



**Asia-Pacific  
Economic Cooperation**

# **APEC Economic Policy Report**

APEC Economic Committee

# 2011

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

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**Asia-Pacific  
Economic Cooperation**

# **Taking Stock of the Progress in the LAISR Initiative and Structural Policies in APEC Economies**

**Report by APEC Economic Committee**

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# Preface

Since its inception, APEC has worked to reduce tariffs and other trade barriers across the Asia-Pacific, creating efficient domestic economies and increasing exports. As tariffs have declined in the region, attention has gradually shifted to the structural and regulatory obstacles that hinder cross-border trade and investment.

The momentum towards structural reform in APEC started in 2004 with the adoption of the Leaders' Agenda to Implement Structural Reform (LAISR). Five priority areas – regulatory reform, competition policy, corporate governance, public sector governance, and strengthening economic and legal infrastructure (SELI) – formed the foundation of this agenda. In 2006, the Economic Committee developed a detailed work programme outlining how APEC's structural reform agenda will progress across the five LAISR priority areas through 2010. This is known as the Forward Work Programme for LAISR.

2010 marked the turning point for the LAISR agenda. It is when APEC took stock of the progress that APEC and member economies made on structural reform.

This year's APEC Economic Policy Report (AEPR) reviews progress under the LAISR initiative and structural policies in APEC economies based on various exercises that were conducted as part of the stocktaking exercise. Part I is divided into several sections covering an overview of the LAISR initiative, progress in implementing the LAISR 2010 Forward Work Programme, economies' progress toward the pursuit of domestic structural reforms and the impacts of structural reforms, as well as implications for further strengthening APEC's structural reform agenda. Part II consists of collated responses to questions for the Friends of the Chair Coordinators and the Competition Policy and Law Group (CPLG) Convenor, as well as survey responses from member economies. The original report, titled "Taking Stock of the Progress in the LAISR Initiative and Structural Policies in APEC Economies – Report by the Economic Committee", was submitted to and endorsed by the APEC Ministerial Meeting held in Yokohama, Japan in November 2010. The Economic Committee decided to publish this as AEPR 2011.

The AEPR is made possible through the collaborative effort of all member economies, the APEC Secretariat, and the Economic Committee Chair's Office. I would like to extend special thanks to all of the member economies for their valuable inputs and comments on the stocktake survey as well as the entire draft of this publication, which would set a milestone of the Economic Committee's work on structural reform.

Looking ahead, structural reform remains an important issue for APEC in the years to come. The 2010 APEC Economic Leaders Meeting endorsed the APEC New Strategy for Structural Reform (ANSSR), laying out a wider scope for APEC's structural reform than LAISR. The Economic Committee will continue to contribute to the ANSSR from its horizontal perspectives based on its experience acquired in the work for LAISR.

A handwritten signature in black ink that reads "Takashi Omori". The script is cursive and fluid, with the first letter of each word being capitalized and prominent.

Takashi Omori

Chair, APEC Economic Committee



# Executive Summary

## **Structural reform in APEC**

Structural reform refers to measures to improve market efficiency, such as improvements to regulatory systems, competition frameworks and governance structures. APEC's momentum towards structural reform has been supported by ministerial and leaders' mandates since the inauguration of the Leaders' Agenda to Implement Structural Reform (LAISR) in 2004, which comprises five priority areas, i.e. regulatory reform, competition policy, corporate governance, public sector governance and strengthening economic and legal infrastructures. The Economic Committee (EC) was charged with responsibility for leading the agenda, and its internal structure has evolved over time to facilitate this initiative. The global financial crisis has attached renewed importance to the structural reform agenda, such as the need to foster inclusive growth. This stock-take of the LAISR initiative has been conducted following an instruction by the APEC Ministerial Meeting on Structural Reform held in 2008.

## **A wide range of structural reform activities conducted under clear objectives**

Under the LAISR initiative, EC has overseen a large number of seminars and workshops to facilitate capacity building for structural reform in the five priority areas. In addition to these traditional approaches in APEC, the EC has also employed new approaches such as developing checklists/guidelines, holding a ministerial meeting and introducing a process of voluntary reviews of institutional frameworks to facilitate the LAISR initiative. EC has also produced an annual APEC Economic Policy Report each year on one of the five priority areas, which has been serving as an important source of information on key structural reform issues in the APEC region and has been one of the most frequently accessed publications on the APEC website.

## **Member economies have also worked hard to facilitate structural reforms**

The value of the LAISR initiative has been demonstrated by the efforts of APEC economies to undertake structural reform. Among the five LAISR areas, a number of economies cited regulatory reform as the area in which they had made the most significant progress. Economies are making efforts to creating business-friendly environments through regulatory reform. Initiatives have been taken to enhance the effectiveness of competition policy, in which economies often face similar challenges in setting up competition regimes. Member economies are increasingly aware of the importance of applying good corporate governance, although the diversity among APEC economies has necessitated a flexible approach when implementing international principles. Various efforts have been made in member economies to improve public sector governance to address similar challenges inherent in the public sector. Economic and legal infrastructure has also been upgraded in many member economies. In achieving these successful reforms, leadership has been identified as the key element to ensuring success, along with effective communication and consultation with stakeholders. Institutional frameworks and use of independent experts and analysis are also considered to be important.

## **Structural reforms produce significant economic benefits**

Studies undertaken in some member economies have estimated significant economic gains from structural reforms. In addition, a new study by the APEC Policy Support Unit (PSU) has found that structural reforms in key infrastructure industries in member economies have resulted in lower prices, differentiation of services and other service improvements. It also

estimated that the introduction of more competition in these industries could lead to gains that would be almost twice as big as the gains from further liberalisation of trade.

**APEC's work on structural reform should be reenergised, building upon the progress in LAISR.**

The LAISR initiative has made significant progress and the choice of the five areas seems to have been appropriate. Given that structural reform takes time to produce concrete results and that APEC is faced with new challenges, structural reform should remain as a key priority agenda for APEC beyond 2010. The five LAISR priority areas continue to remain relevant, however some necessary modifications will be made to the scope of the topics to build on lessons learnt and reflect the priorities of members. Going forward, capacity building programmes can be further strengthened by developing methods for better dissemination and strengthening collaboration with other fora. The success of the new APEC Ease of Doing Business (EoDB) initiative will depend on the active contributions by the champion economies, close cooperation between relevant groups and businesses, and high-level leadership. Some flexibility would be needed in implementing the initiative to allow for the diverse nature of economies, while maintaining sufficient momentum. Taking an approach which combines cross-cutting themes as pursued under LAISR and sectoral themes will be important in addressing new challenges such as facilitating inclusive growth. As a forerunner in inter-regional cooperation on structural reform, APEC, in particular the EC, is well placed to further pursue this policy agenda, while also collaborating with other international fora as appropriate.

# PART I

## Progress in APEC and Member Economies

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# Section 1: Introduction

## 1.1 A brief overview of the LAISR initiative

Since its inception, APEC's economic focus has been on trade and investment liberalisation and facilitation. As tariffs, quotas and other trade barriers at the border have diminished in the APEC region, the focus of APEC has naturally shifted to the structural and regulatory obstacles that inhibit cross-border trade by creating "behind-the-border" barriers to improving business performance (see also the *Report on Assessment of Achievement of the Bogor Goals* prepared for the AMM/AELM in November 2010).<sup>1</sup>

In 2004, APEC Leaders endorsed an ambitious work programme called the *Leaders' Agenda to Implement Structural Reform* (LAISR). The Economic Committee (EC) was subsequently charged with responsibility for leading APEC's structural reform work programme and implementing the LAISR. Leaders indicated that structural reform should be promoted in the areas of regulatory reform, strengthening economic and legal infrastructures, competition policy, corporate governance, and public sector management (later renamed as public sector governance). In 2005, the EC established the *APEC Work Plan on LAISR towards 2010* (LAISR 2010) to set out a roadmap to address structural reform issues across APEC over the 2005-2010 period.

