



**Asia-Pacific
Economic Cooperation**

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

Assessing the APEC New Strategy for Structural Reform (ANSSR) and Advancing the APEC Structural Reform Agenda Beyond 2015

APEC Policy Support Unit
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Prepared by:
Christopher Findlay*
Asia-Pacific Economic Cooperation Policy Support Unit
Asia-Pacific Economic Cooperation Secretariat
35 Heng Mui Keng Terrace
Tel: (65) 6891-9600 Fax: (65) 6891-9690
Email: psugroup@apec.org Website: www.apec.org

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*Executive Dean, Faculty of the Professions, University of Adelaide. The views expressed in this paper are those of the author and do not necessarily represent those of APEC Member Economies.

Executive Summary

- Work on structural reform is expected to generate significant benefits and remains relevant for many current economic policy debates, including the issues related to the prospects of avoiding the middle income trap.
- Member economies who have reported on the 2015 template have devoted considerable effort to APEC's New Strategy for Structural Reform (ANSSR), undertaking hundreds of individual projects in the area, complemented by significant efforts on capacity building.
- As the midterm review in 2013 also pointed out, APEC members are to be applauded for their ability to set priorities and to identify policies that were important in the priority areas, that is, the priorities have been translated into well-defined and implementable plans. Structural reform is 'a process rather than a one-off set of actions' and this perspective is also evident in the design and selection of projects.
- While the effort applied to ANSSR is evident, the progress made is more difficult to identify, mainly as a consequence of the formats of reporting, which is a mix of project descriptions and of qualitative measures and quantitative measures.
- Similar structural reform agendas are already running within economies and in other fora so that the value added by ANSSR is not easy to distil.
- Recommended here for consideration are the following items:
 - Recognize the value of the structural reform strategy for all members and of the benefits of sharing experience among the members, and so encourage full participation and reporting.
 - Revise the reporting of commitments in each project in each economy, by adding a focus on policy indicators where possible using quantitative measures including a set of base line measures against which to measure progress.
 - Continue to report on but separate the location of qualitative information about the degree of 'reform intensity' in the economy reports.
 - Consider new methods of project selection, including those based on comparisons of policy indicators and inputs from other stakeholders, including business.
 - Develop and monitor a portfolio of complementary projects the structure and composition of which adds value to each element: the key elements or 'pillars' of the portfolio could be chosen according to the groupings which are evident in the preferences of member economies for work in the 2013-2015 templates.
 - Consider options for identifying the value added by the APEC process, including through changes in policy indicators over time.
 - Monitor the connections and look for resource-savings in projects on structural reform through cooperation with external partners, such as the OECD, including the joint development of policy indicators.
 - Revisit the design of capacity building to consider the design and purpose of workshops, the value of larger and multi-stage projects, the specification of outputs, mechanisms for

monitoring impact, methods of testing value for money and approaches to engaging external stakeholders.

- Include in capacity building program an activity on the use of policy indicators in project selection and reporting.

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1. Introduction

The progress of the APEC New Strategy for Structural Reform (ANSSR) is reviewed in this report. The focus of the strategy is to increase the rates of growth in the member economies and the report begins with a discussion of the drivers of growth, according to the framework of the debate on the middle income trap. This is often referred to in APEC debates and discussions, and provides a checklist of measures or policies which help confirm the scope of the structural reform agenda. Then reported is the outcome of review of the information provided by economies in the ANSSR 2015 templates, a commentary on capacity building and some notes on the manner of reporting of projects. The final section contains a series of suggestions for consideration in the design of the next phase of the Strategy.

2. Nature and Impact of Structural Reform – Why It Matters

Many of the APEC members are concerned about the so-called middle income trap and how it might affect their development. The notion of the trap is linked to the hypothesis that a substantial deceleration of growth is experienced once a certain or ‘middle’ income level is reached. Empirical research work on the issue finds a relationship between the likelihood of a growth slowdown and both income levels and past growth. Some studies stress the importance of past rapid growth, so that the slowdown is an example of a reversion to the mean (Pritchett and Summers, 2014). Other studies find the attainment of certain income level is a strong predictor of a slowdown, though the probability of that happening is also greater than faster is the pre-slowdown growth. That is, ‘slowdowns may have an element of reversion’ (Eichengreen, Park and Shin, 2014).

Getting stuck in the middle income trap is not inevitable, and there are success stories of ‘graduation’. The originators of the phrase of the middle income trap refer to the sand trap analogy – there are sand traps in a golf course but it’s possible to play a round of golf without falling into any one of them!¹

Various studies have identified a large number of factors that make falling into a trap more or less likely and these are summarized in Box 1. The variables identified in these studies are a mix of fundamental settings or policy parameters while others are the outcomes of economic processes. Some could also be the consequence of a successful transition itself, for example, those related to the structure of the economy. Common in all these studies is the importance of investments in education, labour market features including rates of participation in paid work, support for innovation, high quality regulation, openness and infrastructure quality, as well as demographic settings and some macroeconomic parameters.

Box 1: Results of studies of the middle income trap

One study (Eichengreen, Park and Shin, 2014) finds that slowdowns are more likely with

- Higher investment rates
- Undervalued exchange rates
- Fewer university attendees
- Smaller shares of high tech products in exports, as well as
 - Lower degrees of openness
 - Experience of a financial crisis
 - Higher old-age dependency rates

Other authors (Aiyar, Duval, Puy, Wu and Zhang, 2013) find that slowdowns are less likely with

- Good Institutions
 - property rights/contract enforcement, smaller government, more deregulation of labour, product and credit markets
- Good demography

¹ This analogy is presented by Homi Kharas in a comment in May 2014 on this blog <http://blogs.worldbank.org/futuredevelopment/there-no-middle-income-trap>. See also Kharas and Kholi (2011).

- lower old age dependency rates and a rising female participation ratio in the work force
- Good infrastructure
 - telephone lines and power generation capacity per person and roads per unit of area
- Rising levels of regional integration (aside from extreme values)

Another study (Tugcu, 2015) finds that economies are more likely to avoid a trap when they report the following characteristics (the items are listed in order of importance): they

- spend more on R&D
- spend more on public health
- have higher value added in manufacturing
- have more labour force members with primary, secondary and tertiary education levels
- spend more on secondary education
- have higher total labour force participation rates
- export more high-tech goods.

Some of these parameters identified in the studies in the Box are difficult to change, the demographic structure of the population for instance. But others are the results of the public policy choices. Overall the focus of policymakers is to make a series of transitions between the stages of growth, which depends on giving attention to these choices. The choices can be summarised as being about ‘the way that governments work and making market works better as they allocate resources’. This is indeed the scope of the structural reform agenda. As the European Commission (Canton, Grilo, Monteagudo, Pierini and Turrini, 2014, p. 1) said

‘Growth is not so much about working harder, it is about working smarter. In other words it is about using productive factors as efficiently as possible...Reallocating resources efficiently can bring significant gains and this is the aim of structural reforms’.

The ability to reallocate resources quickly also supports a higher level of resilience in an economy to shocks, which might otherwise stall its growth.

The structural reform menu is a long one, according to this research. Given the constraints on policymaking in terms of resources, some choices will have to be made from that menu. Following sections discuss how those choices have been presented in the APEC community.

The benefits of structural reforms are significant. For instance in an earlier study, the APEC PSU (2011) identified a range of structural reforms in the transport, energy and telecommunications sectors, as follows:

- air transport
 - reforms to air services agreements, to entry conditions for domestic and foreign carriers, and to ownership rules;

- maritime transport
 - dismantling of entry restrictions, quotas or cargo sharing arrangements and the granting of domestic-vessel treatment to foreign-owned carriers located domestically;
- rail transport
 - free entry in freight operations in those economies that do not have them;
- electricity and gas
 - providing third party access, unbundling, wholesale prices set through market arrangements and/or retail competition in economies that have not implemented them;
- telecommunications
 - removal of remaining foreign equity limits.

The study found that across the whole APEC region, USD 175 billion a year in additional real income (in 2004 dollars) could be generated relative to what would have accrued had these reforms not occurred. This is a snapshot of the gains projected after a 10-year adjustment period – a point often made is that the gains from structural reform take some time to materialize. APEC-wide, the projected gains from these structural reforms are almost twice as big as the gains from further liberalisation of merchandise trade. These findings, therefore, vindicate APEC Leaders' decision to move beyond a 'border' focused trade reform agenda to one that focuses on 'behind the border' issues, as discussed in the next section.

