Asia-Pacific
Economic Cooperation

Ease of Doing Business

Canada/New Zealand Joint APEC Symposium on Private Sector Development

Montreal, Canada
9-10 May 2006

The Importance of an Enabling Business Environment for Growth

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First let me thank ABAC and the governments of Canada and New Zealand for the opportunity to speak to you today.

I am here because twenty years ago I was part of a process of sweeping economic reforms in my home country. I left full time politics ten years ago. But I have remained engaged in public policy reform. Currently I serve as the deputy chair of New Zealand's competition authority. So I am still involved in the business of regulating business. And I still care about doing this better.

This afternoon I don't have a magic formula for making this subject easy. I'm not even sure that I can make it interesting (though I shall certainly try). What I do know is that how we regulate our businesses is vital for our future prosperity.

So let me start right there: how can we be sure that the level and quality of regulation in a country affects its economic performance?

Well the first answer is that many countries seem to think so.

A recent OECD study estimated that administrative compliance costs represent around 4% of the Business Sector GDP for the countries (chiefly its members) that it surveyed.

Comparable American studies have estimated the deadweight cost of unnecessary regulation at 4-8% of GDP.

The view that economic growth and the quality of regulation are linked has led many countries and international institutions to devote considerable attention to this area.

For example, the UK government has committed itself to undertaking 100 million fewer inspections, abolishing or merging 29 enforcement and inspection agencies, and reducing form filling by at least 25%.

In Australia, a report out last month, called "*Rethinking Regulation*", included 178 recommendations for reducing red tape. The Australian government announced immediate action in response.

The governments of Holland, Belgium, Denmark, France, Italy and Norway have all set quantitative goals for reducing red tape.

Among countries emerging from central planning and state ownership, the Russian Federation, Serbia and Montenegro, Georgia, Slovakia, Romania and Latvia have each made opening a business easier and have lowered the level of other business regulation in the last three years. They have all experienced an increase in the number of businesses operating (formally) in their economies.

Other countries have also been heading in the same direction. The EU has been promoting an initiative to help raise the quality of, and reduce the burden associated with, EU regulation. Here in Canada the government has brought together a series of projects in its “smart regulation” initiative.

Finally, APEC leaders in 1999 committed themselves to delivering open, transparent and well-governed markets, both domestic and international, as the essential foundation for prosperity, and to enable enterprises to innovate and create wealth. To further that aim they endorsed a set of APEC Principles to Enhance Competition and Regulatory Reform.

So clearly most economies agree that good regulatory practice is conducive to economic growth. But are they right in this view? What is the evidence? Or more precisely, what particular harm do we incur if we don’t address the quality and level of our business regulation?

Well the first point to note is that the burden of regulation does not fall equally.

The OECD study I referred to at the outset showed that regulatory costs have a disproportionate impact on small businesses (i.e. those with fewer than 20 employees). American, Australian and New Zealand studies all reach a similar conclusion. Clearly, reducing the level of demand we make on businesses’ time and financial resources – particularly of our SMEs – should free up those resources for more directly productive work.

But heavy duty regulation also imposes costs on government and hence on taxpayers.

In the United Kingdom 10% of the government’s budget is devoted to the administration of business regulations. In the Netherland’s that’s 11%; and in Belgium, Norway and Sweden between 8 and 9% of government spending.

Reducing the cost of administering business regulation would free up funds to be used in providing additional government services – or lower taxes.

The OECD has observed that strong regulatory quality can be linked with improved economic performance. In its view an effective regulatory system can help (amongst other things) to:

- promote flexibility and innovation;
- encourage competition and remove complexity and inconsistency;
- encourage new or previously unheard stakeholders into the policy debate, so that policy is better grounded.

The three World Bank reports on the ease of doing business also provide evidence of the value of regulatory reform.

