One of these is being developed by the Chinese state-owned company, Guangdong Zhenrong Energy, which plans for a 116,000 bpd refinery and a 150,000 tonne crude oil dock with additional warehousing and logistics facilities.[9]

Also, in January this year, China National Petroleum Company's US$2.5 billion investment into a 2,400 km crude oil pipeline came online, which links the deep seaport at Kyaukpyu in western Myanmar to Kunming, Yunan in south-western China. This pipeline runs parallel to a natural gas pipeline that came online last October. And although 10 percent of the gas is slated to remain in Myanmar, all of the pipeline's 440,000 bpd of crude capacity goes direct to Kunming, where a new refinery is currently being built. This is key to China's own energy security as it by passes the Straits of Malacca, through which 80 percent of its current imports pass. In return, Myanmar expects to receive US$53 billion in royalties after 30 years.[10] Although these investments are certainly welcome, they do not reduce dependency on the Gulf, nor address competing demand interests in the region (refer to Figure 3).

Captive buyers

Perhaps ASEAN members could avoid Saudi dependency and count on the global market for oil to ensure access and stable supply. The logic here is that oil would go to the highest bidder, and an integrated global market could alleviate regional disruptions–such that a price hike anywhere would mean a price hike everywhere. In this manner, there would always be an opportunity to purchase crude at a competitive price. ASEAN members could even strengthen their trade position through a more united bargaining posture. Unfortunately, this kind of thinking is mistaken.

Oil markets have now become more regionalised than ever before.

NOT QUITE FUNGIBLE

Regardless of what conventional wisdom dictates, oil is not a fungible commodity. Fungibility requires a free market for trade, and in this respect, the market for oil faces profound government intervention in say, disparate domestic protection and environmental policies. Moreover, there is extraordinary diversity in the types of crude oil traded, which requires different means of processing at varying levels of sophistication. At the same time, even a versatile refinery cannot instantaneously switch between crude variants or different combinations of blends. In each iteration, the plant would need to be recalibrated, often with inefficient results.

There are also physical limitations to moving large quantities of crude. And most of ASEAN's crude imports pass through a sea lane that is subject to a highly sensitive chokepoint: the Straits of Malacca. While pipelines are expensive to build, they are a more efficient means of transporting oil than by ship. Pipelines also provide stickier prices and increase access reliability, as production is essentially held captive. In fact, only about half of all oil in the world is shipped by tanker, which is often loaded at the endpoint of a pipeline, thus incurring additional costs. And when it comes to waterborne oil trade, Saudi Arabia is by far the largest, lowest-cost producer of light sweet crude. It is the most influential determinant of price and that price is decided by policies deemed most beneficial to the Saudi Kingdom. Moreover, Saudi Arabia strategically imposes destination and resale restrictions. Importers are not free to resell to the highest bidder. All of these factors result in more fractured and regionalised markets for oil commodities. In fact, oil markets have now become more regionalised than ever before.[11]

MAJOR CRUDE OIL TRADE FLOWS
IN THE SOUTH CHINA SEA (2011)
MILLION BARRELS PER DAY

FIGURE 3 Source: U.S. Energy Information Administration (2011)

A call for cooperation and investment

ASEAN countries must avoid becoming complacent in light of the persistently low petroleum prices caused by ramped up Saudi production of light sweet crude and its price influence on waterborne trade. They should instead take advantage of the low price environment to push through policy reform that strengthens their petroleum security with an emphasis on investment, collaboration and subsidy reduction.

Investment in downstream and upstream infrastructure is needed to meet increasing levels of demand. More must be done in terms of maximising recovery efforts in mature fields, and also developing new prospects. This kind of investment is expensive and often requires private sector expertise and technological knowhow. Thailand's recent political wrangling over revising its petroleum concession laws (in place since 1971), are not encouraging. Under a proposed new ruling, the Royal Thai Government would receive 80% of the profits derived from private sector investment—up from the 67% it enjoys today.[12] This sends a dangerous signal, especially since profit margins are already much thinner when it comes to advanced extraction techniques and developing new, more difficult fields.