3. The APEC Approach

There is now a significant history of work on structural reform in APEC, including the evolution from the APEC Leaders' Agenda to Implement Structural Reform (LAISR) to ANSSR. APEC members have also stressed their interest in growth which is not only sustained but also inclusive, that is, an effort is made to 'ensure the benefits of this growth and globalization are felt by all levels within APEC economies'². This is a priority in 2015, the year of the Philippines' role as chair of APEC.

The focus in the structural reform agenda was to identify and reform impediments to growth, where the areas of consideration went beyond the traditional border barriers to trade and investment. Relevant may be various domestic institutions such as regulatory systems, governance arrangements or competition frameworks. LAISR had as priorities regulatory reform, competition policy, public sector governance, corporate governance and the economic and legal infrastructure. The renewal of the policy in 2010 led to the adoption of ANSSR which was to run to 2015. It retained the interest in how well markets worked but extended the coverage to include a focus on:

- how well labour markets were working, including training and education
- the provision of social dimensions of the outcomes including opportunities for women, for SMEs, for vulnerable members of the community
- the performance of financial markets.

ANSSR therefore involved 5 pillars:

1. Promoting more open, well-functioning, transparent, and competitive markets;
2. Promoting labour market opportunities, training, and education;
3. Promoting sustained SME development and enhanced opportunities for women and vulnerable populations;
4. Promoting effective and fiscally sustainable social safety net programs; and
5. Promoting better functioning and effectively regulated financial markets.

Economies were able to select pillars on which to focus and they prepared reports on commitments and progress according to an agreed reporting template (with headings of progress, economic developments, economic gains, capacity building, and international cooperation).

A mid-term review of stocktake reports in 2013 found that:

- All economies had submitted progress reports
- Coverage varied from economy to economy, with strong differences between developed and developing economies
- Most economies reported notable progress towards the goals they had adopted.

The midterm review (PSU, 2013) commented on three aspects of success. One was the ability to set priorities, which it was argued was necessary for the success of structural reforms. The second was that

² <http://www.apec.org/About-Us/About-APEC/Fact-Sheets/Inclusive-Growth.aspx>

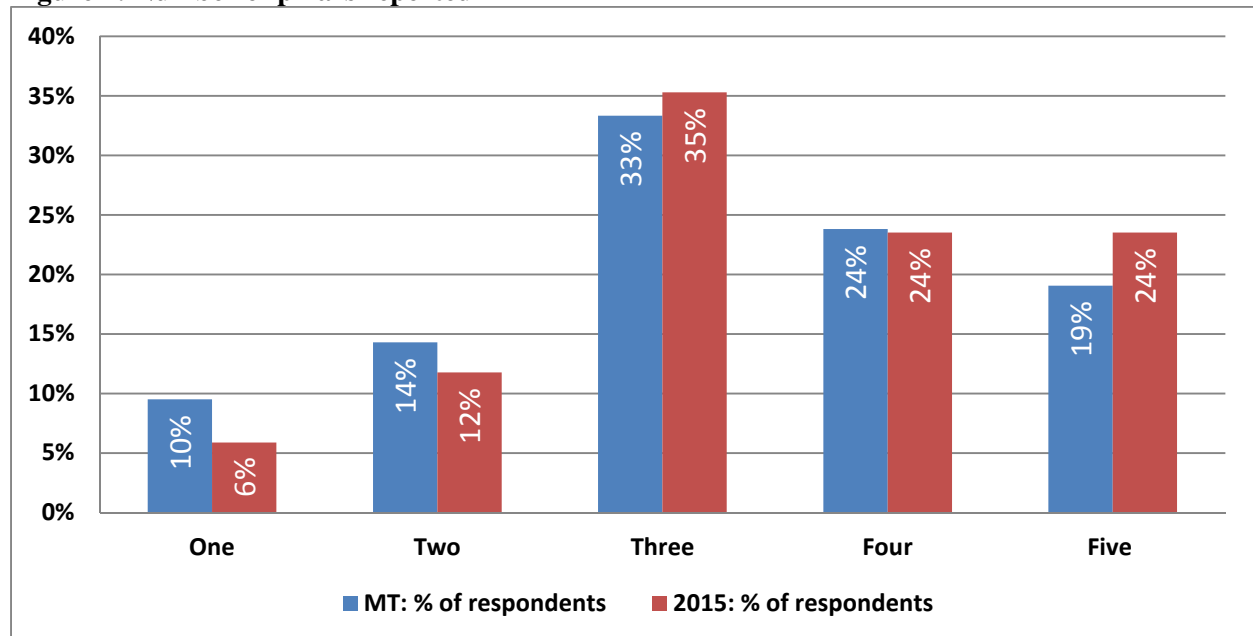
economies were able to identify policies that were important in the priority areas, that is, the priorities were able to be translated into well-defined and implementable plans. The third was that many economies had made an effort to incorporate measures of progress which were both qualitative and quantitative. Finally it was observed that the approach taken meant that economies were viewing structural reform as ‘a process rather than a one-off set of actions’ which was applauded.

4. Review of the 2015 Reports

The first step here was to undertake a review based on the reports submitted for the 2015 stocktake of ANSSR, covering the period since 2013. The findings include the following (at time of writing, only 17 of the 21 members had submitted reports on ANSSR in the template).

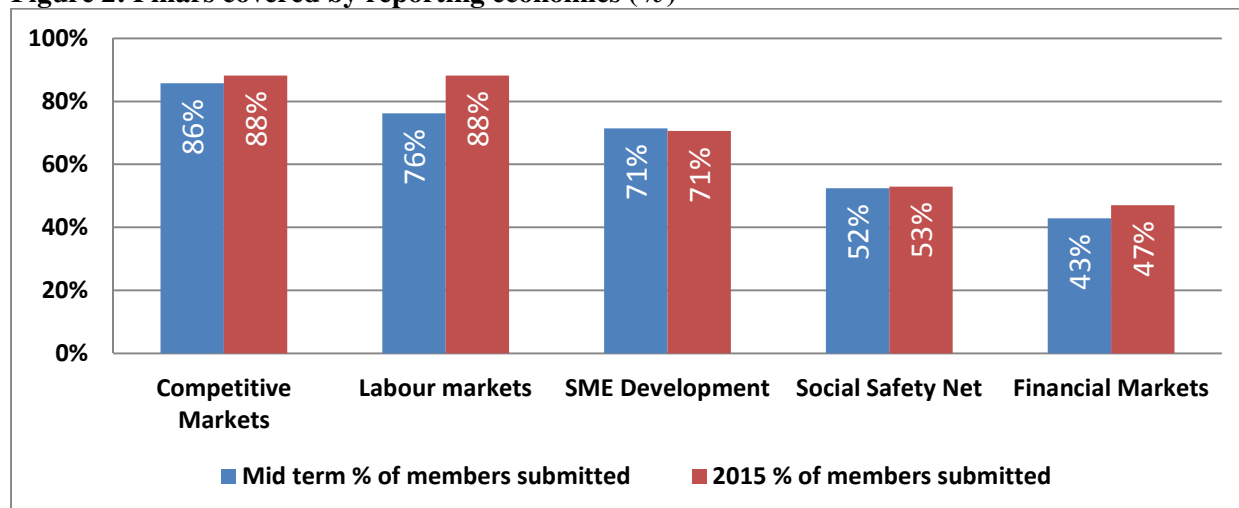
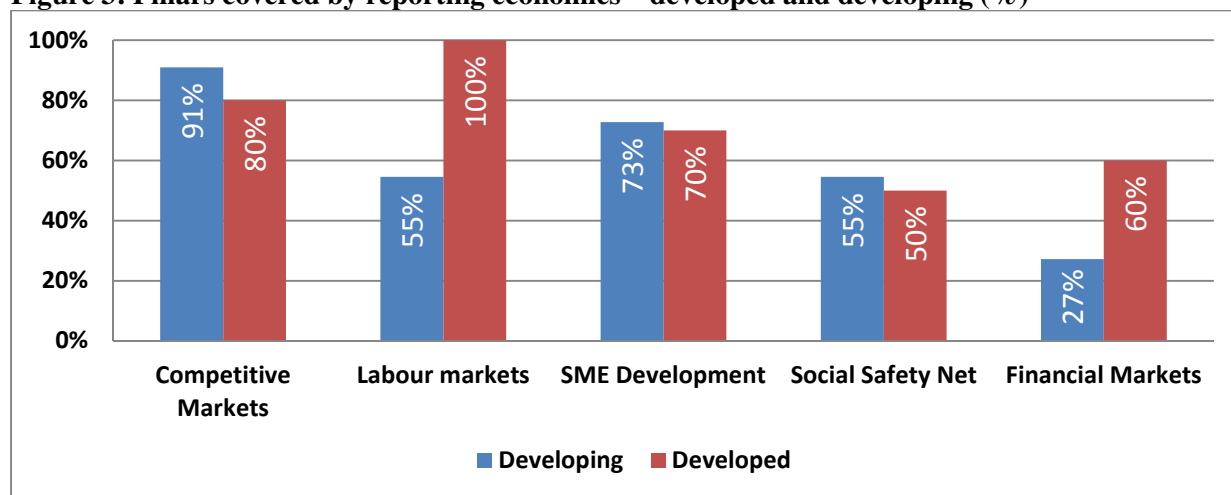
First, the coverage of the pillars varies between economies. Appendix 1 shows the economies and the pillars in which goals are set by each. Figure 1 then illustrates the distribution of economies by the number of pillars adopted. Most adopted 3 pillars, and half adopted 3 or fewer pillars, another quarter adopted 4 pillars and a quarter of the group reporting adopted all 5.

