

POLICY BRIEF

Mapping Structural Reform

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**Asia-Pacific
Economic Cooperation**

Development of the Structural Reform Agenda

Since its establishment in 1989, APEC has been at the forefront in promoting the liberalization and facilitation of trade and investment in the Asia-Pacific, as part of the effort to meet APEC's ultimate objectives of sustainable growth and equitable development.

However, trade and investment liberalization and business facilitation policies are necessary, but not sufficient to maximize its benefits throughout society. In this regard, APEC Leaders endorsed the Leaders' Agenda to Implement Structural Reform (LAISR) in 2004, recognizing the importance of pursuing structural reform, as it "improves the functioning of the market in order to sustainably enhance living standards and realize the economic potential of the APEC region by raising economic efficiency and increasing competitiveness".

Simply put, in order for APEC members to take full advantage of measures to reduce trade and investment barriers, complementary policies in other areas are required. Keeping in mind APEC's objectives, LAISR identified five priority areas for cooperation and development. These are:

- Regulatory reform;
- Strengthening economic and legal infrastructure;
- Competition policy;
- Corporate governance; and
- Public sector management.

APEC New Strategy for Structural Reform

APEC Ministers defined Structural Reform in 2008 as "improvements made to institutional frameworks, regulation and government policy, so that behind-the-border barriers are minimized to improve economic performance and advance regional economic integration".

The impact of the Global Financial Crisis in 2009 and 2010 across the APEC region reinforced the view that work on structural reform should be extended to other areas in order to strengthen economic and social resilience and make a strong recovery from the crisis.

Consequently, APEC Leaders endorsed the APEC New Strategy for Structural Reform (ANSSR) in 2010 to promote efforts towards achieving:

- More open, well-functioning, transparent and competitive markets
- Better functioning and effectively regulated financial market
- Labor market opportunities, training and education
- Sustained development of small and medium enterprises, and enhanced opportunities for women and vulnerable populations
- Effective and fiscally sustainable social safety net programs

ANSSR recognizes that efforts on structural reform can be sector-specific, issue-specific or economy-specific. The heterogeneity across APEC shows that priorities in individual APEC members are varied and therefore, efforts should be tailor-made to suit each member's needs. An earlier APEC survey, conducted by Senior Financial Officials to identify structural reform priorities within APEC, indicated that important priorities were dispersed across sectors in member economies.

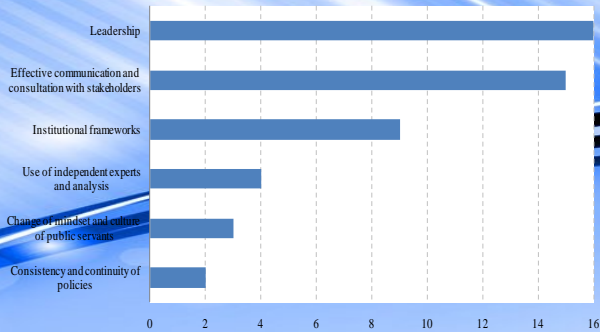
ANSSR also highlights the importance of capacity-building. This year, APEC is organizing a number of capacity-building activities to increase awareness in structural reform policies and trends; assist APEC members to identify priorities and prepare action plans; and train officials on methodologies to assess the impact of structural reform projects.

Identification of Key Factors for Successful Reforms

The APEC Economic Committee (EC) launched a survey in 2009 to identify key factors in achieving successful reforms. The results are summarized as follows.

The most crucial factor noted by the respondents was leadership. A strong leadership provides robust support to policymakers in their pursuit of reforms and helps to garner public support for the implementation of policies. Without strong support, reforms could stall and even worsen existing conditions before the implementation of reforms.

Survey Results: Keys to the Success of Reforms



Source: APEC Economic Committee (2010), Taking Stock of Progress in LAISR Initiative and Structural Reform in APEC Economies.
 Note: The chart was prepared by the Economic Committee by classifying written comments submitted by APEC members on the matter.

The second key factor noted was the need for effective communication and consultation with stakeholders. The participation of stakeholders in the reform process is essential for success, as it provides an opportunity for policymakers to get a better understanding of existing problems, identify priorities and design suitable policies in a transparent manner.

Institutional framework was also cited by a good number of respondents as another key factor in the implementation of reforms. As the process of policy implementation could involve various sectors and/or institutions, having an institutional framework in place that allows fluent inter-institutional co-ordination at the technical and political levels would facilitate the introduction of policies.

Other noteworthy factors mentioned in the EC survey included consultation with independent experts; effective ways to raise public awareness; changing the mindsets and culture of public servants; and the sequencing, consistency and continuity of policies.

What Benefits can Structural Reform Bring to APEC Economies?

Great importance is placed on structural reform within APEC recently. As tariffs are reaching lower levels, growing emphasis is placed on behind-the-border measures to use resources more efficiently and increase productivity. Issues such as regulatory reform and competition policy are becoming more relevant and provide greater potential for welfare gains.

Both regulatory reform and competition policy need to work together to maximize policy benefits for economies and their populations. Regulatory reforms could drive companies to improve productivity by producing more goods with fewer resources, while increased competition would enable consumers to benefit from the reduction in production costs via lower prices.

A recent study commissioned by the APEC Policy Support Unit shows that reforms across the APEC region in the energy, transport and telecommunications sectors could generate an estimated USD 175 billion a year in additional income.

Moreover, the study indicates that the gains from structural reform are almost twice as much compared to those gains from a further liberalization of goods trade.

Structural Reform has the potential to:

- Increase competition and generate benefits to consumers
- Raise productivity.
- Create productive employment
- Attract direct investment
- Lower trade costs

This study also identified some of the benefits that producers and consumers have experienced from the implementation of structural reform measures. Some of the highlights are the following:

- Airfares in Korea fell by 20-30 percent as a result of increased competition from Low-Cost Carriers in 2006.
- Rail fares in Chile were 40 percent lower after the government-owned rail corporation divested some of its operations.
- Freight rates between Thailand and Laos fell by 20-30 percent when quotas on cross-border freight licenses were removed.
- Retail competition reduced electricity prices in the United States by 5-10 percent for residential customers and by 5 percent for industrial customers.
- In Viet Nam, a transparent and predictable regulatory environment to foster competition in telecommunications reduced prices and increased mobile phone penetration to 80 percent.
- The number of mobile subscribers rose by 700 percent after the introduction of competition in Papua New Guinea. Charges also fell by 11 percent during peak times for local calls and 51 percent during off-peak periods.

Structural Reform can be challenging since the measures involve having winners and losers. In this sense, structural adjustment measures are required to assist those groups in need and sustain the momentum of reforms.

The advantage of structural reform lies in its potential to create new sources of growth. Structural reforms may build economic and social resilience and brings with it a capacity to respond appropriately when an economy faces the threat of recession.

 * **The Author** is Senior Analyst at the APEC Policy Support Unit. The views expressed in this Policy Brief are those of the author and do not represent the views of the APEC Secretariat or APEC member economies. This work is licensed under the Creative Commons Attribution-NonCommercial-ShareAlike 3.0 Singapore License.

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