ASEAN as a whole also needs greater flexibility in terms of refining capacity so as to take advantage of more diverse forms of crude. Reduced regulatory uncertainties across the board through long-term policy agreements and increased transparency would help attract private investment into the region's petroleum infrastructure—as without such assurances, private investors are far less willing to spend billions on advanced refineries and technically challenging fields.

The ASEAN countries should also work together to further scale back fossil fuel subsidies, especially in the transportation sector. Petroleum consumption subsidies alone cost these governments around US$34 billion a year.[13] Reducing these subsidies would go a long way towards spurring downstream investment. It would also make continued reductions in oil import tariffs, both within and outside ASEAN, more attractive.

The adoption of unified fleet emission standards could further increase efficiencies. Understandably, these are sensitive policy areas, as these subsidies were originally introduced to alleviate the burden of transportation fuel costs on lower income consumers, and intended to decrease the cost of doing business. But at this point, such policies do more harm than good by distorting demand and creating waste. More efficient fuel consumption would help in reducing government budget deficits and create more resilient economies by alleviating potential supply disruptions and lowering carbon intensity. Member countries must continue their transition from oil as a means to generate electricity, which accounts for about 10% of generation. ASEAN countries should work together to develop other power options such as increased use of renewables, natural gas (which it is rich in), more cross-border gas pipeline interconnections, and greater grid transmission integration. Perhaps the ASEAN Economic Community will provide such a forum to make these reforms possible and pave the way for ambitious investment and coordination in the region's energy security.

If not enough is done, the increased reliance on Middle Eastern crude, as domestic production declines while overall demand across all of Asia increases, could become a serious economic drag on ASEAN countries in the future.

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SNAPSHOT ON SINGAPORE

Singapore is a critical node in Asia's access to oil, and especially for refined product. It is a key player in the region's petroleum security. The country is unique in that it is a net exporter of both refined and unrefined product by virtue of being an entrepôt trader—despite completely lacking in natural resources as a small island city-state of less than 700 square kilometres. Regardless, its advantageous location on the Straits of Malacca provides it strategic access to countries throughout the Asia Pacific. Endowed with a deep-water port that can accommodate any class of ship, Singapore has become an industrial and commercial hub connecting energy producers in the Middle East to high-growth markets in Asia that export refined product to the rest of the world.

In 2014 Singapore held an estimated current account surplus of US$74.5 billion, one of the world's highest.[14] This surplus was largely achieved through financial services, refined petroleum products, and petrochemical exports.

Currently, the country has a refining capacity of around 1.4 mb/d, which is exported throughout Asia.[15] China, Japan, Indonesia, Hong Kong, and Malaysia are Singapore's largest product export destinations. Singapore's storage capacity is equally impressive. It holds 31.8 million barrels in crude, and an additional 64.5 million in refined product.[16] Combined independent storage capacity is about 55 million barrels, and is owned by a handful of oil trading companies. All of these facilities are located on Jurong Island, from which Singapore has access to the entire Asia-Pacific market. However, the country faces increased competition as new refinery operations come online in Saudi Arabia, India, Vietnam and China.

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ASEAN'S ROLE IN ASIA PACIFIC

IN THE DRIVER'S SEAT OR JUST A BACK-SEAT DRIVER?

The Association of Southeast Asian Nations (ASEAN) has often been described as the fulcrum around which the security, political and economic architecture of Asia-Pacific will be built. But can ASEAN play that role?

By Sudhir Devare

Asia is a diverse continent in terms of political regimes, demographic trends, economic development, and religious and cultural richness. At one end of the spectrum are established regional powers such as Japan, China and India, and at the other end are fledgling democracies and nascent economies like Myanmar, Cambodia and Laos. Political and economic diversity, along with geopolitical disputes, have prevented the region from integrating and leveraging the power and potential that would accompany greater regional unity.

How can ASEAN take on a leadership role? Does it have the strength, cohesiveness and skill to be in the driver's seat?

From its inception in 1967, and especially since the end of the Cold War, ASEAN has worked towards creating dialogue among the major powers and preserving peace and stability in the Asia-Pacific region. ASEAN is still a 'work in progress' on many fronts, but its record so far in community-building can be regarded as a milestone. So maybe it is no surprise that ASEAN is now seen as playing a pivotal role in the evolving regional architecture—be it security, political or economic. But how can ASEAN serve in this leadership role? And does it have the strength, cohesiveness and skill to be in the driver's seat going forward?