Figure 1: Number of pillars reported



Second, the interest in each of the pillars varies. Figure 2 shows that nearly 90% of those submitted refer to the competitive market pillar and the labour market pillar, followed in ranking by attention to SMEs and then less widely covered are social safety nets and financial markets.

Third, there is some difference between developed and developing economies. This is shown in Figure 3 (based on the mid-term data in which all economies reported). The same proportions are likely to be reported in the pillars on competitive markets, SME development or social safety nets. Developed economies are more likely to include labour markets and financial markets (and therefore overall to be reporting in more pillars).

Figure 2: Pillars covered by reporting economies (%)**Figure 3: Pillars covered by reporting economies – developed and developing (%)**

Fourth, the review of actions or projects undertaken under each ANSSR pillar revealed a range of areas of interest. There were also differences in the numbers of projects reported under each ANSSR pillar. To provide more details on the activities in progress, a project classification system was developed which is reproduced in Appendix 2 – each item included in that list was referred to in at least one template. Table 1 shows the number of projects by area and by reporting economy (listed by number of projects).³ This table is designed to provide an indication of how economies have ‘voted with their feet’, that is, it shows what sorts of activities economies are actually undertaking, whatever the descriptors or understandings of the ANSSR pillars have been.

Box 2 contains examples of projects in the top two areas. These illustrate the scope of activities in ANSSR. The projects tend to be presented in descriptive terms in the templates, a format which does not facilitate the comparison of effort or change over time. Further comments are offered below on modes of reporting.

³ Projects counted were those listed in the ‘Progress’ section of the template and the identification of projects was undertaken using a deliberately and consistently generous method, for example, a bundle of related projects was divided into the separate items rather than being counted as one project.

Table 1: Projects by key areas

Economy	Education and labour	Regulation and taxation	Social support	Innovation and entrepreneurship	Competition including infrastructure	Total Projects
Indonesia	0	2	0	0	0	2
Canada	0	3	1	0	0	4
Thailand	0	1	1	3	0	5
Russia	1	3	0	0	1	5
United States	0	3	1	1	0	5
Brunei Darussalam	5	2	0	0	0	7
Malaysia	8	6	0	0	0	14
Hong Kong, China	7	4	0	0	4	15
Australia	6	8	1	0	0	15
The Philippines	8	3	2	2	1	16
China	5	9	5	0	4	23
Chinese Taipei	6	5	1	10	1	23
New Zealand	7	10	3	2	2	24
Japan	12	1	7	4	1	25
Viet Nam	9	6	5	0	6	26
Korea	20	0	6	0	0	26
Singapore	16	4	1	6	0	27
Chile						
Mexico						
Papua New Guinea						
Peru						
Total	110	70	34	28	20	262

Box 2: Examples of projects in ‘Education and labour’ and ‘Regulation and taxation’**Education and labour**

- New systems for career guidance and managing lifelong learning
- Processes to improve job search skills among professionals and/or 18-24 year olds
- Systems for the dissemination of labour market information
- Support for placing skilled workers into SMEs
- Promote the empowerment of women, especially in microenterprises
- Provision of vocational training to workers laid-off

- Programs to encourage women to return to work
- Reform of the management of tertiary institutions
- Development of new admission and articulation arrangements for secondary students
- Design of new apprenticeship schemes

Regulation and taxation

- Building systems and capacity for regulatory impact assessments
- Implementation of frameworks for assessing regulatory performance
- Revisions to legislation that determines regulatory processes or systems
- Various projects on administrative reform and reform of the management of regulation
- Design of systems for public participation in regulatory design and evaluation
- One-stop-shop models for various regulatory systems
- Regulatory reform to lower the costs of compliance to SMEs
- New models to improve service delivery by governments
- A variety of tax reforms related to taxes on consumption or land
- Red tape reduction projects

A number of points are evident in Table 1. Firstly, there is a very large number of projects being undertaken, estimated to be over 260 according to the project identification process applied here. Second the area of education and labour is by far the most popular, followed by the treatment of regulation and taxation. This focus on labour markets and regulation/taxation is a striking outcome. The top two areas account for nearly 70% of all projects. Projects on social issues then follow, with work on innovation and entrepreneurship close behind. Projects on infrastructure and competition are less often undertaken. Equally striking then is the relatively low level of focus on competition and on infrastructure. This distribution of projects is reproduced in Figure 4 where the competition and infrastructure categories have been combined.

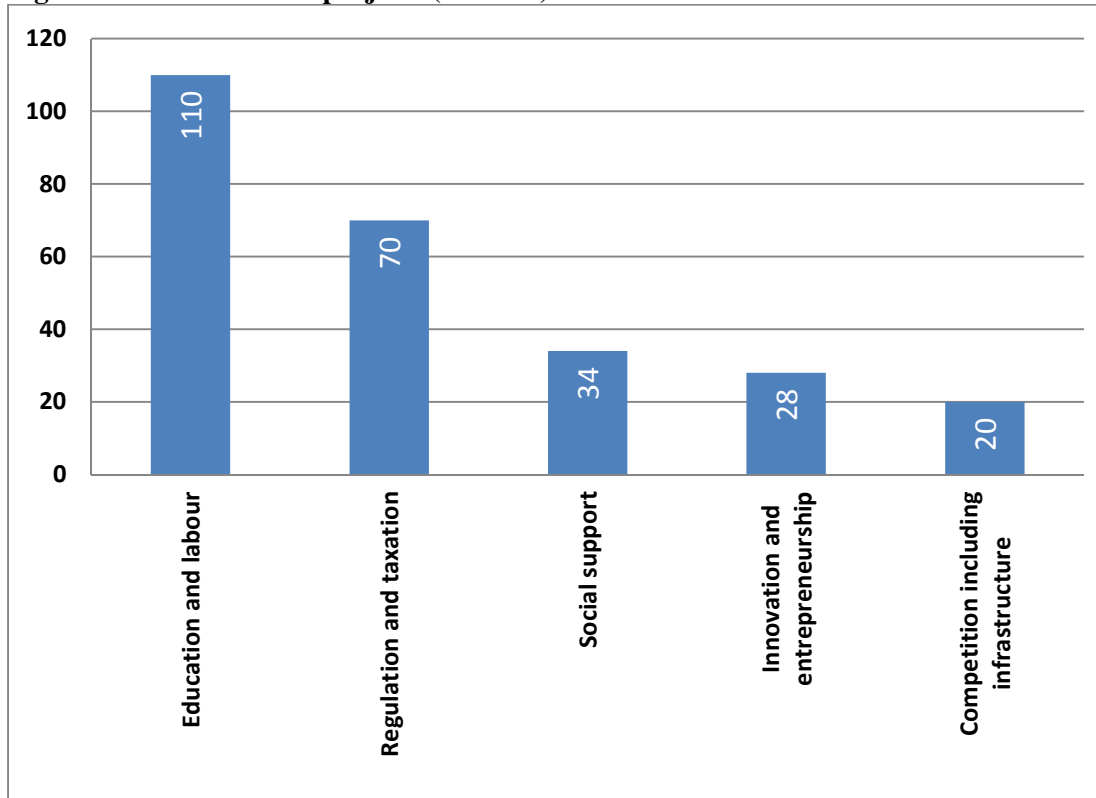
Figure 4: Distribution of projects (number)

Figure 5 plots the total number of projects against GDP per capita, which may be a driver of the level of activity, especially in the context of the concerns about a middle income trap. This figure makes clear there are 3 bands of participants, one group each running about 25 projects, another running about 15 and a third around 5 each. The spread in activity is remarkable, and was also evident in the pillar coverage above. The level of activity in each group, however, appears not to be related to the level of income. These differences in activity levels could also be the consequences of approaches to reporting activities, which are discussed further below.