In 2006, APEC Ministers instructed the EC, drawing on LAISR 2010, to develop a detailed and ambitious work programme outlining how APEC's structural reform agenda will be progressed in a clear and consistent manner. This report, referred to as the *EC Forward Work Programme for LAISR* (FWP), provided a high-level overview of how the EC would progress APEC's structural reform agenda across the five LAISR priority areas through until 2010.<sup>2</sup>

## 1.2 Global financial crisis has reaffirmed the importance of structural reform

While the member economies and APEC were working hard to push forward structural reform policies (see Sections 2 and 3), a global financial crisis hit the region in 2008, which highlighted weaknesses in some economies' regulatory and institutional settings. Against such a backdrop, APEC Leaders agreed in November 2009 to formulate a comprehensive long-term growth strategy in APEC.<sup>3</sup> Particular attention was paid to fostering inclusive growth, i.e. to broaden access to opportunities created by growth and to spread the benefits of growth more widely so that consensus for free and open trade and investment would be strengthened. As an input into APEC's development of an agenda on inclusive growth issues, the EC submitted a report to APEC Ministers through Senior Officials in 2009 which explored the concept of

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<sup>1</sup> Such a shift in focus would also reflect the APEC Leaders' recognition in the late 1990s: "As Leaders, we accept responsibility for ... addressing structural and regulatory weaknesses that contributed to the economic downturn from 1997." (*APEC Leaders' Declaration: The Auckland Challenge*, September 1999).

<sup>2</sup> According to the FWP, "Structural reforms refer to measures to improve market efficiency, such as improvements to regulatory systems, competition frameworks and governance structures. By domestic economies increasing their efficiency, flexibility and resilience through structural reform, the Asia-Pacific is stronger as a region."

<sup>3</sup> "We will put in place next year a comprehensive long-term growth strategy that supports more balanced growth within and across economies, achieves greater inclusiveness in our societies, sustains our environment, and which seeks to raise our growth potential through innovation and a knowledge-based economy" (The APEC Economic Leaders' Meeting Statement, Singapore, November 2009).

inclusive growth and its various components.<sup>4</sup> One of the report's key conclusions is that inclusive growth is consistent with APEC's structural reform agenda.

Meanwhile, the APEC Finance Ministers discussed in November 2009 how structural reforms that improve economic flexibility, raise productive potential, develop financial markets and increase private demand could contribute to raising potential output in the medium- to long-term and narrowing development imbalances and reducing poverty, and called upon APEC economies to leverage on each others' expertise in structural reforms in specific areas. They also encouraged the EC to intensify its efforts to promote structural reform, particularly noting the importance of its work on competition policy and regulatory reform.

G20 also recognises the importance of structural reform. At their Toronto Summit in June 2010, G20 Leaders recognised that structural reforms could have a substantial impact on economic growth and global welfare across all G20 members and declared their intention to implement measures that would enhance the growth potential of member economies in a manner that paid particular attention to the most vulnerable.

### 1.3 Ministerial mandate to conduct LAISR stocktaking

This year marks a turning point for APEC's structural reform agenda as it is the final year of the LAISR initiative and it is also the year to take stock of APEC's progress on structural reform. At the *APEC Ministerial Meeting on Structural Reform (SRMM)* held in Melbourne, Australia in August 2008, the EC was asked to report back to APEC Leaders on:

- progress in implementing the LAISR 2010 forward work programme; and
- progress by economies in pursuing domestic structural reforms

at the end of the FWP. The task was confirmed at the *APEC Leaders Meeting* in November 2009.<sup>5</sup>

Since 2009, the EC has carried out a stock-take of structural reform programmes via various activities as summarised in Box 1. They include (i) the LAISR Stock-take Survey of EC members, (ii) the EC Seminar on "*Impacts of Structural Reform and LAISR Stock-take*" in which an outline of the study on impacts and benefits of structural reforms conducted by the APEC Policy Support Unit (PSU) was also discussed, and (iii) discussions at the EC plenary meetings. This Stock-take Report has been prepared based on the outcomes of these activities.

There are some basic viewpoints that were considered when conducting the stock-take exercise.

First, given the diverse background and development stages of APEC economies and the APEC's cooperative, non-binding and consensus-based tradition, this report does not attempt to provide one-size-fits-all type conclusions and recommendations for adoption by member economies. Rather, it aims to draw lessons from the past experiences to be shared with member economies as well as to inform the audience of the importance of structural reform in general.

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<sup>4</sup> See *APEC's Inclusive Growth Agenda - Senior Officials' Report to APEC Ministerial Meeting 2009* (2009/AMM/R/004).

<sup>5</sup> The APEC Leaders stated "We look forward to the progress stock-take in implementing the LAISR forward work programme in 2010, and instruct our Ministers and officials to strategise the next phase of the LAISR, including in the context of supporting our new growth strategies."

Second, since structural reform often takes time to produce concrete results, this exercise does not exclude reform initiatives undertaken before LAISR. Some earlier reform policies which the EC members consider relevant in the current context have been included in the report.

**Box 1. Outline of the activities carried out by the EC on the LAISR stock-take**

Against the backdrop of the global financial crisis, the EC1 meeting held in Singapore in February 2009 included a round table discussion on the implications of the crisis, where members reaffirmed the importance of continuing structural reform efforts, not only for overcoming the crisis but also for enhancing the potential of long-term growth.

A Brain-storming Session for Restoring Growth and Post-LAISR Agenda was held at the EC2 meeting in Singapore in July 2009. The session was aimed at discussing the structural policy for addressing the crisis and rebuilding the basis for sustainable growth, with a view to initiating a discussion on the post-LAISR agenda beyond 2010. The issues for discussion included possible new priority reform areas for resuming growth and issues related to inclusive growth, reflecting the discussion at the APEC Ministers Responsible for Trade (MRT) meeting.

The EC Chair conducted a LAISR Stock-take survey in late 2009 and received responses from the five FotC Coordinators, the CPLG Convenor and all of the 21 member economies (hereinafter referred to as the *Stock-take Survey*). An outline of the stock-take report including a preliminary summary of the responses to the Stock-take Survey was tabled at the LAISR Stock-take Seminar (see below) and the EC1 meeting in February 2010 (2010/SOM1/EC/011).

The EC Seminar on "*Impacts of Structural Reform and LAISR Stock-take*" (hereinafter referred to as the *Stock-take Seminar*) held in the margins of the EC1 meeting in February 2010 comprised discussions focused on structural reforms in the telecommunications, transport and energy sectors in APEC, and presentations on an outline of the ongoing *PSU Study* (see below) and stock-take of progress made on LAISR. The importance of structural reform in the post-financial crisis was a recurring message in the seminar. It attracted around 70 to 80 participants including presenters from academia, international organisations and businesses.

At the EC1 meeting held in Hiroshima, Japan in February 2010, a round table discussion on the post-LAISR agenda including its relationship with the Growth Strategy was held based on two issues papers prepared by the EC Chair (2010/SOM1/EC/018 and 2010/SOM1/EC/019) as well as a concept note jointly prepared by the US, Australia, New Zealand and Singapore (2010/SOM1/EC/020).

Following the EC1 meeting, the EC Chair carried out a quick survey of the EC members on possible new priorities for structural reform (hereinafter referred to as the *Quick Survey*), their effective implementation mechanisms and the role of the EC. Based on the *Quick Survey* results and the discussion at the EC1, the EC Chair made a presentation on the EC's discussion on the Post-LAISR structural reform agenda at the Extraordinary SOM held in Tokyo in April 2010 (2010/ESOM/006, see Attachment 1).

Following a request by one of the Senior Officials, the EC Chair gave a presentation on an interim report on the LAISR stock-take at the SOM2 held in Sapporo, Japan in June 2010 (2010/SOM2/R/011). APEC Ministers Responsible for Trade consequently welcomed the progress in the five LAISR areas and encouraged senior officials to develop a new structural reform agenda beyond 2010.

