



Asia-Pacific
Economic Cooperation



APEC

Structural Reform

What is Structural Reform and How Does it Benefit the APEC Region?

Structural reform consists of improvements made to institutional frameworks, regulations and government policies so that “behind-the-border barriers” to regional economic integration and improved economic performance are minimised. Structural reform helps foster an economic environment that supports the efficient functioning of markets; contributes to macroeconomic stability, productivity and economic growth; and ultimately enhances living standards in a sustainable way.

Focusing more on improving the domestic business environment will ultimately improve the way APEC member economies trade with

one another. Empirical research shows that unilateral regulatory reform in nine APEC member economies is estimated to result in gains of over US\$100 billion per year for the region¹. That’s much more than if tariffs in all economies were cut to the regional average.

As tariffs, quotas and other trade barriers at the border have declined in the APEC region, the focus of APEC has shifted to the structural and regulatory obstacles. These obstacles can inhibit cross-border trade by creating “behind-the-border barriers” which can impede business performance.

What is Asia-Pacific Economic Cooperation (APEC)?

Asia-Pacific Economic Cooperation, or APEC, is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia-Pacific region. It was established in 1989 to further enhance economic growth and prosperity for the region and to strengthen the Asia-Pacific community.

APEC has 21 members - referred to as “Member Economies” - which account for more than a third of the world’s population (2.75 billion people), approximately 55 percent of world GDP (US\$19, 254 billion) and about 49 percent of world trade.

APEC’s 21 Member Economies are Australia; Brunei Darussalam; Canada; Chile; People’s Republic of China; Hong Kong, China; Indonesia; Japan; Republic of Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; The Republic of the Philippines; The Russian Federation; Singapore; Chinese Taipei; Thailand; United States of America; Viet Nam.

Since its inception, APEC has worked to reduce tariffs and other trade barriers across the Asia-Pacific region, creating more efficient domestic economies and dramatically increasing exports. Key to achieving APEC’s vision are what are referred to as the ‘Bogor Goals’ of free and open *trade and investment in the Asia-Pacific by 2010 for industrialised economies and 2020 for developing economies*.

Over time the APEC agenda has broadened to include a complementary focus on “behind the border barriers” to regional economic integration (also commonly referred to as “structural policies” or “structural barriers”). Behind the border barriers refer to domestic policies and institutions which can impede the efficient operation of markets and the capacity of businesses to operate efficiently. These can take the shape of domestic regulatory systems, competition frameworks and governance structures.

Free and open trade and investment and enacting structural policy reform helps economies to grow, creates jobs and provides greater opportunities for international trade and investment. In contrast, protectionism and poor regulation keeps prices high and fosters inefficiencies in certain industries. Free and open trade and good structural policies help to lower the costs of production and thus reduces the prices of goods and services - a direct benefit to all.

APEC also works to create an environment for the safe and efficient movement of goods, services and people across borders in the region through policy alignment and economic and technical cooperation.

¹ Dee, P. 2005, *East Asian economic integration and its impact on future growth*, Pacific Economic Papers No. 250, Australian National University.



What is APEC Doing to Encourage Structural Reform in the Asia-Pacific Region?

In 2007, APEC Ministers endorsed a detailed and ambitious forward work program to implement structural reform, which complements APEC's work on trade and investment liberalization.

Known as Leaders' Agenda to Implement Structural Reform (LAISR), the agenda covers five areas for structural policy reform, including: Corporate Governance, Regulatory Reform, Strengthening Economic and Legal Infrastructure, Competition Policy and Public Sector Governance.

While the benefits of structural reform are becoming increasingly clear, reforms often involve quite fundamental changes to how markets operate, and as such can face resistance from groups that have a vested interest in the status quo. As a result, there are potentially significant social and political tensions and challenges involved in undertaking structural reform.

APEC has developed a framework for identifying and managing challenges of structural change. Built on three dimensions, the framework involves policy dialogue,

capacity building and awareness-raising. Policy dialogue helps officials understand domestic and common regional priorities in structural reform across APEC member economies and informs the focus of the APEC Economic Committee's detailed work program. Through capacity building, APEC economies can increase the ability of their public sector in designing and implementing needed reforms. Improving processes for ongoing learning from within economies and from overseas experience enhances the quality of information available to guide and administer reforms. Raising public awareness and mobilising a broad range of support builds momentum for structural reforms throughout the region. APEC's process of information sharing is conducive for this work.