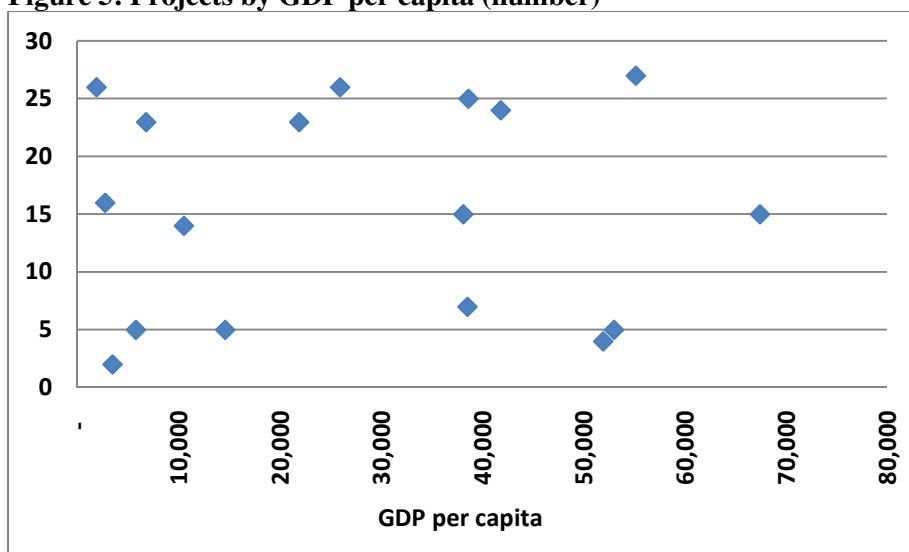
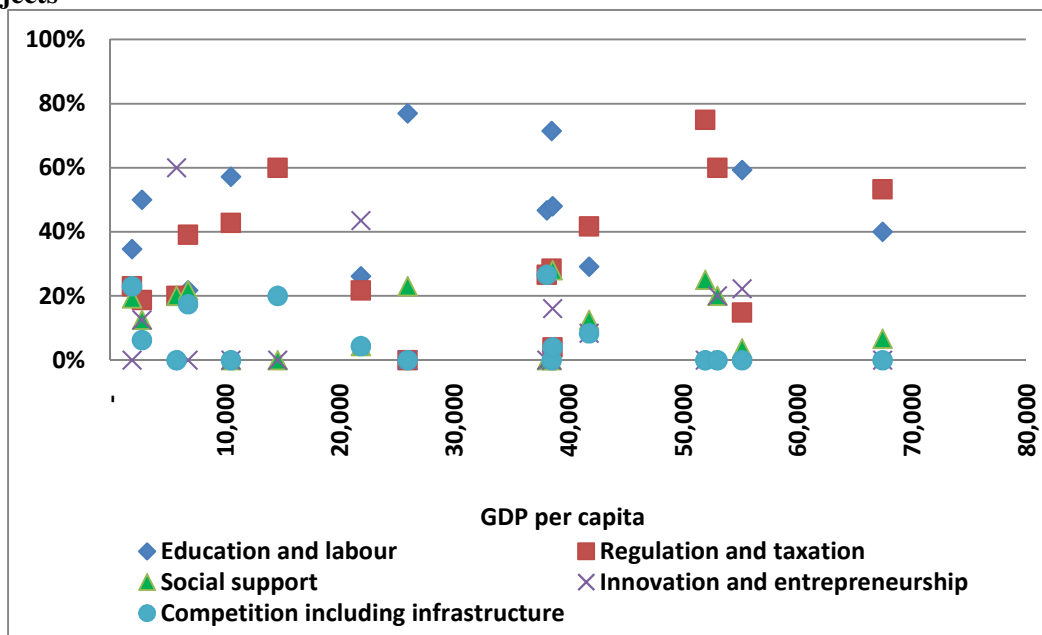
Figure 5: Projects by GDP per capita (number)

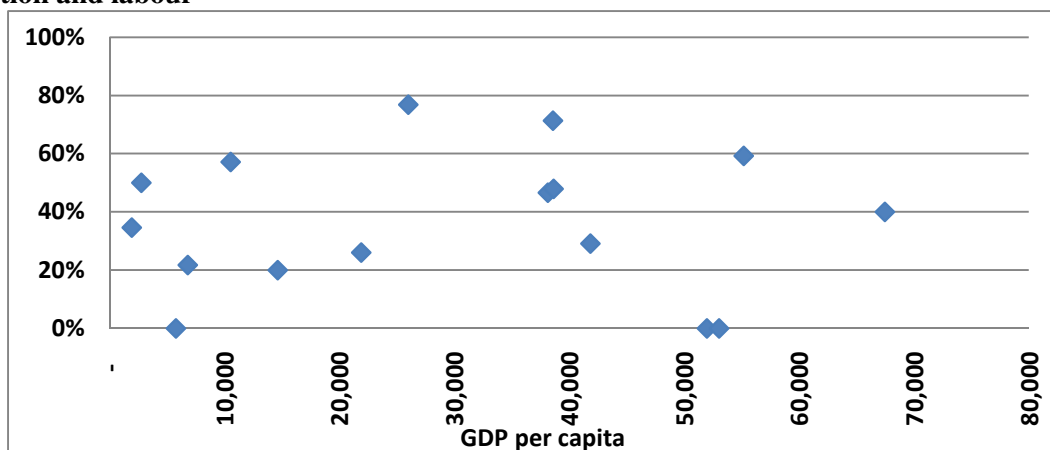
Figure 6 shows the importance of projects in each area against an economy’s GDP per capita. The presentation is made in order to check if the design of the project portfolio is related to income levels. This comparison is complicated by the observation that economies appear to differ in their approach to reporting activities, some providing details of a series of activities, while other reported in a more aggregated way (which also contributes to the split of the outcomes into the three groups as discussed above). To avoid any bias from the manner of reporting, Figure 6 shows the shares of each area in the total number of projects (with Indonesia excluded). The first part shows the outcome for all areas and subsequent parts isolate each area.

Figure 6: Projects by GDP per capita (%)