At the EC2 meeting held in Sendai, Japan in September 2010, the EC members discussed the draft LAISR stock-take report prepared by the EC Chair as well as the future directions of the EC's structural reform work, including the reformulation of the LAISR areas.

## Section 2: Progress in Implementing the LAISR 2010 Forward Work Programme

This section reviews the progress in implementing the LAISR initiative including an overview of activities conducted mainly by the EC and their key outcomes, followed by an overall evaluation.

### 2.1 EC's institutional framework has evolved to facilitate the LAISR initiative

APEC's momentum towards structural reform has been supported by ministerial and leaders' mandates as explained above. Presumably, such high-level commitments should have encouraged an active participation of member economies in carrying out various structural reform programmes. Meanwhile, the fact that the EC was appointed as the driving force of the LAISR initiative essentially resulted in a greater focus on cross-cutting approaches. To accomplish this task, the EC's internal structure and the implementation mechanism have needed to evolve over time by making the best use of resources available.

**Table 1. The five FotC Coordinators and the CPLG Convenor**

Areas/group	FotC Coordinators/CPLG Convenor (as of September 2010)
Regulatory Reform	Australia
Competition Policy	Hong Kong, China
Public Sector Governance	New Zealand
Corporate Governance	The United States
Strengthening Economic and Legal Infrastructure (SELI)	Japan
Competition Policy and Law Group (CPLG)	Japan

Five "Friends of the Chair" (FotC) groups for the LAISR priorities were set up in 2007. The FotC mechanism was designed to ensure that the work programme of the EC reflects the priorities of member economies and guides the work of the EC through until 2010. The reporting lines of Strengthening Economic and Legal Infrastructure (SELI) and the Competition Policy and Deregulation Group (CPDG) were transferred from CTI to EC in 2008, while the CPDG was later renamed as the Competition Policy and Law Group (CPLG) to reflect the group's focus on competition policy and law. Discussions within the FotCs and the CPLG including the bi-annual revision of the FWP have been led by the five FotC Coordinators and the CPLG Convenor (see Table 1 and Attachment 2). The FotC system has worked well as it has allowed economies to commit themselves to one or two LAISR areas and invest resources into these areas.

### 2.2 A wide range of activities have been conducted

The diversity of APEC economies provides member economies with a greater chance to learn from each other. Sharing information on best practices and lessons learned have been the main instruments in driving APEC's structural reform programmes. The *APEC Economic Policy Report* (AEPR), the main publication of the EC since 2006, has been serving as an important source of information for government officials, academics, and other stakeholders on the key structural reform issues in the APEC region. This annual report is designed to focus on one of the key themes of LAISR (see Box 2). The AEPR has been one of the most frequently accessed



publications on the APEC website – e.g. the 2009 AEPR has to date been the second most accessed publication in 2010.

### Box 2. Main themes of the past AEPRs

The 2006 AEPR, prepared by Canada, New Zealand and Viet Nam, provided a high-level overview of the structural reform mandate given to the EC. It started with a brief summary of the work that APEC undertook on structural reform and its policy implications, examined sustainable development issues with an emphasis on the role of structural reform, and reviewed individual economies' domestic structural reform activities over the past 10 years.

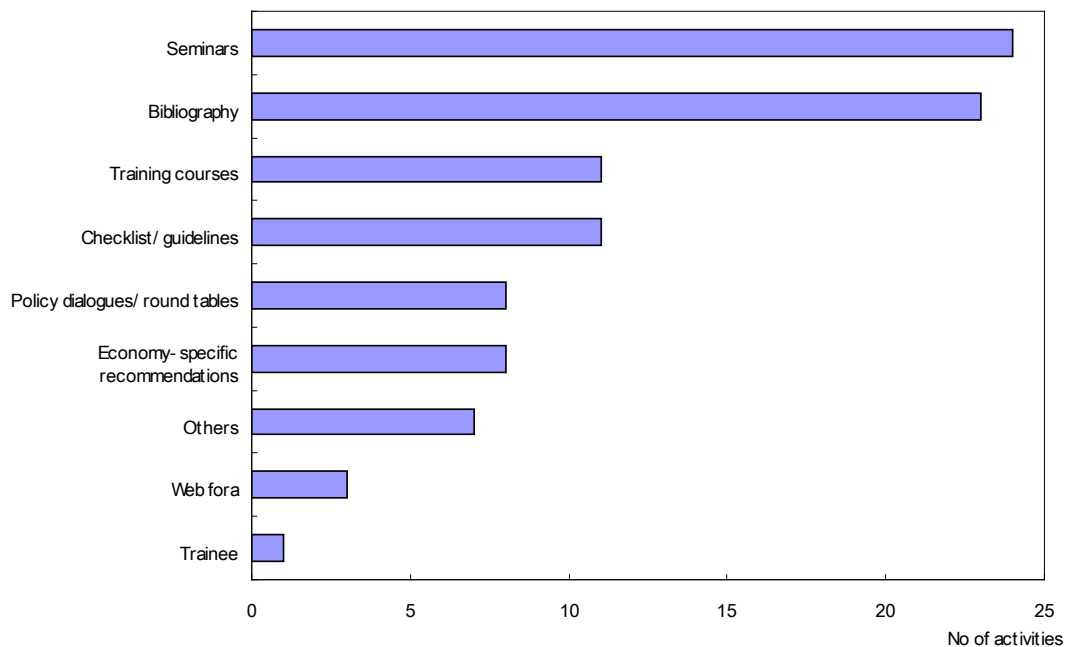
The 2007 AEPR, prepared by New Zealand and Australia, focused on public sector governance. It established a range of generalised high-level principles for good public governance and identified key tensions in public sector governance and the processes that had evolved to overcome these challenges. It also focused on domestic institutions to support reform.

The 2008 AEPR, prepared by Japan and Peru, focused on competition policy. It shared lessons about how APEC economies had adopted and had been enforcing competition policy, highlighted achievements and activities by APEC in competition policy, and helped formulate the focus of future competition policy work.

The 2009 AEPR, prepared by Australia and Singapore, focused on the theme of regulatory reform and outlined key elements of a good regulatory reform framework, measured the regulatory burdens on business, and reviewed individual economy experiences in implementing regulatory reform. The report provided a useful tool to identify and share good frameworks and best practices to guide regulatory reform of member economies.

The 2010 report, prepared by the United States and Japan on the theme of corporate governance, focused on 1) corporate governance and sustainable economic growth and 2) legal and institutional foundations of corporate governance in APEC economies.

Figure 1. Capacity building activities by type



Note: The above table has been prepared by the EC Chair office for indicative purposes by simply aggregating the number of activities reported by the FotC coordinators at the time of the capacity building survey distributed in December 2008.

Meanwhile, a large number of capacity building exercises have been conducted as part of the LAISR initiative. According to a survey conducted in 2008/2009 on the EC capacity building activities (see Section 5), which had asked the FotC coordinators to report activities in each of the five FotC areas according to the contents classification given by the EC Chair, nearly one hundred structural reform-related activities had been conducted mostly during the period between 2006 and 2008.<sup>6</sup> There would also be events that had not been captured in this survey, and the number of capacity building activities conducted in the 2009-2010 period is also significant. In terms of the types of activities that were carried out, seminars were found to be most frequently conducted, followed by bibliographies and training courses which are APEC's traditional approaches to capacity building.

In addition to these, the EC has also employed other approaches including (i) developing checklists and guidelines, (ii) holding a ministerial meeting to facilitate reforms, and (iii) introducing a process of voluntary reviews of institutional frameworks and processes.

The *APEC-OECD Integrated Checklist on Regulatory Reform* was developed as a voluntary tool that member economies can use to evaluate their regulatory reform efforts. It outlines principles such as the importance of regulatory quality, competition and the avoidance of unnecessary economic distortions. It also promotes core values such as transparency, non-discrimination and accountability. Six economies (Hong Kong, China; Chinese Taipei; and the United States in 2006; Australia and Korea in 2007; and Japan in 2010) have so far presented the findings from their self-assessment activities to the EC. Through such exercises, the Checklist functions as a repository of APEC and the OECD members' experience, knowledge and best practices leading to further reforms. Such an experience could also be used as a model for cooperation between APEC and other international fora.