Understanding the playing field

The geopolitical dynamics in Asia-Pacific have undergone a major change in the last decade, including the emergence of six or seven major powers–a phenomenon rarely seen in history. ASEAN, a grouping of economically developing and militarily weak states, crafted useful instruments such as dialogue partnerships, the ASEAN Regional Forum (ARF), ASEAN Defence Ministers' Meeting and the East Asia Summit (EAS). All these forums essentially sought to keep the regional powers engaged in dialogue on political-security issues and economic cooperation. That the U.S. and Russia decided to join the EAS testifies to the utility of the forum.

On the other hand, there are competing and often conflicting issues creating tension and political unease within the region. Even the basic freedom of navigating through international waters is currently feared by certain nations. China's assertive position vis-à-vis other claimants on the South China Sea islands is a major concern. The resurgence of Japan under the leadership of Prime Minister Shinzo Abe and the Sino-Japanese rivalry on the contentious issue of the islands in the Pacific further impact the political-security landscape of the Asia-Pacific. The U.S. policy of 'rebalancing 'or 'pivot to Asia' introduces yet another dimension as the U.S. seeks to assure the countries of the region, particularly ASEAN, of its resolve to maintain and strengthen its presence not only in Asia-Pacific, but in the broader geographical space of Indo-Pacific. The Indian Prime Minister's initiatives to open intensive dialogues with the leaders of Japan, China, America, Australia and ASEAN to build closer partnerships, as well as the Chinese President's continuing emphasis on Silk Road and maritime route initiatives—all create a stage for a major interplay among the large players of the Indo-Pacific region.

ASEAN's response to the evolving South China Sea conflict is constrained by the varying interests of individual nations within the region.

Political Cohesiveness

ASEAN is no doubt wary and watchful of these developments even as it continues to work towards its goals of establishing an integrated regional community across multiple fronts–political, security, economic, social and cultural–by 2015. However, ASEAN's reaction to the evolving conflict is constrained by the varying interests of individual nations within the regional grouping. For instance, on the South China Sea dispute, there are four ASEAN states–Vietnam, the Philippines, Malaysia and Brunei–which are rival claimants. Moreover, the bilateral relationship, especially in the economic field with China, varies from one ASEAN state to the other. ASEAN's inability in 2012 to come out with a Joint Communiqué on the subject and its slow progress in finalising a Code of Conduct on the South China Sea issue point to the difficulties faced by ASEAN states in adopting a common position.

Politically ASEAN seems in a state of transition. While the establishment of democracy in Indonesia is hailed as a welcome development, recent political changes in Thailand cast a shadow of uncertainty. Myanmar has made progress towards democratisation, but has yet to achieve national reconciliation and secure ethnic peace. ASEAN states' relative weakness in military strength, outside of Singapore and perhaps Vietnam, also acts as an inhibiting factor in playing an effective role as a catalyst to bring together major Asia-Pacific powers.

US$100B

India-ASEAN trade by end-2015

Politically, ASEAN seems to be in a state of transition.

Economic partnership

ASEAN's emphasis on economic cooperation has paid dividends, such as the far-reaching decisions to participate in APEC (Asia-Pacific Economic Cooperation), initiating ASEAN+1 summits, entering into free trade area agreements on trade and investment, building connectivity projects, and leading the negotiations on the Regional Comprehensive Economic Partnership (RCEP). These initiatives have led to rising living standards for millions of people in ASEAN countries. With the removal of trade barriers and the expected free flow of capital once ASEAN forms the Economic Community later this year, intra-ASEAN trade will undoubtedly flourish. Today, economic partnership is much more than the lowering of tariff barriers, which have already decreased or been eliminated across the globe. What matters more is the capacity to attract and absorb investment, including foreign direct investment (FDI)—an area of concern for ASEAN. Furthermore, the trade dependence of most of ASEAN states on major economic powers, especially on China, restricts the economic clout that ASEAN can have as an integrated regional bloc.