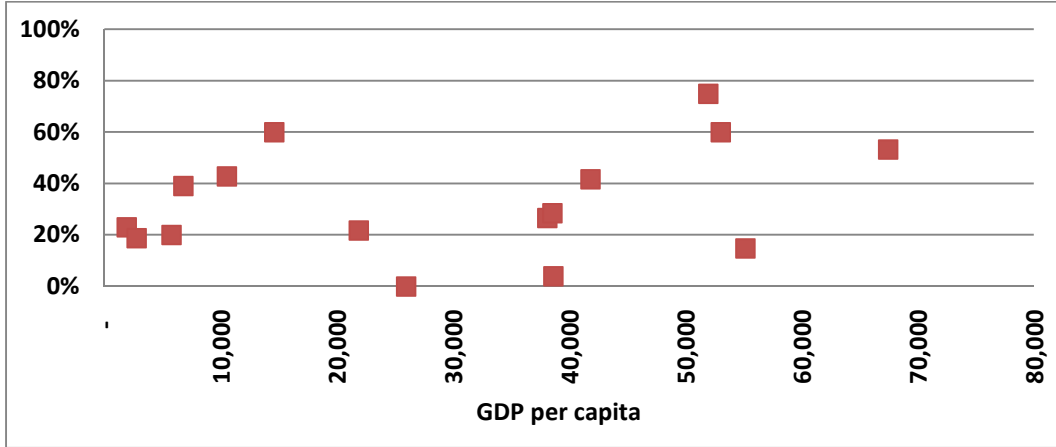
All projects



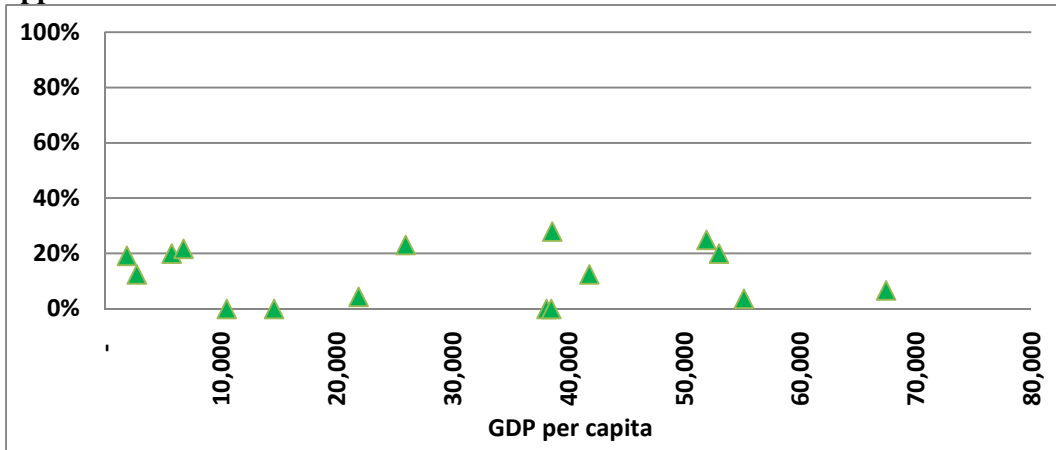
Education and labour



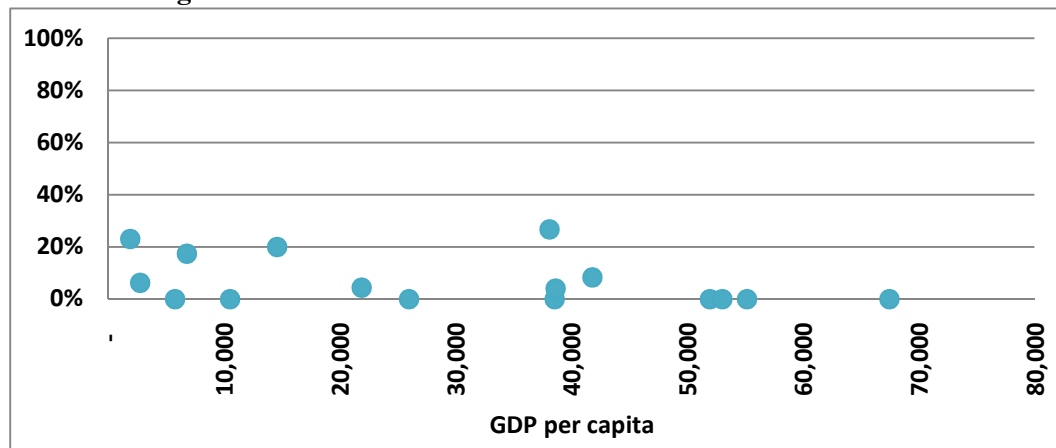
Regulation and taxation

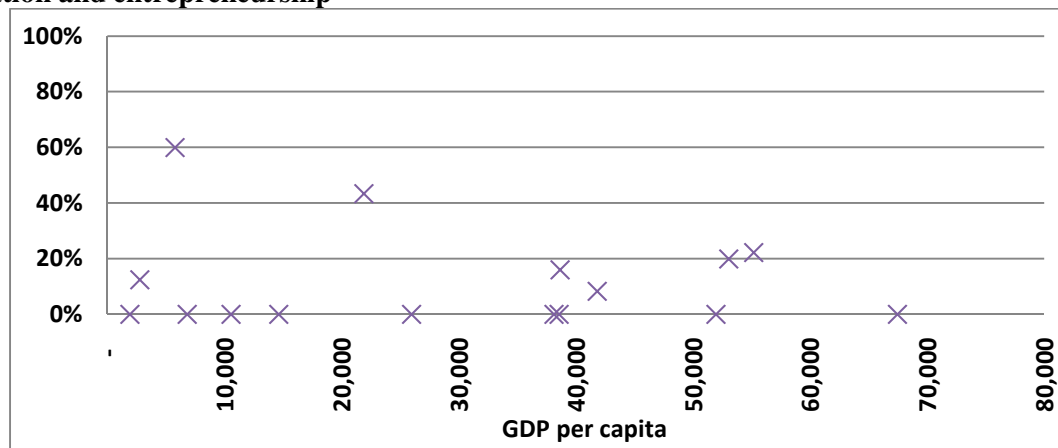


Social support



Competition including infrastructure



Innovation and entrepreneurship

A number of points are evident in this figure:

- The shares of projects in education and labour show a wide range, as do those in regulation and taxation
- In the case of education and labour, there is no obvious link with income level
- In the case of regulation and taxation, there appears to be a link with income – higher income economies tend to have a higher share in this area, but there are outliers at lower incomes
- Most economies have some projects related to social support (not many zeroes are shown in this category) but the range is narrow, at most about 30%
- Economies are less engaged in work on competition and infrastructure policy, according to this classification, with shares below 30% but in this case with a large number of zeroes, including at higher incomes.⁴
- Work on innovation and entrepreneurship also has a large number of zeroes, but there are some idiosyncratic outcomes, with some low income economies showing high shares.

The lower level of interest in innovation/entrepreneurship and competition/infrastructure could be an issue since:

- some of the econometric studies referred to earlier point to the importance of innovation policy, while
- competition and infrastructure projects could be important enablers for generating the benefits from regulation and taxation reform or from developing a labour force which is more agile and ready for structural change.

In these conditions, the selection of a portfolio of projects, selected from each area, may add value to every individual project. The areas, such as the classifications above, can be thought of as the ‘pillars’ of the Strategy and every member economy would be asked to consider projects in each pillar.

⁴ The difference compared to the allocation of projects according to pillars is that economies are listing under the competition pillar projects which receive a different classification here.

5. Capacity Building

An important element of ANSSR is the complementary package of capacity building activities. Table 2 provides a summary of a sample of 6 capacity building projects linked to the Economic Committee of APEC. These projects were undertaken in the period 2013-2014.

The topics are highly relevant to the structural reform agenda, including technical and vocational education, public investment appraisal, design of systems for government interaction with citizens (especially the use of a one-stop-shop), developing methodologies for regulatory impact analysis and better public consultation processes, and considering new models and drivers of growth. Other comments on these projects include the following:

- A typical methodology in these projects is the use of a workshop followed by a report which consolidates or summarises the views in general terms. Additional and more specific outputs are likely to add value to the project, such as a policy tool or suggested new processes or regulations.
- Some projects lead to suggestions for further explorations of the topic or extending the network of experts. Others offer even more value by being specific about next steps, and they focus on implementation of the ideas: one project laid out the process by which its suggestions could be converted into legislation in the host economy.
- Participation by economies is variable, sometimes deliberately so by the nature of the project, but in some cases even when travel funding is available the opportunity was not taken up by all those economies which are eligible.
- Spending rates are generally less than budgeted – in this group of projects total budgeted spending was \$835k (\$139k per project) but actual spending was \$601k (\$100k per project), a ratio of actual to budget of 72%. In other words, \$233k of funds budgeted here were not used, while other project proposals may have been rejected in the selection process on the grounds of lack of funds.

Suggestions therefore include the following, drawing on APEC's project quality assessment framework:⁵

- The workshop format works well when there is a body of knowledge or experience to share. There might be consideration of alternative approaches, for example, the use of smaller expert groups to develop ideas in advance of a full-membership event when the question of discussion remains under debate or the materials are less well formed into a consensus view.
- A review of the value of larger and multi-stage projects, with clear commitment to participate by all members, in order to create more impact.
- Provide examples of a clearer specification of an output, such as a guide, draft legislation or a new process and then propose a mechanism for later testing for impact, including details of the process of dissemination to other member economies.
- Set up processes for project selection, for commitments to participate and for budgeting in order to aim for a ratio of actual to budgeted expenditure of more than 90% but at the same time meet expectations of value for money
- Continue to engage with external stakeholders, such as the OECD and the G20 given their interest in this agenda.

⁵ See the Guidebook on APEC Projects (11th Edition) – Appendix D which is available at <http://www.apec.org/Projects/Forms-and-Resources.aspx>

Table 2: Economic Committee - Capacity building projects

	Project area	Method	Outcome	Participation	Budget and spending	Issues relative to the original plan	Next steps proposed
1	Higher quality and more relevant technical and vocational education and training (TVET)	The host economy benchmarked its TVET sector against that in three other economies to move to 'best practice' for occupational analysis and the national occupational skills standards	Changes in the format and research methodology of occupational analysis in the relevant ministry Established requirements for skills standards for occupational analysis and the national occupational skills standards Established requirements for skills standards for occupational analysis and the national occupational skills standards Established requirements for skills standards for occupational analysis and the national occupational skills standards Established requirements for skills standards for occupational analysis and the national occupational skills standards	Host plus 3 economies and 120 participants	\$200k/\$186k (93%)	None to report	Distribute the tools developed to other economies in APEC
2	Improved appraisal of public investment projects in a regionally decentralized system	Workshops (2) to train officials in the host economy	A policy note was prepared	33-34 trainees, 1 international expert and 3-4 local experts	\$133k/\$85k (64%)	Participation planned by another APEC member did not occur An international expert to support one part of the project could not be found	Input to the drafting of a new law on public investment in the host economy
3	Understand the development of new growth paradigms and share that understanding among APEC members	Workshop (1)	Summary report	81 participants in the workshop	\$126k/\$76k (60%)	Fewer participants than expected (from economies eligible for travel funding)	Examination of a series of specific topics identified in the workshop