A key observation is that businesses in poor countries face much larger regulatory burdens than those in rich countries. It is estimated that they face three times the administrative costs and nearly twice as many bureaucratic procedures and associated delays. And they have fewer than half the protections of property rights of rich countries.

Consequently up to 40% of business in poor countries is conducted in the informal sector.

The consequences of that can include:

- **poor economic outcomes**, as firms cannot access the funds they need to grow and - to escape regulation – keep their operations below an efficient size. That's a key reason why in most highly regulated economies, investment and productivity are low and unemployment is high.
- **a reduced tax base**, because a large group of entrepreneurs and businesses never enter the formal sector;
- **the poor are excluded from engaging in business**. As the pioneering work of Hernando de Soto demonstrated: where regulations discourage businesses from registering and getting formal property titles, many would-be entrepreneurs can't use their informal assets to obtain loans and expand;
- **fewer people are formally hired where employment regulation is rigid**. Unemployment is highest in countries with a large informal sector. Women, the young and low-skilled workers are affected the most. The result is frequently a self-reinforcing cycle of poverty.

On the positive side, in those countries where regulatory reforms have been implemented or where quality regulatory frameworks are in place, the payoffs appear to have been large.

For example, the World Bank has hypothesised, based on its observations, that if a country in the "most difficult to do business" quartile of their survey improved its business environment sufficiently to make it into the top quartile of countries, in terms of ease of doing business, this should deliver 2.2 percentage points more economic growth every year. (Countries in the second and third quartiles doing the same thing would enjoy 1.4% additional annual economic growth.)

However, economic growth is only one benefit of better business regulation and property protection. Human development indicators (health, education, employment) are also usually higher in economies with less regulation.

The World Bank's "Doing Business in 2006" report states, for example, "*Better performance on the ease of doing business is associated with more jobs. New Zealand, the global leader on the ease of doing business, has 4.7% unemployment* (now 3.6%). *In Greece, the OECD country with the worst ranking … on Doing Business Indicators, the unemployment rate is 10.9%.*"

These improved outcomes produce two financial benefits.

First, businesses spend less time and money dealing with government regulations and chasing after scarce sources of informal finance. Instead they can put their energies into improving, producing and marketing their goods and services and so improving their firms.

Secondly, the government spends fewer resources to support an overblown bureaucracy and more on providing basic social services – leading to better social outcomes and a virtuous cycle of growth.

If I might, I'd like to illustrate this beneficial process by reference to the series of reforms with which I was involved in New Zealand. Almost all the changes New Zealand implemented between 1984 and 1992 were designed, in one way or another, to free up the environment for business. While the macro changes were designed to stabilise an adverse economic environment, the micro reforms were aimed directly at improving the climate faced by particular businesses or sectors.

Let me give you just two examples. The first relates to the wheat industry. I choose it partly because it was the very first issue I had to address as the very new Minister of Trade and Industry in 1984. At that time in New Zealand, the business of milling flour required a licence from the Wheat Board. The Board had the sole right to import wheat, and the obligation to acquire wheat wherever it was grown. The result was that wheat was grown in some very strange places.

Because there was little competition, there was little variety. The standard grade of flour was known as "FAQ", which stood for "fair average quality". "Everything goes" might have been more accurate.

The catalyst for change in this sector was the free trade agreement New Zealand and Australia fashioned in 1982. Opening our borders in this way provided considerable impetus to make overdue 'behind the border' reforms.

The Wheat Board was abolished, along with its system of licences. At first wheat growers argued against this move. On being given four years to adjust, they returned to plead that the de-regulation be sped up. Growers who had been allowed to sell directly to flour mills had an advantage that the others argued was unfair. As a consequence it took only two years to remove the previous protections

Flour is still milled in New Zealand, but it competes with imports, as it should. Above all, New Zealand is no longer trying to be self-sufficient in wheat or flour. Instead we pursue more rational objectives. We understand that to be competitive abroad, we need to be competitive at home. And that part of being competitive is the way we regulate our businesses.