The first-ever SRMM was held in Melbourne, Australia in August 2008. This provided an opportunity for Ministers to share experiences on the political challenges of structural reform, strategies to support the reform process, and optimal institutional frameworks. Ministers recognised the benefits of structural reform as it (a) provides better quality products and services at lower prices, combined with better choice for citizens, (b) expands gains from trade and investment, (c) strengthens capacity to respond to changes in the global economy, and (d) increases economic stability, competitiveness, overall productivity and sustainable economic growth and ultimately, improving the wellbeing of citizens. Ministers endorsed a *Comprehensive Good Practice Guide on Regulatory Reform*, which aimed at providing economies' with useful tips and practical experiences on good practice for regulatory reform, including regulation making, review and enforcement. They also agreed to initiate a process of voluntary self reviews of member economies institutional frameworks that support structural reform, and EC was tasked to further develop the process.

The *APEC Voluntary Reviews of Institutional Frameworks and Processes for Structural Reform* was subsequently endorsed at the EC2 meeting in July 2009. The purpose of the review is to assist economies to build and maintain effective institutions and processes to support structural reform efforts. The recommendations will be cognizant of the reviewed economy's political system and developmental status and will be tailor made to assist each economy with the process of reform.

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<sup>6</sup> Attention should be paid to the fact that the scope of the survey was not necessarily confined within APEC, but also included reports and activities of other international institutions, governments, academicians, and bilateral scheme etc. As a result, around 30 activities conducted outside of APEC have been included in the survey result.

## 2.3 Overall evaluation of the activities

Although it is not a simple task to evaluate the overall progress in implementing the LAISR initiative, a couple of distinctive characteristics can be pointed out regarding the APEC's structural reform activities. The following points suggest that APEC has been making a difference in this key policy area.

**Table 2. The objectives of the current FWP and number of action items**

Areas	Objectives	No of action items
<i>Regulatory reform</i>		
	1 Enhance APEC economies' regulation making, review and enforcement processes and systems	5
	2 Improve APEC economies' regulation in key sectors of the economy	3
	3 Address key regulatory burden on businesses in APEC economies	2
	4 Assess overall progress in regulatory reform amongst APEC economies and set direction for future work	1
	(Completed items)	
	1 Provide context for the discussion on regulatory reform within APEC	1
	2 Provide guidance for good practice regulation principles and practices within APEC	5
<i>Competition policy</i>		
	1 Set the stage for productive discussion on competition policy within APEC	1
	2 Stocktake of progress in competition policy and set direction of future work	1
	3 Capacity building to implement practical measures	1
	4 Promote better understanding of practical measures to strengthen competition policy	1
	(Completed items)	
	1 Provide context for the discussion on competition policy within APEC, identifying areas of need for competition policy	1
	2 Provide guidance for good practice	2
	3 Stocktake of progress in competition policy and set direction of future work	1
	4 Capacity building to implement practical measures	1
	5 Promote better understanding of practical measures to strengthen competition policy	2
<i>Corporate governance</i>		
	1 Set the stage for productive discussion on corporate governance within APEC	3
	2 Identify areas of need for strengthening corporate governance	1
	3 Build consensus on best practices in corporate governance	1
	4 Build capacity to implement practical measures	3
	5 Increase awareness of the elements of sound corporate governance	3
	6 Stocktake of progress in strengthening corporate governance and set direction of future work	1
<i>Public sector governance</i>		
	1 Set the stage for productive discussion on public sector governance within APEC	3
	2 Identify areas of need for strengthening public sector governance	2
	3 Promote better understanding of practical measures to strengthen public sector governance	11
	4 Capacity building to implement practical measures	1
	5 Increase awareness of the elements of sound public sector governance	1
	6 Stocktake of progress in strengthening public sector governance and set direction of future work	2
<i>Strengthening economic and legal infrastructure</i>		
	1 Set the stage for productive discussion on strengthening economic and legal infrastructure within APEC	2
	2 Identify areas of need for strengthening economic and legal infrastructure	2
	3 Build consensus on best practices in strengthening economic and legal infrastructure	1
	4 Promote better understanding of practical measures to strengthen economic and legal infrastructure	1
	5 Capacity building to implement practical measures	1
	6 Increase awareness of the elements of sound economic and legal infrastructure	3
	7 Stocktake of progress in strengthening economic and legal infrastructure and set direction of future work	1

Note: The above table has been prepared by the EC Chair office for indicative purposes by simply aggregating the number of action items registered in the *Consolidated LAISR Forward Work Programme* submitted to EC1 in 2010.

*First*, a major outcome of the LAISR initiative is that it has translated into a large number of activities. No other international cooperation would come close to APEC in terms of the volume of activities to facilitate structural reform. These activities would have certainly increased the awareness of the importance of structural reform in the APEC region and contributed to capacity building.

*Second*, such a wide range of activities have been organised along the five priority areas and under clear objectives set out in the FWP as summarised in Table 2. This has been made possible through the development of the EC's internal structure.

*Third*, the approach is unique to APEC, i.e. it has a strong sense of providing assistance tailored to each economy's needs, reflecting the diversity of APEC member economies. Many of the activities under the LAISR framework are actually targeted at government officials who are in charge of implementation of specific economic policies. Such capacity building activities are

particularly welcomed by developing economies (see Box 3). This contrasts with the approach taken by the OECD, which is another international forum focusing on structural policies in recent years.<sup>7</sup>

**Box 3. Need for capacity building: examples of Stock-take Survey responses by developing economies**

- The LAISR Forward Work Programme (FWP), which is mostly in the forms of capacity building activities such as seminars, roundtable discussions, workshops, has been really raising the awareness on how important structural reform is for improving trade and investment of economies, especially for developing economies
- Under the APEC framework, more technical assistance should be provided. Moreover, technical assistance programmes should not be common to all member economies; instead, they should be designed to meet the specific needs of each member economy.

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<sup>7</sup> The OECD's approach leverages on peer pressure and indicator-based monitoring, such as the Economic Development and Review Committee (EDRC)'s examination of economic situation and policies of each member country conducted every 1.5 to 2 years based on a draft report prepared by the OECD Secretariat, and the annual *Going for Growth* structural surveillance which relies on a set of internationally comparable indicators.

## Section 3: Progress by Economies in Pursuing Domestic Structural Reforms

The *Stock-take Survey* asked the EC members to report back its progress in structural reform (mainly in the five LAISR areas within each economy), examples of successful reforms, lessons learned in implementing reforms and the keys to the success of reform. This section summarises the responses received.

### 3.1 Structural reform has become a common agenda for all APEC economies

All of the 21 member economies have responded to the *Stock-take Survey* with progress in some kind of structural reform, which indicates that the LAISR initiative has helped increase the awareness of the importance of structural reform in the APEC region and that structural reform has become a common agenda for all APEC economies. More specific comments by member economies indicate that APEC economies are implementing structural reform in order to strengthen medium-term growth potential and raise living standards.

### 3.2 Progress was reported in all five priority areas

The *Stock-take Survey* asked member economies, the five FotC coordinators and the CPLG Convenor for details of the progress in reforms in the five areas. Below is a summary of the responses (see also Box 4 for some concrete examples of structural reform and Part II for the full responses).

#### Regulatory Reform

A number of economies cited regulatory reform as the area which made the most significant progress among the five areas. The results of the survey have highlighted that many economies have recently made concerted efforts to improve the consultation process in the rule-making process, particularly with the business community. There are indeed many unique but ambitious programmes aiming at creating a business-friendly environment through regulatory reform as reported in the *Stock-take Survey*, which suggests that governments across the APEC region have recognised the importance of regulatory reform as a key instrument to attracting businesses and enhancing growth potential.