	Project area	Method	Outcome	Participation	Budget and spending	Issues relative to the original plan	Next steps proposed
4	Improving the public consultation process to lead to better regulatory practices	2 Workshops	New guidelines developed for public consultation	70 per workshop	\$135k/\$85k (62%)	None to report (actual spending less than budget due to lower spending on consultants and honoraria than expected)	Pass the guidelines to the relevant ministry for drafting into regulations
5	Better regulations and RIA	3 Workshops	Guide on regulatory impact assessment	15 economies	\$111k/\$54k (49%)	Difficulty to locate experts within the APEC membership on various topics	Further training on implementing the guide
6	Better government to citizens service channels, including the use of a one-stop-shop	Workshop (1)	Workshop report	10 economies, 140 participants (120 from the host)	\$130k/\$115k (88%)	None to report	Build a regional network of experts in this field

6. Reporting and Measurement

A key challenge in a structural reform program is the specification of activities, their goals and progress made.⁶ A reform program is designed for a purpose, e.g. faster and more inclusive economic growth. The program then involves consideration of policy in a number of areas e.g. competition policy and infrastructure policy where the management of policy is likely to have a consequence for the ultimate goal. Each policy area involves legal or regulatory provisions (e.g. the presence of a competition law).

The application of the policy has consequences for decision making by business and households, whose responses interact with the policy to lead to the final outcomes.

- Some outcomes, for example, public spending on justice or the number of permits and licenses granted automatically without a bureaucratic review are akin to ‘inputs’ into other production processes.
 - These outcomes are also influenced by decision making by others or by external circumstances, e.g. the number of penalties applied in the application of competition policy (which depends on business strategy) or the number of professional licenses issued (which is related to population). The government does not have complete control of this set of outcomes but its influence is highly likely to be direct and quick.
- Some outcomes are closer to ‘outputs’ or elements of final consumption, for example levels of services in the health system or the number of students entering university.
 - Likewise in this case, the application of policy involves an interaction with decision making by another party and therefore are not completely in the control of the government, although the influence of government may still be relatively direct and quick.
- In other cases, government choices do not have direct or quick impacts; for example while the application of policy may have a relatively rapid and direct effect on the number of students entering university, the government’s influence over the number of students who graduate or their competencies is less direct and slower.

These examples show how the application of policy is in direct government control but its various consequences generally are not. Governments can be held accountable for the policy framework and operations, but have less influence on the final outcomes. This is the dilemma involved in monitoring the impact of structural reform and in measuring performance. The categorisation above suggests that there should be a focus on monitoring activities which are higher up the chain, that is, changes in the policy itself or the first round of ‘input’ consequences. The OECD notes that this choice is not always available but their preference remains to monitor action higher up the chain of activities, that is, to use policy indicators. When these indicators can be measured and benchmarked, the OECD argues, then peer pressure can also be maintained. Making greater use of policy indicators weakens this effect, since consequences can be attributed to choices by others and by changes in the environment. For example, there might be consideration of a set of macro indicators, such as rates of growth, as measures of performance in this agenda. While growth is the ultimate goal, many factors affect its level other than structural reform policy, even though the policy change is necessary to get the result. As the OECD says, ‘(output) performance indicators capture the final policy goal itself, not what needs to be done to achieve that goal’ and ‘what needs to be done is captured only by policy indicators’.⁷

⁶ A 2011 (August) APEC workshop on structural reform included a presentation from the OECD on which this part is based. See http://mddb.apec.org/Documents/2011/SOM/WKSP/11_som_wksp_007.pdf

⁷ See http://mddb.apec.org/Documents/2011/SOM/WKSP/11_som_wksp_007.pdf

There is another dimension to policy that can be used to supplement the use of policy indicators, especially when direct measures are difficult to find. The OECD refers to this element as the ‘reform intensity’, and relevant measures of intensity include the extent of the current debate about policy, the policy review processes and mechanisms in place, the enquiries underway, the extent to which new legislation is drafted etc. Another issue is that even if a direct policy measure can be found, it is not possible to specify the spirit in which the policy should be implemented, e.g. with a presumption of openness rather than acting as a barrier to entry.

With respect to the reporting in the 2015 templates, there is often extensive reference to reviews and other work in progress, that is, to aspects of the regulatory climate. This is valuable for reasons explained but in a new template it might better be separated into a section on that topic, in order to highlight the reporting of progress based on indicators of reform.

With respect to the reports of progress of reform, the quality of text is mixed according to the framework used above. For example, an economy may focus on productivity growth as a goal of reform: however measures of productivity growth are influenced by many factors other than policy change. A structural reform program is more effective when it monitors the change in policy. In other examples:

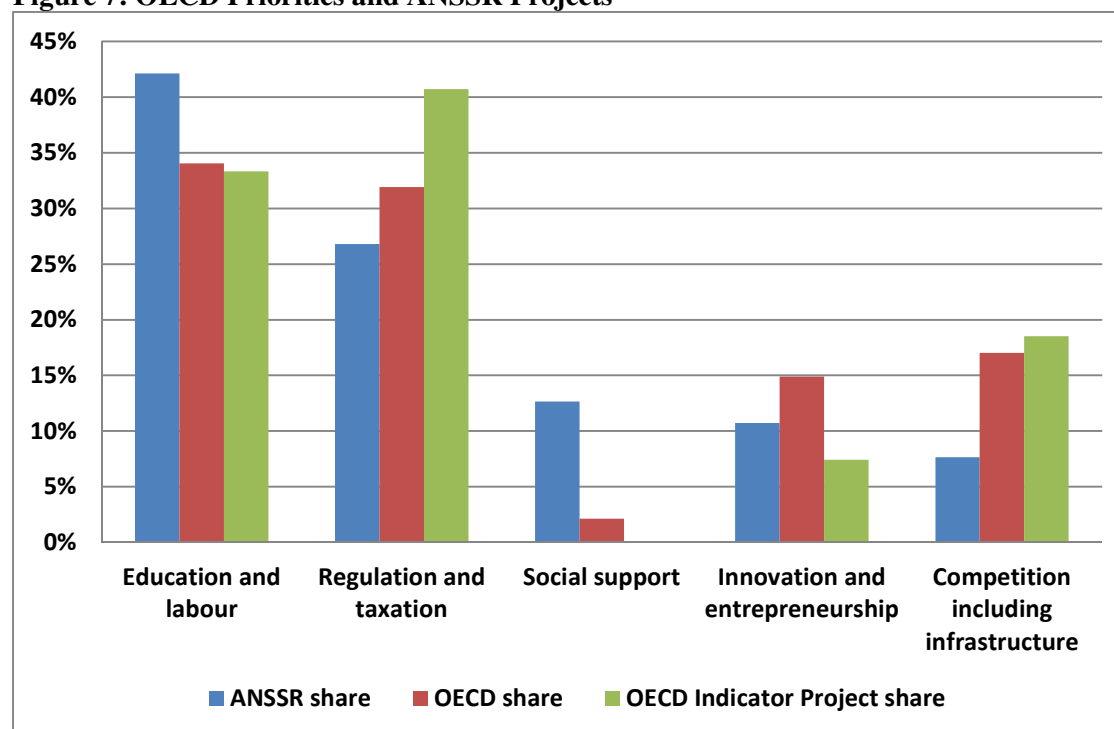
- Reference to a quantitative measure of a change is preferred to ‘better outcomes’, ‘enhancements’, ‘progress’, ‘improvements’ of various sorts, e.g.
 - to say that ‘all government agencies have further improved their business licensing services’ is less effective than reporting on the performance of turnaround times relative to a target.
- Reports of performance, such as perceptions of government behaviour, are less preferred to a focus on what needs to be done to further improve performance, e.g.
 - a measure based on surveys of business perceptions of the application of the rule of law is less valuable than a measure of government spending on the justice system.
- Also less preferred are reports of outcomes which are down the chain of consequences and where household or business decisions are more important, e.g.
 - the take-up of new telecom technology (preferred is the policy environment which influences that decision making)
 - growth in labour productivity (preferred is a measure of students who have completed training)
 - R&D collaboration between universities and business (preferred is observation of legislation to support that collaboration).

These remarks apply to a reform program managed by any one economy. The APEC members are acting in concert in this area, on the grounds that there is understanding to share, that peer monitoring and commitments offered in that forum are useful to drive reform and that there is mutual interest in each other’s growth. But what is the value added provided by participating in the cooperative process? The counter-factual is difficult to identify but the presumption is that policy reform will be implemented more quickly and more efficiently in this context. There could be a number of indicators of this impact, for example, the extent of policy change since an announcement of a commitment by members and the use of and participation in capacity building programs.