Besides signing bilateral free trade agreements or comprehensive economic partnership agreements with leading economies like Japan, China, India and Korea, ASEAN states are now engaged in negotiations on the proposed Trans Pacific Partnership (TPP), the RCEP, or both. Indeed, these regional and trans-continental arrangements are going to be critical in the coming years for political-economic interaction across Asia-Pacific. And in fact, the RCEP is the initiative of the EAS, an ASEAN-centred forum, and the success of negotiating the RCEP will inevitably reflect on ASEAN's leadership role.

With regard to investment, ASEAN countries, especially the CLMV states (Cambodia, Lao PDR, Myanmar and Vietnam), are still in dire need of infrastructure development. Governmental fiscal constraints mean that these investments need to come from either the private sector, for instance through public-private-partnerships, or via FDI.

Another area that needs attention is the regional supply chain, which remains poorly integrated and cost-inefficient. The potential of a unified market and free trade cannot be attained without seamless and efficient distribution networks that allow smooth movement of goods

India has all along supported the utility and criticality of ASEAN's catalytic role in Asia-Pacific.

across borders. This limitation will continue to deter major investment players, especially multinational corporations, from making investments in ASEAN. For the younger or weaker economies, a first step is to focus on national supply chains before being able to develop intra-regional networks.

Expanding relationships with India

India is steadily assuming an important place on the Asia-Pacific political-security mosaic. In the mid-1990s, ASEAN brought India into the ASEAN-led mechanisms of dialogue and partnership. To India's 'Look East' policy initiated at that time, ASEAN extended key and vital support. Starting with sector-specific cooperation, and expanding to a full dialogue, the relationship has evolved into a 'Strategic Partnership' with a commitment to 'ensuring the peace, stability and development of Southeast Asia'. In India, there has been consensus across the political spectrum on the need to vigorously pursue the 'Look East' policy. The new government has further emphasised its importance by declaring it as the 'Act East' policy. India-ASEAN trade has risen significantly in the last 10 years, with a target to reach US$100 billion by the end of 2015. The expanding trade flows and FDI from India, to the order of US$1.3 billion (in 2013), speak to the promising possibilities of growing interdependence and inter-linkages.[1]

Indian Prime Minister Narendra Modi's presence at the ASEAN and EAS summits in Myanmar last year, in addition to his other foreign visits, demonstrate the importance of Asia-Pacific in India's foreign policy and security policy paradigms. Indeed India-ASEAN relations have become a cornerstone of India's foreign policy and foundation of its 'Act East' policy. India's membership in the East Asia Summit in 2005, largely at the behest of ASEAN, places it alongside all major powers of Asia-Pacific and Indo-Pacific. India has all along supported the utility and criticality of ASEAN's catalytic role in bringing diverse powers together for maintenance of peace and stability in Asia-Pacific, and supported ASEAN's centrality in all dialogue instruments.

ASEAN is today at a crossroads. The deadline of its ambitious project of building a three-pillared regional community—political-security, economic and social-cultural—by the end of 2015 is soon approaching. ASEAN's overall strength and capability will no doubt be judged by the fulfilment of this initiative. Politically, ASEAN's ability to reach consensus in handling intra-ASEAN or inter-state disputes will be put to test on the South China Sea issue. If ASEAN can succeed in negotiating a Code of Conduct in this volatile region, it will surely confirm its role of being in the 'driver's seat'. On the economic side, leading the negotiating process at the East Asia Summit on the proposed RCEP is fraught with several challenges. For one, there is a competing agreement on TPP spearheaded by the United States. China also has a number of economic initiatives, such as the Asian Infrastructure Investment Bank and the Maritime Silk Route. ASEAN's leadership in resolving the outstanding differences among EAS member states on the proposed RCEP will go a long way in creating a solid foundation for economic integration in Asia-Pacific and establishing ASEAN's centrality.

It needs to be recognised that ASEAN is endowed, among other things, with the asset of its strategic geographical location. For maritime connectivity in Asia-Pacific, the choke points in Southeast Asia are indispensable. Land or air communication across Asia-Pacific cannot be possible without crossing the ASEAN region. Add the vast natural resources, middle-income economies, a large population of over 600 million with a substantial proportion of youth and active workforce, a large market and rich cultural tradition, and ASEAN can be a powerhouse.