#### Competition Policy

A couple of economies have reported that initiatives have been taken in recent years to enhance the effectiveness of competition policy, including implementation or improvement of competition law. In addition, the Competition Policy FotC Coordinator reported the outcome of the APEC Seminar on the Role of Competition Policy in Structural Reform held in June 2007 that economies often faced similar challenges in setting up competition regimes, such as insufficient expertise, the need to build a competition culture, a lack of coordination across agencies on competition issues and limited resources. Meanwhile, the discussion at the *Stock-take Seminar* held in February 2010 confirmed the importance of competition policy, and suggested that opening up strategic sectors such as telecommunications, transport and energy might help drive competition as well as greater accessibility at the consumer level.

## Corporate Governance

Member economies are increasingly showing interest in applying good corporate governance rules, although different levels of development and different economic structures (e.g. state owned enterprises versus fully private corporations) have necessitated a flexible approach to implementing international principles as reported by the Corporate Governance FotC Coordinator.

## Public Sector Governance

The Stock-take Survey has revealed that various efforts have been made in member economies to improve the performance of the public service, such as providing greater incentives for public workers, enhancing efficiency and reducing reporting burdens, and promoting transparency. The similarity of the challenges that the member economies are facing suggests that these problems are more or less inherent to the public sector. It would be important to make continuous reform efforts in order to produce visible results. In this context, sharing information on successes and lessons learned would be extremely important.

## Strengthening Economic and Legal Infrastructure (SELI)

Economic and legal infrastructure, including bankruptcy law, has been upgraded in many member economies. Meanwhile, the SELI Coordinator has reported that developing economies are increasingly interested in dispute settlement mechanisms such as Alternative Dispute Resolution (ADR).

### Box 4. Some examples of structural reforms reported in the Stock-take Survey

#### *Regulatory reform*

- Progress in the Special Zones for Structural Reform initiative, an idea to allow regulatory changes in dedicated geographical areas to act as a testing ground.
- The expansion of the Sunset Clause, the introduction of a Temporary Regulatory Relief Mechanism, and the Regulatory Reform for New Growth Engine Industries as well as the reduction in regulations on business start-ups, which enabled individuals to set up a company in about 7 days.
- Continuous improvement to facilitate business environment to make it predictable and conducive to encourage foreign direct investment and facilitate businesses. Reform initiatives include i) reduction in the time to register standard property, ii) improvement in the time to start a business, iii) establishment of a Single Corporate Identity Card (MyCoID) to facilitate Business-to-Government and Business-to-Business transactions, iv) improvement in the income refund tax system, v) establishment of a single gateway (myBayar) for payments to government agencies, and vi) reduction in the number of procedures in dealing with construction permits and total time taken to complete the procedures.
- Measures to promote regulatory reform including i) implementation of mechanisms to hinder issuance of unnecessary or high-cost regulation, ii) use of public-consultation mechanisms to identify priority areas for reform, iii) reduction of administrative burdens on start-up businesses and iv) institutionalising regulatory reform in the States.
- Establishment of the Smart Regulation Committee which aimed to develop a regulatory regime that is friendly to business and investment.
- Establishment of a comprehensive coordination mechanism for deregulation, which combines calls for suggestions from the public and private sector, evaluation of such suggestions and policy-making models, supervision and evaluation. World Bank's Ease of Doing Business report has been used for reference.
- Increasing disclosure and transparency on regulatory actions, greater public participation in regulatory processes including advent of e-Rulemaking and greater identification of regulations with international impacts.

#### *Competition policy*

- Amendment of the Antimonopoly Act which introduced a leniency programme and compulsory measures for criminal investigation and revision of the surcharge system.

- The Independent Consumer and Competition Commission (ICCC) has carried out reviews of the state-owned enterprises to support their transition to commercial entities.
- Enactment of the Consumers' Code which introduces new regulations to reduce asymmetric information between consumers and producers and remove any practices that can violate consumers' rights.
- Significant progress in legislation and enforcement of competition policy.
- Establishment of an independent and transparent investigation body to maintain competitive markets in sectors which have been newly included in the Competition Act.
- Although Competition Law was enacted and came into effect, key sectors are still controlled by big enterprises and the price behaviour still lacks substance of competition.

#### *Corporate governance*

- Policies and instruments that would replace the current ones, with a particular focus on enhancing the standard of corporate governance and confidence in the capital markets.
- A new law on corporate governance, which was enacted drawing on international norms including the OECD guideline, has resulted in greater disclosure of information by companies, improved oversight of markets, and better protection of minority shareholders.
- The launch of the Code on Corporate Governance Practices and the Corporate Governance Report, which represents a significant move towards adoption of international benchmarks of corporate governance, best practice and disclosure.
- Reforms include the amendment of the Securities and Exchange Act, such as 1) reinforcement of the independence of directors and supervisors, 2) strengthening the responsibility of companies' management for false financial reports, 2) improvement of transparency measures for information disclosure.

#### *Public sector governance*

- Introduction of the Government Transformation Programme to transform the government to be more effective in its delivery of services and accountable for outcomes that matter most to the public, and to provide high standards of living for all. Six national key result areas have been identified to spearhead the Government Transformation Programme.
- Introduction of initiatives such as the Smart Regulation Committee (SRC), Pro-Enterprise Panel (PEP), and Zero-In-Process (ZIP) to improve public services. In addition, the Pro-Enterprise Ranking (PER) ranks the government agencies on their compliance cost, transparency, review of rules, customer responsiveness and pro-enterprise orientation.
- Utilisation of information and communication technologies to enhance government performance management and transparency, including the establishment of the Government Performance Management network (GPMnet), the Gazette Online, and the Government e-procurement System. Construction of an indicator to evaluate and trace holistic quality of public sector governance.
- Progress in introducing the Results-Based Management system, streamlining the work process of government agencies. Establishment of the Ethics Promotion and Information Center to improve human resource management with ethical standards.
- Attempts to accelerate administrative reform and plans to cut down 30 percent of all administrative procedures, although weak incentive for civil servants to streamline administrative procedures remains a problem.

#### *Strengthening Economic and Legal Infrastructure*

- Reform of the bankruptcy law to introduce new mechanisms and establishment of a special commercial court in order to reduce uncertainty of legal procedures for investors in the case of bankruptcy.
- The amendments to the Trade Marks Rules allowed electronic communication with the trade mark agents.
- Institutionalisation of the basis for promulgating legal documents and promulgation of various new laws and associated under-law documents.

### 3.3 Keys to the success of reform

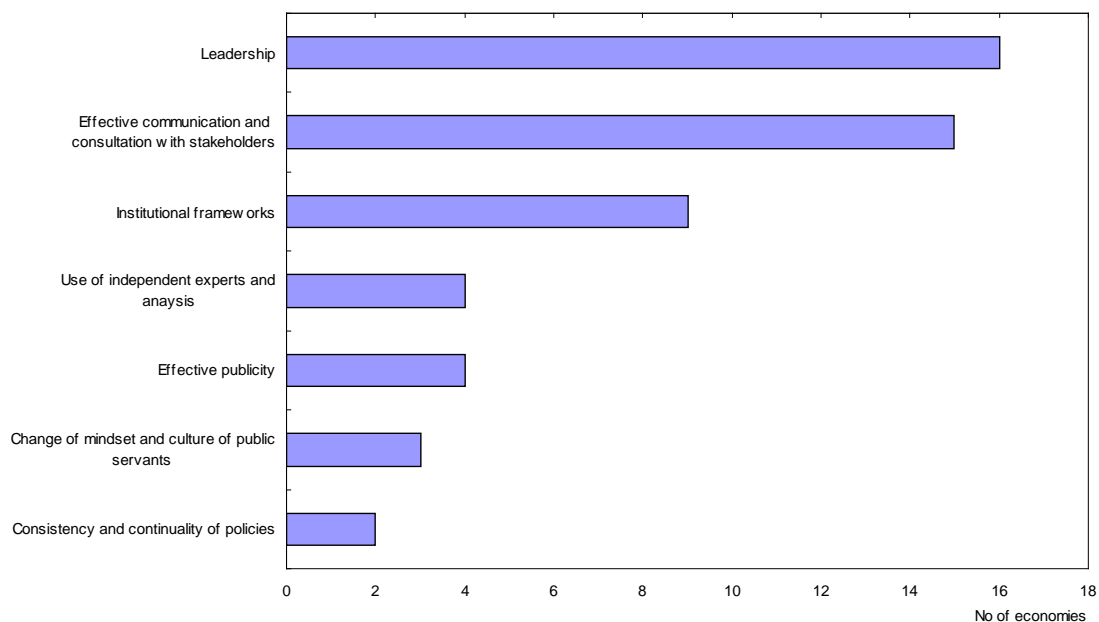
The *Stock-take Survey* also asked members to identify the keys to the success of reform, factors that impeded reform and lessons learned from past experiences. Although a limited number of factors that impeded reform and other negative consequence of reform have been reported, rich information regarding the keys to success of reform in member economies had been collected through this survey. Below is a summary of such responses (see also Figure 2 and Box 5).