The other example takes less time to tell, but is even more important. To an exporting nation few sectors matter more than its ports. Up to the late 1980s ours were not a source of pride or efficiency. The national Ports Authority had to approve all capital expenditure. So ports competed for container cranes, and the government decided where these would be built. A single Waterfront Industry Commission employed all watersiders ("longshoremen" as they would be called here, I believe).

So regional differences in costs were not reflected in wage rates or port charges. Industrial relations were awful.

In 1989 the Authority and the Commission were abolished. Instead each port was corporatised and the shares passed to the relevant local or regional unit of government. Some, though not all, of the ports have since been privatised. Everywhere they are more efficient. And the industrial relations are a world away from their previous performance.

Today it is a source of modest pride that New Zealand tops the World Bank's rankings for ease of doing business. This result has flowed from nothing less than a deliberate change of mindset, in favour of reducing the cost of doing business and away from "heavy-handed" regulation.

Wider benefits have also flowed from New Zealand's period of reform. Public debt was more than halved as a share of GDP. The rate of economic growth also picked up. Whereas between 1986 and 1994 New Zealand managed only 0.3% growth each year, from 2000 it has managed almost ten times that rate of growth.

While there's still plenty of room to do better, I believe that New Zealand's reform story illustrates the value to business, government and people of establishing and maintaining a quality regulatory environment.

OK. So far we have established that there is a strong appetite for reforming regulatory systems and that, according to the experts (and my own experience) this will lead to enhanced business and economic growth.

So why's it so hard to do?

Well partly it's because, as the political philosopher Isaiah Berlin once said, the tough choices in politics are not between good and bad, but between good and good. Or, if you are more inclined to focus on the downside of decision-making, the late John Kenneth Galbraith once observed that politics was the art of choosing between the unpalatable and the disastrous.

An active campaign of reform is disruptive. It touches the very heart of government. Often the power to regulate has been used deliberately to protect particular interests – often interests from which a government draws its support. One person's unreasonable burden is often another person's vital support. And to stay in office the interests of competing groups need to be balanced.

So an active campaign to ease the costs of doing business has to be presented with care. It can't appear that one group is being favoured over another.

Of course good quality regulation does not mean zero regulation. Top ranking countries continue to regulate their businesses; they just do so in less costly and burdensome ways.

The keys to cost-effective regulation are surely good problem definition, the right incentives, correct principles and good decision-making processes, including consultation with those affected.

Even in the most modern economy the role of government does not disappear. On the contrary, it is vital.

In giving advice on how to reform an economy's regulatory system, the maxim "one size doesn't fit all" is apposite. Answers to design issues, including sequencing and implementation, are unlikely to be found in off-the-rack models. Rather the right regulatory systems will be those that are tailored to the economy's particular circumstances, its society, its culture and its values.

Once again, I'd like to illustrate these points by reference to the processes the government of which I was a part followed during the main period of reform in New Zealand.

The first point is that there was no grand plan. The government did not set out with a clear strategy or critical path which laid out the required decisions in neat and logical order. Government and politics aren't like that. Instead, invariably in my experience, ministers struggle to hold on to a sense of what is important as they wrestle to dispose of what is urgent. Perhaps we were lucky in the number of issues that were both urgent and important.

We were also lucky in that we began with clear support for change. This didn't take the form of support for the details of individual reforms. Indeed many of these, although orthodox in an economic policy sense, nevertheless came as a surprise to those directly affected. But the program as a whole attracted widespread support. There was a general if not a specific grasp that things needed to change. The country couldn't go on the way it had been.

An important point is that not all of our "reforms" amounted to the simple repeal of previous controls. In some cases regulation was strengthened rather than eased. The most obvious and important example is New Zealand's competition or anti-trust legislation. This governed both monopolistic behaviour, such as predatory pricing, and the acquisition of monopoly power through acquisition or merger between businesses. In 1986 this law was strengthened, partly to come into line with its Australian counterpart. Even here however, outdated aspects were abandoned, for example the previous provisions against "profiteering". And a separate law aided competition through stronger prohibitions against false or misleading representations or conduct.