How relevant ASEAN is in the present context, and whether it can remain in the 'driver's seat' while confronted with more powerful forces around it, will largely depend on the strength and determination of the leadership within ASEAN to play this role with nimble and deft diplomacy. ASEAN should expect support in this regard from a number of stakeholders in the region, including India.

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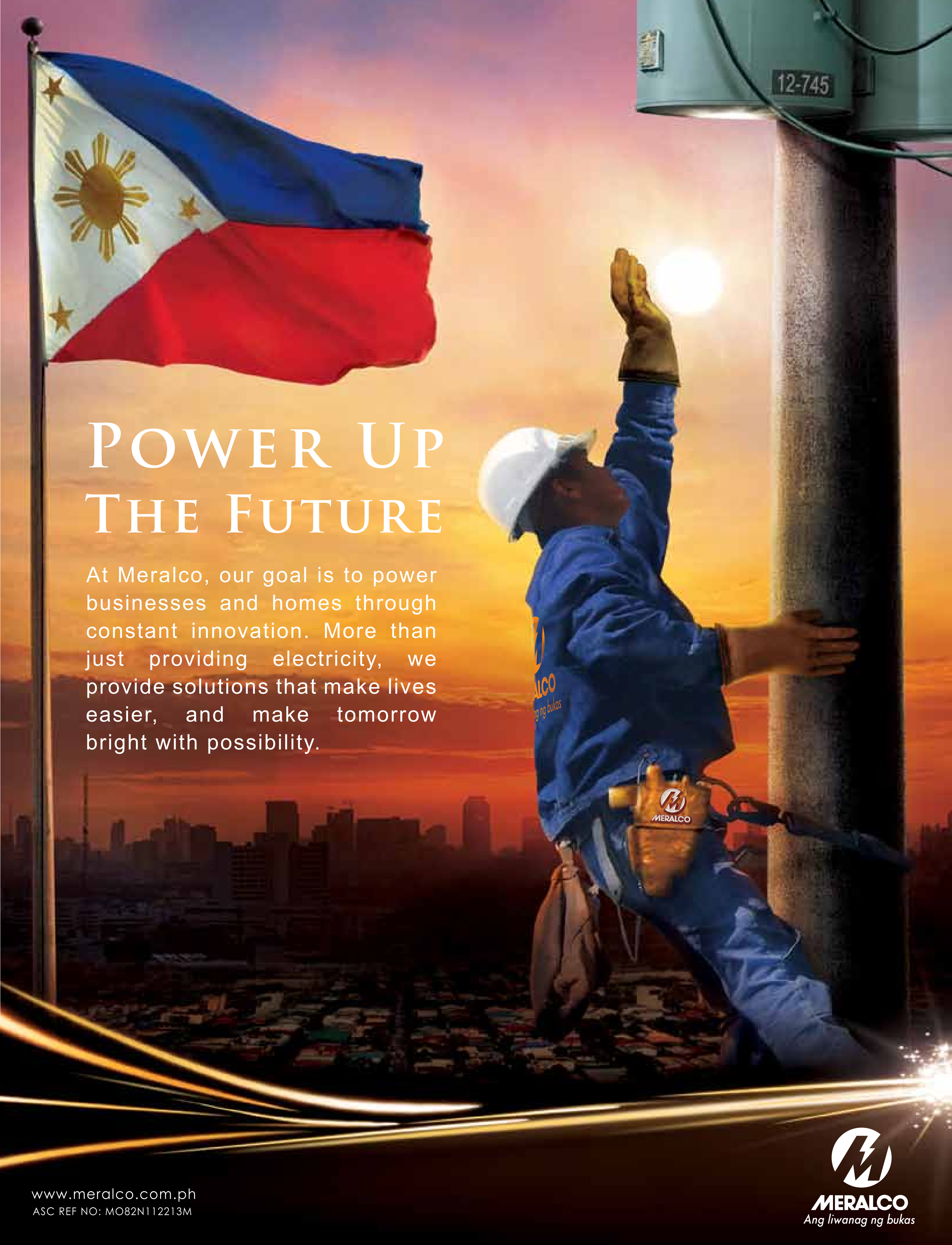
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