



Asia-Pacific  
Economic Cooperation

Advancing Free Trade  
for Asia-Pacific Prosperity

# APEC Economic Policy Report 2023

## Structural Reform and an Enabling Environment for Inclusive, Resilient and Sustainable Businesses

Structural reform is an essential component of APEC's policy response to achieve optimal economic outcomes.

The 2023 APEC Economic Policy Report examines the role of structural reform in enabling the private sector, particularly small and medium enterprises (SMEs), to contribute toward sustainability, inclusion and resilience.

### What is structural reform and why is it helpful?

Structural reform refers to changing the way an economy works and the environment in which businesses operate. Through changes in domestic policies, rules and institutions, structural reform powers economic growth.

#### Elements of structural reform

- Good governance
- Sound macroeconomic policy
- Inclusive, non-discriminatory investment environment
- Removal of structural barriers to economic opportunity
- Effective business enabling environment

#### By advancing structural reforms, economies can expect optimal economic outcomes, including:

- Resilience to economic shocks
- Macroeconomic stability
- Increased productivity
- Increased standards of living
- Increased market inclusivity
- Greater economic durability

### Structural reform in business dynamics

Structural reforms that shape well-functioning dynamic and competitive markets contribute to a business environment that enables firms to innovate, and be sustainable, resilient and inclusive alongside their commercial objectives.

Structural reform policies play a crucial role in shaping incentives for businesses, promoting innovation, efficiency and social responsibility. Such reforms need to be integrated with wider environmental and social dimensions of quality of life, emphasizing economic growth and environmental sustainability.

Structural reforms shape a dynamic business environment, removing barriers to market entry and exit. By easing restrictions on labor and product markets and increasing access to skills development, social protection and infrastructure, businesses can use resources more flexibly and be more efficient and productive.

Market failures can lead businesses to undercount the impact of their operations on the environment. Complementary policies, such as earmarked green industrial initiatives, reinforce structural reforms related to environmental issues and support R&D and innovation.

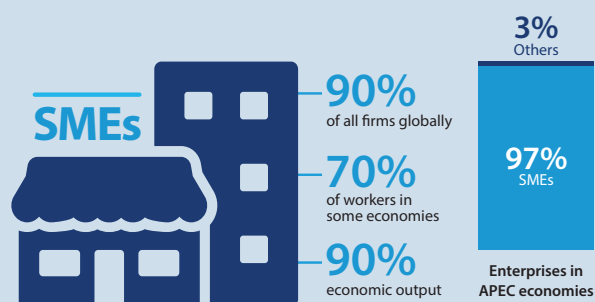


# Structural reform and small and medium-sized businesses

Structural reforms that support SMEs and promote competition, resilience, innovation, and sustainability are crucial for economic growth and inclusive business environments in APEC economies.

- Increasing access to finance to help meet sustainability standards and participate in global value chains can promote sustainability among SMEs
- Supporting business development as well as streamlining and enabling access to finance can promote the inclusion of women, Indigenous Peoples and people with disabilities
- Reducing business exposure to uncertainty and risk, and providing support can help businesses manage exogenous shocks.
- Ensuring structural reforms achieve coherence in areas such as competition policy and regulation promoting SME innovation.
- Providing grants, tax credits and tax relief as well as implementing supportive procurement policies could also drive SME-led innovation.

## Did you know?



SMEs represent around 90 percent of all firms globally, employ up to 70 percent of workers in some economies and, by some measures, contribute to up to 90 percent of economic output.

Over 97 percent of enterprises in APEC are considered to be SMEs. They are the predominant form of enterprise in most APEC economies, provide most employment and new jobs, and are major contributors to value creation. Their contribution is even greater when informal businesses are taken into account.

## Policy recommendations



### Where markets work: Let markets work.

Economies could foster a business environment conducive to innovation and resilience by ensuring markets remain competitive such as through:

- reducing the cost of doing business and trading
- promoting inclusive access to finance and financial inclusion
- calibrating effective insolvency regimes
- utilising goodwill for inclusion and sustainability goals

### Where markets fail: Rectify, regulate and realign.

In the case of market failure, competitive markets alone will lead to sub-optimal progress on inclusion, sustainability, resilience and innovation. Governments may need to give the market a nudge such as by:

- getting prices right and bringing markets to efficiency
- regulating, incentivizing and subsidizing where needed
- realigning the economy toward inclusion

### Measure, monitor and modify.

'What gets measured gets managed'. Measuring results, monitoring progress and modifying policy, if needed, is at the core of evidence-based policymaking. In the context of encouraging the private sector to contribute to inclusion, sustainability and resilience, economies could consider:

- facilitating environmental, social and governance (ESG) disclosure and reporting
- gathering data on SMEs on a regular and consistent basis
- building statistical capacity on inclusion, sustainability and resilience

### Cooperate across borders.

Issues of inclusion, sustainability and resilience have cross-border implications affecting climate change, trade linkages, supply chains and cross-border mobility. No economy can handle these issues alone, and international cooperation is imperative. Economies could consider:

- establishing regional standards and harmonize ESG reporting
- exchanging experiences and best practices to leverage regional fora including APEC