A number of APEC members are members of other groupings, and another approach to consideration of the APEC value added is to benchmark activities in APEC with those in the other forums. Eleven economies are involved in the OECD’s ‘Going for Growth’ project, in which each participant selects

five priority topics.⁸ Three of these are based on policy indicators and two are based on local economy expertise. Priorities are selected by indicators when both the policy indicator and a relevant performance indicator are both below the OECD average for each. Appendix 2 lists these priorities for the economies involved. These reform priorities were categorised according to the framework of Appendix 1 and then the project mix across the participating economies was compared to that in ANSSR. Figure 7 shows the result. The portfolios comparing the ANSSR and the OECD groups of five priorities are similar, although the OECD set has a larger share of projects on innovation and entrepreneurship as well as in competition including infrastructure, and a lesser share on social support. Comparing instead to the projects selected based only on performance indicators, there is a shift in the OECD group towards regulation and taxation as a priority but also to competition and infrastructure.

Figure 7: OECD Priorities and ANSSR Projects



With respect to APEC value added, the OECD suggests a method of assessment which is of interest. It identifies indicators of reform action. A set of recommendations for reform action is also identified. Then in a later period if action has been implemented in particular economy, a score of 1 is recorded for that item, and zero otherwise. Then for each area and for each economy a measure of the extent of action can be developed. The measure can be broken down to elements in the case of complex policy change. The OECD also has variant of this measure where scores are adjusted according to an assessment (based on history) of the difficulty of undertaking reform in particular area. This measure to some extent also captures the degree of ‘reform intensity’ in an economy, but given the base of an agreed set of action items it can also be examined for evidence of the outcome of a cooperative approach.

A theme of these points is the use of policy indicators. Quantitative measures are becoming more readily available, such as the World Bank (Ease of) Doing Business⁹ rankings (a focus of other continuing work in the Economic Committee) and OECD measures of Product Market Regulation (PMR).¹⁰ There are

⁸ See <http://www.oecd.org/eco/growth/goingforgrowth.htm>. The OECD priorities also include a number of projects applied to the reform of border measures which are not considered here.

⁹ See <http://www.doingbusiness.org/rankings>

¹⁰ See <http://www.oecd.org/eco/reform/indicatorsofproductmarketregulationhomepage.htm>

also new measures of the policy environment in the services sector, from both the World Bank¹¹ and the OECD¹². Cooperation with those organisations to provide coverage of all APEC members may be valuable. Use of indicators of this type also facilitates the measurement of change over time: it will be valuable to establish a base line set of data at the next phase of the APEC structural reform agenda for that purpose. Box 3 provides illustrates of how these indicators might be used in the APEC processes.

Box 3: Samples of policy indicators

Data available from the OECD¹³ can be used to illustrate how data on policy indicators could be presented. Figure A shows the values for a series of years since 1998 of the OECD indicator of Product Market Regulation. The data illustrate how the levels vary among economies and how they have changed over time, which is significant in all cases.

Figure A: OECD Product Market Regulation indicators for a sample of APEC economies

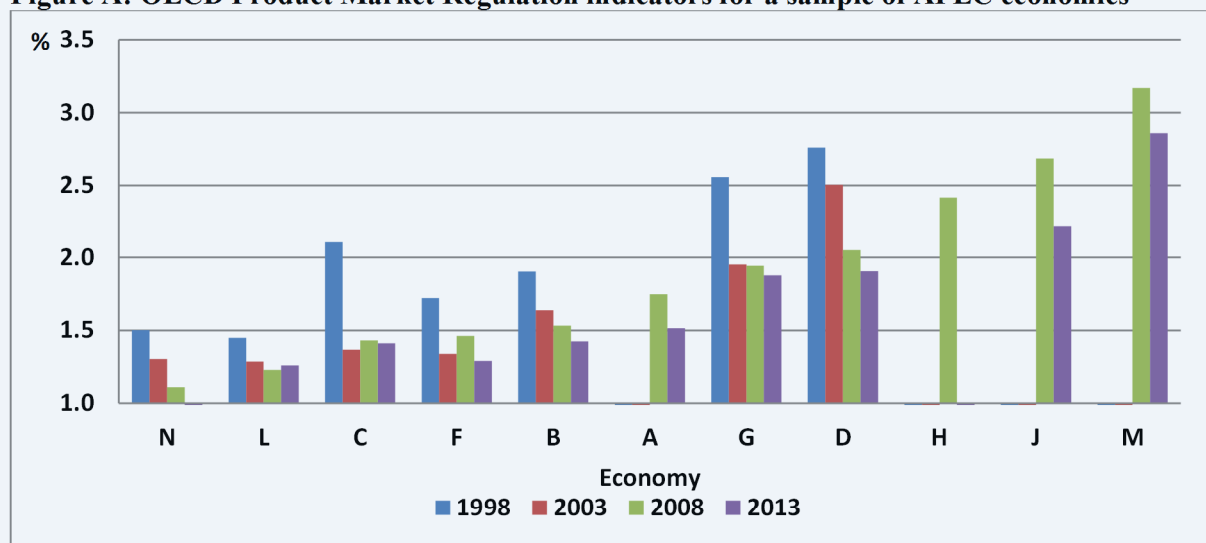


Figure B shows data on a series of indicators of Barriers to Entrepreneurship in a ‘headlight diagram’ at one point in time for a sample of OECD members and non-members. The distributions of the colours indicate the distribution of priorities for action (in this case, the significance of ‘start-up burdens’), and transitions in the colours in the table over time could be used to indicate progress in reform.

¹¹ See <http://iresearch.worldbank.org/servicetrade/aboutData.htm>

¹² See <http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm>

¹³ Data in this Box are taken from the economy-wide regulation section of the OECD PMR data at <http://www.oecd.org/eco/reform/indicatorsofproductmarketregulationhomepage.htm>

Figure B: OECD indicators of Barriers to Entrepreneurship

Economy	Procedures	Start up burdens	Legal barriers to entry
	0.05	2.01	0.20
	0.97	2.11	0.20
	0.59	0.92	0.20
	0.06	2.58	0.20
	0.11	1.83	0.21
	1.33	1.62	0.40
	0.91	2.09	0.40
	1.13	1.82	0.46
	2.63	4.11	0.93
	1.13	1.97	0.96
	3.29	4.07	0.96
	1.00	1.54	1.07
	1.70	2.13	1.08
	0.15	2.37	1.10
	1.15	2.16	1.14
	0.16	1.25	1.15
	0.00	1.87	1.21
	0.99	2.34	1.30
	0.15	2.43	1.37
	0.97	3.08	1.37
	1.53	1.58	1.43
	1.13	2.68	1.45
	0.55	0.92	1.47
	0.94	2.53	1.50
	0.82	2.48	1.57
	0.38	1.22	1.57
	0.00	1.43	1.57
	1.42	2.18	1.93
	0.79	1.35	1.97
	1.22	2.00	2.00
	1.57	3.01	2.07

Future priorities for projects can be used on values of policy indicators, as the OECD has done. The selection of new priorities could also make reference to changes in the business environment. Perceptions of issues by the business sector will also be useful for that reason. Examples of important developments, which could be confirmed with APEC's business networks include:

- Structural change (and its elements including the hollowing out of manufacturing, the implications for the distribution of income, as well as challenges in the transitions which are summarised under the heading of the middle income trap).
- Particular sector issues to manage, including those related to food security. The services sector is receiving increasing attention in the context of its direct contribution to wellbeing, but also for its support for other sectors and its employment implications, especially for women.
- Other drivers of change include the disruptive digital technologies, which not only change the way that business is organised and provide new services, but which also can raise capital productivity and introduce new forms of competition which challenge existing regulatory systems.

Meanwhile, experience in managing policy reform continues to accumulate, to varying degrees and in different aspects across economies. The political economy and capacity constraints are better understood. Thinking about what makes up good regulatory practice is evolving (and is the focus of continuing work in the Economic Committee).

These shifts reinforce the point that structural reform will be continuous and never-ending, with varying focal points over time. At the same time, there are common elements particularly at specific points in the processes of transformation of economies, and therefore great scope for sharing of experience. This situation is the basis of APEC's advantage in managing a structural reform agenda. APEC processes and principles further allow for differences in the work underway in different economies and in the nature of commitments.

7. Recommendations

APEC's work on structural reform offers significant reward from its success. It is of interest across the membership and remains highly relevant for current policy debates, including those around the nature of the middle income trap and how to avoid it. APEC has many strengths and much to offer in the delivery of cooperative work on structural reforms. APEC members have reported on a large number of projects related to structural reform, and they have undertaken a number of capacity building projects linked to the area.