Another important point is that whereas the government's principal concern in 1984 was to achieve stability in the "macro" indicators, like inflation and the government's budget deficit, the principal means of achieving this required that it address a daunting number of "micro" markets. Some years into the process I stumbled across this advice from the economist, Mancur Olson: "*The best macroeconomic policy is a good microeconomic policy. There is no substitute for a more open and competitive environment.*" New Zealand's experience exemplified this maxim precisely.

One technique employed by the Minister of Finance for the first four years, Roger Douglas, was to present reform "packages" affecting unrelated sectors in disparate ways. This helped to maintain the momentum of reform. It also helped to underline the notion that everyone was being expected to sacrifice their previous privileges. More than one affected party confessed that they had thought to challenge the government's decision, but seeing who else was affected they forbore.

For all our enthusiasm for packages of reform, we sought with some care to avoid the trap of "picking winners", that is of seeking to identify the sectors of the economy most likely to prosper and bestowing on them particular assistance or protection. We though it better to lay out clear directions and allow investors and managers to make their employment and capital choices accordingly.

In a similar vein, the direction of change seemed more important than the immediate distance we travelled in respect of any one issue. Most sectors required several initiatives before one could be satisfied with the outcome. Did this matter? Must all reform take the form of a "big bang"? I think not. What mattered more to us was the overall consistency and commitment to our approach. If one area took several years to address and another only months, then so be it.

Finally, let me make this very important point: what we did was home grown. I do not mean that the intellectual ideas involved were all fashioned locally. That is far from the case. Indeed in almost all respects we could look to precedents in many other countries.

But the order in which issues were tackled, and indeed the large number of issues that successive governments chose to tackle, were entirely determined on the basis of local needs. The sequencing was often far from ideal. But politics being the art of making possible that which is necessary, we did what we could when we could.

What this means is that the detail of the New Zealand experience will not necessarily transplant elsewhere, and certainly not taken as a whole.

But then we did not set out to impress anyone else, or to establish any grand theory or model. Rather we reacted, as we thought belatedly, to a combination of economic and business challenges that had lingered far too long unaddressed. Doing that, we thought, was the duty we owed our country.

So what might you, ABAC delegates and invited guests, conclude from this presentation?

Four points I suggest:

First, the quality of regulation is critically important to business and to economic growth.

Second, given the dynamic pace of change in the world economy, the question of how best to regulate is relevant to us all – including today's strong regulatory performers.

Third, an effective regulatory reform process will work only if it is consistently and determinedly implemented – again reflecting that as fast as we change so too does the global economy.

Fourth, no economy has to go it alone. While there may be no master plan to follow, and individual economies will want to adapt their approaches to reflect their own environments, there are institutions and economies out there (including a number within APEC) which have considerable experience and can offer guidance and assistance as we jointly seek to identify and apply best practice regulation.

THE NEW ZEALAND REFORM EXPERIENCE

Introduction

1 In the decade from 1982 to 1992 New Zealand underwent a profound economic transformation. These changes were especially sweeping between 1984 and 1990, under the stewardship of a government with an apparently single-minded dedication to reform. The writer served as a Minister in that government (initially with responsibility for Trade and Industry, briefly Health, and then Finance)[1]. This paper surveys the events of that period, identifies the results, particularly the impact on the business sector, and then offers some observations on the rationale for reform and the methods employed.

The pre-reform context

2 With hindsight it is clear that by the late 1980s New Zealand was ripe for reform. At that time it was still primarily an agricultural commodity exporter with only limited mineral resources. Thus the oils shocks of 1974 and 1979 had undermined New Zealand's terms of trade. More significantly, the entry of the United Kingdom into the European Economic Community in 1973 had signalled the need to cease relying on its historic ties to its colonial parent and largest export market.