The most commonly cited factors (by 16 economies) were associated with leadership. This suggests that since structural reforms tend to have adverse impacts on sectors which were previously protected, they could be watered down without strong leadership even if they are well planned.

This was followed by effective communication and consultation with stakeholders (15 economies). There were views that it was crucial to involving a wide range of stakeholders in the reform process in order to identify priority areas, ensure transparency, and prepare detailed design for reform.

The third most commonly cited factor (by 9 economies) was institutional frameworks including effective inter-agency coordination mechanism and appointment of dedicated ministers. This indicates the importance of having cross-cutting viewpoints in carrying out reforms even when discussing sector-specific issues.

**Figure 2. Keys to the success of reforms: summary of the Stock-take survey responses**



Note: The above figure has been prepared by the EC Chair office for indicative purposes by classifying written comments submitted by the EC members to the LAISR Stock-take Survey, so thus should not be treated like a multiple-choice survey result.

Use of independent experts and analysis was cited by 4 economies. This coincides with one of the ten lessons of the reform in APEC economies put forward in the *PSU Study*, which argues that independent evaluation can be very important, either in the formal sector or utilising the second track as those organisations help to offset the lobbying efforts of the vested interests.

Other key factors for the success of the reforms cited in the survey include effective publicity, change of mindset and culture of public servants, and consistency and continuity of policies.



### **Box 5. Keys to the success of reforms: some examples of Stock-take Survey responses**

#### *Leadership*

- Creation of a government council to initiate, develop and monitor key policy reforms, required support from the highest levels of government.
- Leadership has foremost role in making credible development results that translate to lowering of uncertainties in the government, businesses and consumer confidence.
- Strong political will has contributed to overcoming lobbying by stakeholders.
- Many reform measures were slowed down and even reversed as they often undermine the interest of some social groups. This implies that reforms need strong political will and effective implementation roadmap to be successful.

#### *Effective communication and consultation with stakeholders*

- A thorough, transparent and wide-ranging consultation process that includes all stakeholders and interested members has been the key aspect to the success of reform as these provide legitimacy, buy-in and ownership to the reform process.
- State leaders personally went down to grass-root units and convened symposiums to solicit opinions and suggestions.
- The government has carried out public consultations that significantly contributed to diagnosing, identifying and designing reform policies.
- Regular joint discussions with the representatives of business community, civil society institutions and sectoral experts within the frameworks of various consultation and expert councils provide for transparent mechanism of elaboration of relevant regulations.
- Agencies have learned the importance of public consultation which helps them to focus on priority areas that meet the needs of businesses and key stakeholders.

#### *Institutional frameworks*

- Institutional framework is considered to be one of the keys to success for reform as the problem of coordination among related agencies and between central and local governments might be considered as impediment of reforms.
- Establishment of the government council on national competitiveness and the committee on regulatory reform made the coordination among different ministries and agencies much easier.
- A comprehensive coordination mechanism for deregulation, which combines calls for suggestions from the public and the private sector, evaluation of deregulation suggestions, supervision and evaluation has been set up.
- Appointment of a dedicated minister for regulatory reform (as discussed above).

#### *Use of independent experts and analysis*

- The success of structural reform initiative is often owing to the fact that recommendations underpinning the reform are made by an independent organisation of experts appointed by the government.
- Extensive research is considered to be one of the keys to the success of reform. In the case of the health care system reform, a dedicated working group and its entrusted institutions including the World Health Organisation and an academic institution conducted extensive study and research.
- Rigorous analysis is considered to be a key to regulatory policy. Cost-benefit analysis is used as a pragmatic tool for cataloguing, assessing, reassessing, and publicising the human consequences of regulation given the difficulty of quantifying all of the likely impacts of regulations.
- Independence of analysis by experts groups has been guaranteed by avoiding interference from interest groups and providing high level political commitment to carry out necessary actions.

## Section 4: Impacts of Structural Reforms

In order to gain wide and solid support and maintain momentum for structural reform, it is extremely important to demonstrate impacts of structural reform in an easily understandable manner, since reforms may have adverse impacts on sectors which had been protected by regulations and other policies, while the benefits tend to spread across various segments of the society and across generations. The *Stock-take Survey* asked the EC members about the impacts, both positive and negative, of structural reforms on their economy and flow of trade and investment. Separately, the PSU has conducted a study on the impacts and benefits of structural reforms as explained above. This section summarises such outcomes.

### 4.1 Reforms have produced positive economic impacts in many economies

The responses to the *Stock-take Survey* have indicated that various estimates on the impacts of structural reform are conducted in member economies. They include impacts on GDP, consumer benefits and prices, firm start-ups and investment (see Box 6).

#### **Box 6. Domestic studies on economic impacts of structural reforms: examples of Stock-take Survey responses**

- It has been estimated that productivity and price changes in key infrastructure sectors (electricity, gas, urban water, telecommunications, urban transport, ports and rail freight) in the 1990s, to which regulatory reforms directly contributed, increased GDP by 2.5 percent.
- It has been estimated that regulatory reform in 15 areas between 2005 and 2008 created consumer benefits equivalent to 1 percent of national income. The largest consumer benefit was recorded in the mobile communications sector, followed by petroleum products and electricity.
- The Rapid Business Start-up System (SARE) scheme which was introduced in 2002 with an aim to allow creation of businesses within 72 hours, has fostered the creation of 160,982 new businesses, 449,713 new jobs and investment of around US\$1.9 billion between 2002 and 2009. This is estimated to have boosted 4 percent on new firm start-ups.
- Liberalisation of cross-border movement of capital, goods, personnel and services would have contributed to boosting inward FDI, which more than tripled between 2003 and 2005.
- High economic growth rate was recorded even in the midst of the global financial crisis thanks to the fact that small enterprises were flexible in their production and activities, including frequent rotation of workers.

### 4.2 The PSU Study also revealed benefits of structural reforms

The *PSU Study* sought to catalogue many of the substantial, tangible benefits for consumers and for small and medium businesses arising from APEC members' structural reform efforts in recent years, focussing on the transport, energy and telecommunications sectors. As well, economic modelling was undertaken to provide empirical estimates of reform impacts in those sectors (see Attachment 3).

The *PSU Study* has identified that in many cases reforms in the member economies in regulatory framework such as liberalisation of entry and privatisation have resulted in lower prices, differentiation of services and other service improvements (Box 7).

In addition, the *PSU Study* has estimated that the introduction of more competition in these sectors through a package of reforms could generate additional real income (in 2004 prices) of

US\$175 billion a year across the whole APEC region relative to what would have accrued had no reforms occurred. This gain, which is a snapshot after a 10-year adjustment period, is almost twice as big as the gains from complete liberalisation of all remaining trade barriers in agriculture and food, other primary products and manufacturing by all APEC economies.

The *PSU Study* has shown the value of the adoption of an agenda to implement structural reform by APEC and has also revealed the importance of structural reform as providing strong bridges behind the border to capture the full benefits of improving regional economic integration.