Suggestions for consideration in the next cycle of structural reform include the following.

- Recognise the value of the structural reform strategy for all members and of the benefits of sharing experience among the members, and so encourage full participation and reporting.
- Revise the reporting of commitments in each project in each economy, by adding a focus on policy indicators where possible using quantitative measures including a set of base line measures against which to measure progress.
- Continue to report but separate the location of qualitative information on the degree of 'reform intensity' in the economy reports.
- Consider new methods of project selection, including those based on comparisons of policy indicators and inputs from other stakeholders, including the business sector.
- Develop and monitor a portfolio of complementary projects the structure and composition of which adds value to each element: the key elements or 'pillars' of the portfolio could be chosen according to the groupings which are evident in the preferences of member economies for work in the 2013-2015 templates.
- Consider options for identifying the value added by the APEC process, including through changes in policy indicators over time.
- Monitor the connections and look for resource-savings in projects on structural reform through cooperation with external partners, such as the OECD, including the joint development of policy indicators.
- Revisit the design of capacity building with a view to considering alternatives to and the sequencing of workshops, the value of larger and multi-stage projects, the specification of outputs in the projects, mechanisms for monitoring impact, methods of testing value for money and approaches to engaging external stakeholders.
- Include in capacity building program an activity on the use of policy indicators in project selection and reporting.

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Appendix 1: Pillars by Economy - Midterm and 2015 Stocktake

Economy	Review Date	Competitive Markets	Labour Markets	SME Development	Social Safety Net	Financial Markets
Australia	Mid Term	Green	Green	White	White	Green
	2015	Green	Green	White	White	Green
		White	White	White	White	White
Brunei Darussalam	Mid Term	Green	Green	White	White	White
	2015	Green	Green	White	White	White
		White	White	White	White	White
Canada	Mid Term	Green	Green	White	Green	Green
	2015	Green	Green	White	Green	Green
		White	White	White	White	White
Chile	Mid Term	White	White	Green	Green	White
	2015	Yellow	Yellow	Yellow	Yellow	Yellow
		White	White	White	White	White
China	Mid Term	Green	Green	Green	Green	Green
	2015	Green	Green	Green	Green	Green
		White	White	White	White	White
Hong Kong, China	Mid Term	Green	Green	Green	White	Green
	2015	Green	Green	Green	White	Green
		White	White	White	White	White
Indonesia	Mid Term	Green	White	White	White	White
	2015	Green	White	White	White	White
		White	White	White	White	White
Japan	Mid Term	Green	Green	Green	Green	Green
	2015	Green	Green	Green	Green	Green
		White	White	White	White	White
Korea	Mid Term	White	Green	Green	Green	White
	2015	White	Green	Green	Green	White
		White	White	White	White	White
Malaysia	Mid Term	Green	Green	Green	White	White
	2015	Green	Green	Green	White	White
		White	White	White	White	White
Mexico	Mid Term	Green	White	White	White	White
	2015	Yellow	Yellow	Yellow	Yellow	Yellow
		White	White	White	White	White
New Zealand	Mid Term	Green	Green	Green	Green	Green
	2015	Green	Green	Green	Green	Green

Economy	Review Date	Competitive Markets	Labour Markets	SME Development	Social Safety Net	Financial Markets
Papua New Guinea	Mid Term					
	2015					
Peru	Mid Term					
	2015					
The Philippines	Mid Term					
	2015					
Russia	Mid Term					
	2015					
Singapore	Mid Term					
	2015					
Chinese Taipei	Mid Term					
	2015					
Thailand	Mid Term					
	2015					
United States	Mid Term					
	2015					
Viet Nam	Mid Term					
	2015					

Appendix 2: Project Classifications

1. Competition and the origins of competition
 - a. Business practices or monopoly (or monopolistic) practices or unfair competition
 - b. SOE or state owned enterprise
 - c. SME support
2. Education and labour markets
 - a. Education – primary or basic
 - b. Education – secondary (or high school)
 - c. Education – tertiary (or university or college)
 - d. Education – vocational (or vocational training)
 - e. Youth workers or older workers
 - f. Mutual recognition
 - g. Skills or skill
 - h. Information (in association with labour markets or job vacancies) or matching or mismatch
 - i. Employment rate and job creation
 - j. Unemployment insurance or support during unemployment
 - k. Anti-exploitation measures
 - l. Support for women and other groups such as younger or older workers in the labour market, e.g. career coaching, mentoring, promoting participation in key fields, including target setting
 - m. Curriculum development
 - n. On the job training and support for that
3. Innovation and entrepreneurship
 - a. Entrepreneur(s)
 - b. Innovation or technology (transfer) including commercialisation
 - c. Finance or borrowing or cost of borrowing or credit or interest rate or lending rate
 - d. Research and development
 - e. Bankruptcy
 - f. Intellectual property rights
4. Regulation and taxation
 - a. ‘Regulatory impact’ or complex regulation or efficient regulation or regulatory burden
 - b. Price reform or price control
 - c. Tax or taxation or taxes or tax reform
 - d. Budget(s) or budget burdens
 - e. Mutual recognition or visa
 - f. Administrative reform or governance or rule of law
 - g. Business start or establishment
 - h. Corruption or anti-corruption
 - i. New regulation
5. Infrastructure
 - a. Infrastructure
 - b. Electricity or energy or gas
 - c. Telecommunications or broadband
 - d. Water
 - e. PPP, public utilities
 - f. Transport or railway(s) or port(s) or air transport

6. Social aspects
 - a. Inclusion or inclusive programs and their efficiency
 - b. Indigenous people or geographically isolated or disadvantaged areas
 - c. Health care, or old age care or medical care or elderly or disabled
 - d. Insurance or pension or emergency care or emergency relief or social security
 - e. Housing or house(s) or rental or accommodation or low-rent or low-income housing
 - f. Child care or maternal care or children
 - g. Resilience or disruption (disruptive)
 - h. Income distribution or equity including needs tests
 - i. Saving for retirement
 - j. Minimum wage

Appendix 3: OECD Reform Priorities

Economy	Current priorities ¹⁴
Australia	Enhance capacity and regulation in infrastructure
	Improve the efficiency of the tax system
	Improve performance and equity in education
	Enhance innovation policy
	Improve opportunities and outcomes for indigenous communities
Canada	Reduce barriers to entry and enhance competition in network and service sectors
	Reduce barriers to foreign direct investment
	Reform the tax system
	Enhance access and efficiency in tertiary education
	Improve R&D support policies
Chile	Improve quality and equity in the education system
	Enhance competition and ease regulatory procedures
	Ease employment protection legislation and extend unemployment benefits
	Strengthen support to R&D and innovation
	Strengthen policies to foster female labour force participation
China	Reduce state involvement in business operations and encourage private entry
	Ensure a better match between skills available and those demanded in the labour market
	Strike a better balance between liberalisation and regulation in financial markets
	Reduce barriers to labour mobility
	Further enhance the rule of law
Indonesia	Enhance outcomes in education
	Improve the regulatory environment for infrastructure
	Reform labour regulation and cap minimum wage increases to address the problem of informality
	Further reduce energy subsidies
	Ease barriers to entrepreneurship and investment, and strengthen institutions to fight corruption
Japan	Ease entry barriers for domestic and foreign firms in the services sector
	Reduce producer support to agriculture
	Improve the efficiency of the tax system
	Strengthen policies to support female labour force participation
	Reform employment protection and upgrade training programs
Korea	Reduce the regulatory burden on economic activity
	Strengthen policies to support female labour force participation
	Reform employment protection
	Improve the efficiency of the tax system by relying more on indirect taxes
	Reduce producer support to agriculture
Mexico	Raise education achievement
	Strengthen innovation policies
	Reduce barriers to foreign direct investment
	Improve the rule of law
	Reduce barriers to entry and competition
New Zealand	Reduce barriers to trade and FDI
	Enhance capacity and competition in network industries
	Reduce educational underachievement among specific groups

¹⁴ Source is at <http://www.oecd.org/eco/goingforgrowth.htm>

Economy	Current priorities ¹⁴
	Raise effectiveness of R&D support
	Improve health sector efficiency
Russia	Reduce state control over economic activity and other barriers to competition
	Lower barriers to foreign direct investment
	Raise the effectiveness of innovation policy
	Raise the quality of public administration.
	Ensure adequate income support for jobseekers in association with activation and training measures
United States	Strengthen active labour market policies
	Improve the efficiency of the health care sector
	Improve the efficiency of the tax system
	Improve equality of opportunity and outcomes in education
	Reduce producer support to agriculture