In 2010, the Economic Committee will conduct a stocktake on APEC's progress on structural reform, including an overview of how the work program has contributed towards the achievement of the Bogor Goals, reflecting the complementarities between APEC's trade liberalization and facilitation and structural reform agendas.



Source: Adapted from World Development Report (2005)

How Does Structural Reform Fit into the APEC Agenda?

Promoting structural policy reform in the APEC region supports APEC's trade and investment liberalisation and facilitation agenda. Just as international trade promotes greater competition in domestic markets, domestic structural policies influence the ability of domestic firms to compete internationally. These domestic policies directly affect the preparedness of economies to open markets up to more international trade connections and enhance the benefits from trade.

APEC is increasingly focused on behind-the-border or structural impediments to development and economic growth. APEC

has increased its role as a forum for Ministers and senior-level officials across the region to discuss structural policy challenges, share experiences, discuss good practices and provide technical support where necessary.

APEC's cooperative, non-binding and informal manner of operations means that it is a good place to discuss economic policy challenges facing the Asia-Pacific region. APEC is a voluntary process of cooperation and support. This suits the discussion of structural policies because they are behind the border, and cannot be easily negotiated between economies.



What have APEC Economies Achieved in the Area of Structural Reform?

Case Study: Regulatory Reform in Australia

Challenge

High quality regulation can improve an economy's ability to compete and prosper, as well as assist in raising living standards and increasing its growth potential. However, regulation which is inappropriate can increase costs, restrict business opportunities and hamper business investment, employment and overall economic activity.

The challenge for governments and policy officials therefore is to deliver effective and efficient regulation; regulation that effectively addresses an identified problem and is efficient in terms of maximizing the benefits to the community, while taking account of the costs.

Regulation of this nature is targeted and imposes a compliance burden that is proportionate to the problem. It is not overly prescriptive and performance-focused. It is accessible, transparent and accountable and consistent with other laws. It also needs to be communicated effectively and ultimately must be enforceable.

Over the past few decades, Australian governments have implemented major regulatory and other economic reforms to make businesses more competitive and the economy more efficient and productive. These reforms have contributed to Australia's economic success in recent years, resulting in a declining unemployment rate and increases in productivity and output.

Notwithstanding these initiatives, the volume of regulation in Australia has expanded in recent years causing businesses to express concerns about the growth in regulation and the cumulative burden that it imposes.

Solution

As a response to these concerns Australia has recently strengthened its regulation-making and review systems, processes and institutions to ensure that the impacts of



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regulatory measures are considered by government at an early stage in their development, and to ensure that the cumulative effects of regulations are monitored effectively over time.

These enhancements ensure that all new and amended regulation is subject to rigorous regulatory impact analysis. This analysis assists regulators to strike a balance between the need for regulation based on the risk being assessed and the cost imposed.

Further, to ensure that the requirements of the enhanced regulatory framework are effectively implemented and adhered to, Australia has strengthened institutions with oversight responsibility for regulation making and review. The role of the Office of Best Practice Regulation has been expanded to ensure that there is an objective and comprehensive analysis of the impacts of all regulatory proposals. It

has also been provided with additional funding to assist and advise agencies on regulatory analysis requirements.

Benefits

Having such systems and processes in place helps Australia to ensure that appropriate regulatory impact analysis is undertaken and assists in removing unnecessary impediments to efficiency and innovation. It also imposes discipline on the government introducing regulations to identify and minimise any unnecessary compliance costs associated with their administration and enforcement, as well as any adverse side-effects.

Case Study: Competition Policy in Indonesia

Challenge

The Asian financial crisis in 1997-98 demonstrated the weakness of Indonesian business competitiveness. This was due to ineffective policies for stimulating competition in the domestic economy and to the absence of a supervisory authority with responsibility for ensuring that the activities of businesses were not harmful to public interests.

Legal provisions on competition were limited in scope and scattered throughout Indonesia's criminal and civil codes.

Solution

These factors encouraged Indonesia to implement a competition policy regime through Law No. 5/1999, which regulates fair business practices.

It prohibits monopolistic practices and unfair business competition that arises from conduct such as unfair business practices and abuse of dominant position.