**Box 7. Examples of estimated impact of structural reform presented in the PSU Study**

*Air transport*

- Fares fell by 20-30 percent as a result of the entry of low cost carriers (LCC) in 2006. The LCC share of the domestic market has increased to 25 percent and close to 30 percent on some routes.
- A more liberalised agreement for routes between two member economies resulted in a fall in fares by an average of more than 8 percent on these routes and traffic grew much faster (by a factor of 2) compared to other routes between the two economies.

*Rail transport*

- Tenders to operate an urban rail system were called in 2002 while the track was owned and managed by a government enterprise. Services more than doubled between 2005 and 2009 and traffic doubled between 2005 and 2010 under this competitive model. Reliability also improved significantly while many of the stations were upgraded.
- Fares declined by 40 percent after the government-owned rail corporation divested part of its operations.

*Road transport*

- Freight rates fell by 20 to 30 percent when quotes on cross-border freight licences were removed between two economies in 2004.

*Electricity*

- Retail competition reduced prices by 5 to 10 percent for residential customers and by 5 percent for industrial customers.
- The first stage of electricity reforms including the separation of generators from the distribution company resulted in an increase in utilisation of capacity and higher productivity.

*Telecommunications*

- Monthly subscription charges for mobile services had fallen from US\$17 in 1999 to zero by 2004. Structural reform efforts contributed to this outcome.
- The introduction of competition into the mobile sector has led to universal coverage, following a rise of 700 percent in the number of mobile subscribers since mid 2007. Charges have fallen by 11 percent in the peak times for domestic calls and 51 percent in the off-peak.

### 4.3 Structural reform and trade and investment liberalisation complement with each other

The two main pillars of the APEC's economic agenda, namely, trade and investment liberalisation and facilitation and "behind-the-border" structural reform, both aim at facilitating economic growth and improving our living standard both quantitatively and qualitatively. Various studies indicate that removing barriers to trade and investment and structural impediments to domestic economic activity both strengthen competition, leading to static and dynamic gains.<sup>8</sup> Static gains arise from better allocation of resources across and within

<sup>8</sup> They include OECD (2005a), "The Benefits of Liberalising Product Markets and Reducing Barriers to International Trade and Investment in the OECD", *OECD Economics Department Working Papers*, No. 463, OECD (2005b), *Trade and Structural Adjustment*, and OECD (2006), *OECD Economic Survey of Japan*.

economies. Dynamic gains result from greater efforts to innovate and optimise production, and from more rapid diffusion of new technology (OECD 2006).

While trade liberalisation generally contributes to economic growth and creates new opportunities, its adverse impacts are often highlighted as it can lead to firm closures and job losses in some sectors. Providing temporary support to these sectors is a way to help alleviate pain and reduce short-term adjustment costs. However, the overall benefits of liberalisation for society will be larger if adjustment is taken place swiftly by a shift of resources across sectors, which can be facilitated by removing domestic barriers to competition. In this sense, undertaking reforms across different policy areas in a complementary way can help achieve swift adjustment, since those adversely affected by one reform might benefit from another. Broad-based reforms can also reduce resistance to change and make it harder for individual industries to argue for exemption (OECD, 2005b).

In terms of the magnitude of reforms, the *PSU Study* has indicated that the impact of structural reform is estimated to be almost twice as big as the gains from further liberalisation of trade. Such a result is in line with the outcome of a study by the OECD (OECD, 2005a), which estimated that GDP per capita in its member countries would increase by between 2 and 5 percent if all external and internal barriers including product market regulations, tariff barriers and restrictions on foreign direct investment (FDI) were reduced to the level in the least restrictive member country. Since these are permanent increases, individuals would be able to reap the gains each year once adjustments to the reforms are complete, and the cumulated addition to earnings over an average 40-year working life of an individual would be between one to two full-year earnings. Product market reforms were estimated to have the largest impact, increasing GDP per capita by 1.75 to 3.0 percent, with another 0.25 to 1.0 percent from cutting tariff rates and 0.75 percent from lowering restrictions to FDI. In addition to these static gains, there would also be significant size of dynamic gains on a sustained basis.

Although the above arguments and empirical evidence suggest that trade and investment liberalisation and domestic structural reform both contribute to raising growth potential, the exact interrelationship may depend on sectors, nature of growth constraints, development stage, and so on. Thus, it would be useful to continue to study the relationship between trade and investment liberalisation and facilitation and domestic structural reform further in the APEC context.

## Section 5: Further Strengthening APEC's Structural Reform Agenda

As explained above, the LAISR initiative has evolved over time since its inception, including the establishment of the FWP and the introduction of various new approaches. A large number of activities have been conducted under each of the LAISR themes, which has been regularly welcomed by APEC Ministers and Leaders in subsequent years.

Attempts have already been made to further improve and strengthen the structural reform programmes, which would have implications for the future agenda of APEC. This section reviews recent efforts and discussions by the EC to strengthen structural reform activities and their implications for the next phase of APEC's structural reform agenda.

### 5.1 Further strengthening capacity building activities

At the SRMM held in August in 2008, Ministers requested the EC to develop and report back to APEC Leaders through Senior Officials on strengthening capacity building initiatives in its FWP. Responding to this task, an extensive survey was conducted among the EC members in early 2009 to obtain a better picture of their needs as well as gather their suggestions on capacity building programmes for the purposes of developing a programme that would deliver "Right contents to the right people through the right modes".

According to the survey results, the EC members perceive that the attendees in capacity building programmes and activities are mostly appropriate.<sup>9</sup> Nonetheless, there are still many cases where time and budget constraints prevent the right people from attending these programmes. Responses to the question on information dissemination suggest that this occurs on a rather ad-hoc basis, pointing to the need for improvement. The necessity of involving high ranking officials was suggested by many respondents, though it was pointed out that they are extremely busy people.

Based on the survey results, the EC Chair reported the following points to the CSOM in November 2009.<sup>10</sup>

#### *Developing methods for better dissemination*

There is some room for improving the dissemination of information about the contents of capacity building programmes. One solution would be creating an easy-to-access and user-friendly archive of resources on capacity building on the APEC website.

#### *Collaboration with other fora*

It is necessary to explore ways in which the EC can further improve collaboration with other APEC fora as well as other international organisations such as the OECD, World Bank, United Nations, and International Competition Network. A mechanism for this purpose should be developed. One option for consideration would be to identify initial contact point(s) among

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<sup>9</sup> See *Prioritising Capacity Building Programmes Within the APEC Economic Committee* (2009/SOM2/EC/009), *Highlights of the Economic Committee Capacity Building Survey Preliminary Results* (2009/SOM2/EC/009a), and *Economic Committee Capacity Building Questionnaire Results* (2009/SOM2/EC/009b).

<sup>10</sup> See *Economic Committee Chair's Report* (2009/CSOM/004).

various EC members (depending on the subject matter) that could liaise with other fora/international organisations.

## 5.2 Promoting the EoDB initiative

Recognising the gains that could be made from removing “behind the border” impediments to doing business, a new “Ease of Doing Business” (EoDB) initiative was launched at SOM1 in 2009. Responding to SOM’s instruction to identify a preliminary list of priority areas for regulatory reform, the EC set up a small group to lead work on the Prioritisation of Regulatory Reform for Improving the Business Environment (PRIBE). Based on a study prepared by the PRIBE small group, which drew on a survey of the needs of member economies, an ABAC survey and the World Bank’s study on the Ease of Doing Business in APEC, the EC identified five out of the ten World Bank’s Doing Business factors as priority areas.

Subsequently, Leaders agreed in November 2009 on an APEC-wide aspirational target to make it 25 percent cheaper, faster and easier to do business within APEC economies by 2015 in the five priority areas. An interim target which aims at achieving a 5 percent improvement by 2011 has also been established. Ministers tasked officials to monitor and regularly review progress towards these targets, and urged officials to work closely with ABAC to identify ways in which the private sector can contribute towards the achievement of these aspirational targets.

In order to develop multi-year work programmes designed to assist APEC in achieving the targets collectively, “Champion Economies” for each priority area have been identified (see Table 3).