The Commission for the Supervision of Business Competition (KPPU) was set up under Law No. 5/1999 as an independent institution to supervise the implementation of competition law. The KPPU is required to undertake investigations and make decisions in a transparent manner. All KPPU decisions are published and can be accessed by the public on its website.

Benefits

Competition drives businesses to innovate and improve their products and services, thereby enhancing their long-term viability

Well-designed competition law, effective law enforcement and competition-based economic reform can result in increased efficiency, economic growth and employment.

and increasing their contribution to the economy. Competition also results in a wider variety of end products and services at lower prices, benefiting both consumers and producers.

Well-designed competition law, effective law enforcement and competition-based economic reform can therefore result in increased efficiency, economic growth and employment.



Case Study: Corporate Governance in Korea

Challenge

Good corporate governance is needed to ensure the effective and efficient management of corporations. This is important as corporations are the source of the majority of economic activity within APEC economies. Good corporate governance is also aimed at ensuring that corporations act as responsible stewards of their investors' resources which is vital in attracting the capital needed to fund worthwhile ventures.

Specific corporate governance challenges faced by APEC economies include the need to improve corporations' standards of disclosure and accountability, and to define and establish the rights and responsibilities of shareholders, directors and managers.

Solution

Korea has implemented many measures to improve corporate governance laws, standards and practices. Its efforts have been focused on enhancing transparency and shareholders' and creditors' rights. Korea has issued new and improved accounting standards consistent with international standards. Listed companies are now required to file semi-annual and quarterly reports in addition to annual reports. A Code of Best Practices for Corporate Governance has also been published.

Benefits

The International Monetary Fund (IMF) has stated that Korea's efforts to improve corporate governance, in conjunction with other structural policy reforms, have resulted in a more open, dynamic and competitive economy. The banking system has been strengthened and the corporate sector has been significantly restructured. The IMF also believes that Korea's efforts to improve corporate governance after the 1997 Asian financial crisis played an important part in the economy's subsequent strong recovery.

Improving corporate governance can result in a more open, dynamic and competitive economy.

Case Study: Public Sector Governance in Mexico

Challenge

Good public sector governance has been traditionally considered as a means of combating corruption, however research and analysis has revealed a greater range of benefits. In particular, public sectors that are transparent and accountable are likely to be more effective and efficient at implementing and developing public policy, delivering services and producing goods and encouraging public participation in government.

Ensuring good public sector governance poses major ongoing challenges. A well-functioning legal system is a pre-requisite. Transparency and public scrutiny should be institutionalized through the provision of adequate information to citizens and the promotion of an independent and capable mass media. Government agencies ought to be held publicly accountable through appropriate checks and balances on the exercise of their powers. This can be achieved by establishing mechanisms for decision-making and by creating independent institutions to which the relevant agencies are committed.

Solution

Since 2001, Mexico has developed and deployed an ambitious strategy to reform its public sector. Initially, the key objective of the strategy was, "the creation of an honest and transparent government, committed to satisfy the needs of society and to fight against corruption." The strategy was later enhanced by adding goals such as fostering the participation of citizens in governmental activities, advancing the professionalization of the civil service, adopting information technology and improving regulation.

In implementing the strategy, much has been achieved. Federal legislation on Transparency and Access to Public Government Information has been passed and a Federal Institute of Access to Public Information (IFAI) has been established. The IFAI guarantees the right to access public governmental information and protects personal data held by the federal government. In addition, 263 "Citizen Charters," public documents written in plain language, have been published to provide citizens with all the necessary information

on how to carry out a procedure or request a service. The charters also clearly state the quality standards to which the relevant agencies are committed.

Benefits

Mexico's reform efforts in public sector governance have established standards of expected service quality and provided legislative protection for the public's right to information. Mexican citizens benefit directly from these reforms. For instance, the increased transparency allows citizens to better scrutinise the performance of their government. By March 2007, the IFAI had received nearly 200,000 requests for information, almost 97 percent of which have been resolved.

In the process of publishing the Citizen Charters, government agencies have had to clarify and reduce regulations, partner with citizens to create customer service standards and implement complaint and suggestion systems. Thanks to reduced time frames and the reduction or elimination of requirements, Mexican citizens are now experiencing streamlined decision-making processes, greater transparency and accessibility and improvements in the quality of services provided by government agencies.

Good public sector governance can streamline decision-making processes, create greater transparency and accessibility and improve the quality of services provided by government agencies.

Case Study: Strengthening Economic and Legal Infrastructure in Viet Nam

Challenge

Economic and legal infrastructure refers to the laws and regulations in an economy that govern the establishment and operation of businesses. Examples include commercial or company law, insolvency law, and regulation of the financial sector.

Therefore, good economic and legal infrastructure should be put in place to ensure that property rights are protected and that contracts and regulations are enforced. This is fundamental to the efficient operation of markets.

Solution

Viet Nam is moving toward closer integration with the global economy through a process called "doi moi" (renovation). One of the main goals of doi moi is to establish and foster a legal environment suitable for the new social and economic developments of the economy.

Tangible progress is being made. The quality of legal and regulatory documents is gradually improving as stakeholders are given more opportunities to comment on drafts. With the help of international donors, enforcement institutions are being strengthened through larger budgets, more authority and better trained staff. State regulation of civil, economic and trade relations is being incrementally replaced by civil law based on traditional customs that protect property rights. The reduced role of the state in governing social relations also means that there are fewer points at which corruption can occur.

Benefits

Doi moi has been widely recognised as a significant factor in the development of the Viet Nam economy.

Strengthening economic and legal infrastructure can improve economic growth and widen the distribution of benefits.



Viet Nam has registered one of the best performances internationally in terms of economic growth and increased household welfare and poverty reduction during the last two decades. Throughout the doi moi period, economic growth in Viet Nam has averaged 7 - 8 percent annually and the benefits of this growth are widely distributed. Key human development indicators such as life expectancy and health data have also improved significantly.

Leaders' Agenda to Implement Structural Reform - Policy Themes

Leaders' Agenda to Implement Structural Reform

Regulatory Reform	A regulation is any law or other government-endorsed "rule" that influences or controls the way that people and businesses behave. Beyond legislation and formal regulations, "quasi-regulation" such as codes of conduct, advisory instruments, and guidance notes can serve to interpret government regulation and thereby help the public comply with regulatory requirements. Regulation is an integral part of a well-functioning economy, and can be used to achieve important social, economic and environmental goals, such as preventing anti-competitive conduct, and mitigating accidents and security risks.
Competition Policy	Laws, cases, policies, rules and regulations of government that are aimed at protecting and preserving the competitive process in an open and free marketplace with the goal of promoting economic efficiency and consumer welfare. Competition policy also entails advocacy of pro-competitive principles when the government formulates other laws, policies, rules or regulations.
Corporate Governance	The set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled. Good governance ensures that corporations act in the interests of shareholders by transparently ensuring that investments create the highest possible rate of return. This creates benefits for the wider economy as it encourages efficient use of resources, stronger growth and macroeconomic stability.
Public Sector Governance	The structure, laws, regulations and decision-making processes that govern, enable and constrain the provision of goods and services by government. The public sector exists to serve the needs of society. Good governance is associated with public confidence and trust in government institutions, as well as the effective and efficient delivery of goods and services to the public. It is also increasingly associated with enhancing domestic welfare and economic development.
Strengthening Economic and Legal Infrastructure	Economic and legal infrastructure refers to the laws, regulations and institutions in an economy that governs the establishment and operation of economic and commercial activities. Good economic and legal infrastructure ensures that property rights are protected, and contracts and regulations are enforced, and is therefore fundamental to the efficient operation of markets.

Forward Work Program for LAISR



How do I Stay Informed About APEC Structural Reform Progress?

General information can be found at the APEC website (www.apec.org) which features media releases and many APEC documents, including the APEC Economic Policy Report.

Information about APEC's structural policy reform activities is available via the APEC Economic Committee website at www.apec.org/groups/economiccommittee.

Economic Committee meeting documents can be accessed on the APEC Meeting Documents Database at <http://aimp.apec.org/MDDDB>.

Additionally, the APEC E-Newsletter provides selected highlights of what is going on in APEC and is available on a free subscription basis.

Subscribe at www.apec.org/subscription/newsletter.

What is the APEC Economic Policy Report?

The APEC Economic Policy Report is the annual publication of the Economic Committee. The report summarizes the Economic Committee's policy findings and insights. Focusing on the priority areas for structural reform, it includes member

economies' reports on the APEC year's rotating policy theme. The APEC Economic Policy Report is produced through a collaborative effort of all member economies, the APEC Secretariat and the Economic Committee Chair's Office.

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