Capacity building work programmes for the five areas will be carried out in two phases. Phase 1 consists of comprehensive seminars and workshops hosted by the champion economy to share information and experiences in reform. Phase 2 consists of (a) in-depth diagnostics by each participating economy to understand the concerns and constraints of their line agencies, as well as identify the opportunities for regulatory reform in the priority areas, (b) a customised action plan to implement the regulatory reforms, and (c) follow-up by the champion economies and the sharing of progress reports by the participating economies.

**Table 3. The EoDB priority areas**

<b>Priority areas</b>	<b>Champion economies</b>
Starting a business	New Zealand; The United States
Getting credit	Japan
Enforcing contracts	Korea
Trading across borders	Hong Kong, China; Singapore
Dealing with permits	Singapore

A number of workshops have been held through 2010 as part of Phase 1 programme, while some Phase 2 activities have already started such as sending technical experts to identify the range of issues that were faced by some volunteering economies. These Phase 2 activities represent a tailor-made approach and have been providing effective capacity building to officials in relevant areas.

Responding to a request at the SOM1 meeting in 2010, the EC is playing a caretaking role for the EoDB Action Plan. Singapore, as the coordinator of the PRIBE group, has been monitoring the progress in implementing the Action Plan (see Attachment 4). At the EC2 meeting in 2010, EC members also agreed to establish a FotC dedicated to the EoDB and the United States assumed the role of the Coordinator.

The EoDB initiative is a new approach which attempts to facilitate structural reforms by setting a collective target with a specific target year and carrying out capacity building activities for economies in need of assistance in implementing reforms towards achieving the goal. The success of this approach would depend on a number of factors, including active contribution by the champion economies, close cooperation between relevant groups and businesses, and high-level leadership. Although it was thought relatively easy to agree on the broad direction of reforms and to find good indicators to measure progress in the current five priority areas, some flexibility would be needed in implementing the initiative to allow for the diverse nature of economies, while maintaining sufficient momentum of the initiative.

### 5.3 Taking a combined approach will be important in addressing new challenges

Structural reform is one of the five work elements of the Action Plan of the APEC Leaders' Growth Strategy to be agreed in November 2010.<sup>11</sup> Given its centrality to the Growth Strategy, it is likely that structural reform will remain as a key priority agenda for APEC beyond 2010. Along with the discussion on the Growth Strategy, the *APEC New Strategy for Structural Reform* (ANSSR) has been developed by SOMs. The ANSSR considers that the priority areas for structural reform work in APEC need to extend beyond the five LAISR priorities in order to consolidate recovery from the crisis, promote regional economic integration, and achieve higher quality growth that is both balanced and inclusive. Under this strategy, structural reform would be expanded to become a shared APEC-wide objective, with all relevant fora taking part.

**Table 4. The new priority areas and coordinating economies**

Areas/group	FotC Coordinators/CPLG Convenor
Competition policy	Australia
Corporate law and governance	TBD
EoDB	The United States
Public sector governance	Chinese Taipei
Regulatory reform	Japan
Competition Policy and Law Group (CPLG)	Japan

Meanwhile, there has been a strong consensus among the EC members that the existing five LAISR priority areas are still relevant as a whole and need to be further strengthened beyond 2010. SOMs shared this view at the Extraordinary SOM meeting that took place in April 2010. The EC continued its discussion and agreed at the EC2 meeting in 2010 to reformulate the five areas to better facilitate structural reform in the current context, with the new set of FotC groups and new coordinators to lead the work in the priority areas as indicated in Table 4. The EC has also agreed to retain the Competition Policy and Law Group (CPLG) as a group of experts (see also Attachment 5).

This implies that the next phase of APEC's structural reform agenda will likely be a combination of continuation of the cross-cutting themes pursued under the LAISR initiative, with some new extended priority areas.

While the SOMs will take primary responsibility for monitoring and reviewing the implementation of the overall structural reform programme, and leave the exact implementation mechanism to relevant committees and fora, the EC's past experience in structural reform activities can provide some insights in creating effective implementation mechanisms, which

<sup>11</sup> The five work elements are: (a) structural reform, (b) human resource and entrepreneurship development, (c) green growth, (d) knowledge-based economy and (e) human security.

would be all the more important if APEC goes further into tackling the behind-the-border issues.

At the EC1 in 2010, the EC members discussed possible new mechanisms including (i) OECD-type peer reviews, (ii) peer review with economy-wise action plans, (iii) issue-specific seminars and (iv) tailor made approaches. Among them, there was a wide support for the developing of new approaches which aim to introduce horizontal viewpoints to sector-specific issues building on the experience of the LAISR initiative. For example, the EC may hold a number of joint seminars/workshops with relevant committees and fora, taking advantage of its cross-cutting viewpoints. The EC could also look to develop a so-called tailor-made approach, which aims to enhance effectiveness of structural reform activities based on APEC's tradition of non-binding approaches. This approach can be applied not only to the reformulated LAISR areas but also to the new priority areas, which may require collaborating with relevant committees and fora.

Meanwhile, the OECD-type peer review mechanism was less welcomed by the EC members. This perhaps reflected the EC members' concern that "peer pressures" with policy recommendations by colleagues from economies of different development stages, historical and cultural background, etc. may make officials of the "examined economy" defensive and feel obliged to justify their current policies. The key for the success of such a peer review approach would therefore depend not only on the knowledge of so-called best practices but also good discussion as to why and under what conditions they perform well. Such discussion would make it clear whether or not some modification is needed in view of economy-specific factors.

#### **5.4 More research on quantitative assessment of structural reform may be useful**

In the *Quick Survey*, a number of EC members commented that the EC should/can contribute to APEC's possible new priorities for structural reform by conducting research and analyses on economic impacts of structural reforms. Building on the *PSU Study*, which provided a good foundation for APEC's research in this area, it may be worthwhile conducting more such research in the future.

For example, as the *PSU Study* has identified, structural reform may have adverse employment effects in certain sectors, while it makes a contribution to economic growth and overall employment growth since it adds to productivity, stimulates activity and increases the resilience of the economy. A more comprehensive research on the employment consequence of structural reforms, including shifts of labour force across sectors over time, would be useful.

In addition, more efforts would be needed to develop indicators which measures progress in structural reform. The above mentioned draft ANSSR encourages the use of qualitative and quantitative indicators for benchmarks, as appropriate and as selected by the individual economies, to make progress in policies and measures. Nevertheless, development of indicators which measure the progress in structural reforms is not a well-established area. Creating an indicator similar to the Product Market Regulation indicator developed by the OECD but tailored to APEC economies is a potential area of work, although such indicators should mainly be used for measuring progress in domestic reforms rather than for international comparison, given the diversity in APEC economies.



## Section 6: Conclusion

This report reviewed progress in the LAISR initiative and structural policies in APEC economies based on various works conducted as part of the stocktaking exercise.

The LAISR initiative provided APEC with a focus on the behind-the-border policy reforms, and a wide range of activities have been conducted. This strong momentum has certainly affected domestic policy reforms in member economies. The LAISR initiative has made significant progress and the choice of the five areas of focus seems to have been appropriate.

Structural reforms take time to produce concrete results while new challenges have been added to the APEC's structural reform agenda. Under such circumstances, APEC's work on structural reform should be reenergised building on the success of LAISR. The five LAISR priority areas continue to remain relevant in the current context and should be continued with necessary modifications to the scope of the topics to build on lessons learned and reflect the priorities of members. As a forerunner in inter-regional cooperation on structural reform, APEC, in particular the EC, is well-placed to further pursue this policy agenda, while collaborating with other international fora as appropriate.<sup>12</sup>

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<sup>12</sup> *Toward Higher Quality Growth for APEC* (The APEC Growth Strategy High-Level Policy Round Table held in Beppu, Japan in August 2010) noted "APEC could contribute to balanced growth by re-energizing its work on structural reforms, building on ongoing efforts under the Leaders' Agenda to Implement Structural Reform. APEC should also complement the G20's efforts in pursuing balanced growth in the region."

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