3 In the decade following the first oil shock New Zealand strained against increasing economic imbalances. Inflation soured to double figures and stayed there. The government's accounts showed a growing deficit between expenditure and revenue. This led to rising public debt and continuing deficits in the country's balance of international payments. And despite the various forms of subsidy with which the government sought to counteract successive pressures, though typically at the expense of other indicators, the level of unemployment steadily rose.

4 By 1982, the government resorted to desperate measures. Controls were imposed on all wages and salaries, all dividends, rents, interest rates and prices. These controls remained in force for 22 months – despite the opposition of the business sector, many members of which saw them as the antithesis of the marketplace they desired. It also seemed inevitable that at some point these measures must be removed, with attendant adjustment shocks.

5 But before that could happen, politics intervened. The government that reached this high watermark of control lost its majority in the New Zealand Parliament. The elections which had been due in November 1984 were brought forward to July, and by a decisive margin the former government fell. In its place, a new government, nine years out of office and on average 10 years younger than its predecessor, was sworn in.

[1] Between 1984 and 87 the writer was also one of two Associate Ministers of Finance, working closely with the then Minister of Finance.

The onset of reform

6 The drama of the "snap" election was accompanied by a foreign exchange crisis. The day after the poll, the Reserve Bank froze New Zealand's foreign exchange market. The country was on the point of running out of foreign reserves. The new government met this spectre by devaluing the New Zealand dollar by 20% and simultaneously removing all controls on interest rates. Exporters' receipts promptly returned and the government gained a useful sense of self-confidence and camaraderie. It had survived its first challenge. It had also set the direction for many of the changes which followed in short order.

7 Further reform of the financial sector followed in the coming weeks, including the removal of all exchange controls in December 1984 and the floating of the NZ dollar the following March. The government passed operational conduct of monetary policy to the Reserve Bank (foreshadowing its formal independence in 1989).

8 Before proceeding to dismantle the edifice of control which it had inherited, the new government first sought to build support for comprehensive change. In particular, it did this by copying a technique it had observed its Australian counterparts use to good effect the previous year. In September 1984, an Economic Summit Conference was convened in Parliament Buildings. For three days the leaders of industry, business and the social sectors listened to a stark presentation as the government's "books" were opened. Most participants agreed that comprehensive change was required. Belts would need to be tightened all round.

9 Whether those attending the Summit Conference envisaged what would follow is doubtful. But the government's first Budget, in November, surely dispelled any illusions. It confirmed the earlier announcement that manufacturers' export incentives would be phased out over three years. At the same time assistance to agriculture was dramatically reduced. Social security benefits for those in retirement were to be surcharged, based on recipient's other income. And a comprehensive, single-rate goods and services tax was foreshadowed. This last measure was in effect a straight-forward value-added tax, but that terminology was avoided on account of the negative views of the United Kingdom's VAT believed to be held by the British migrant population.

10 Over the next six years the government undertook a series of reform measures that in their scale and scope were unprecedented. They have been matched since by the transformations that have occurred in Eastern Europe subsequent to the fall of the Berlin wall and by adjustment programmes adopted in several developed and developing economies. But, at the time, the breadth of New Zealand's reform programme was without parallel. On the other hand, many individual measures had precedents in other countries. And the nature of the changes undertaken was almost entirely orthodox in character.

11 What was striking was the extent and speed of reform. In short order the government:

- reduced the imbalance in its own fiscal accounts;
- rewrote much of its taxation law, reducing marginal tax rates and removing many allowances and deductions;
- restructured its trading activities from departments of state to publicly-owned corporations, many of which were subsequently sold to private owners;

- opened the economy to international competition, by reducing tariffs and removing quantitative import controls;
- removed a wide range of internal economic restrictions and regulations;
- reformed aspects of the labour market; and
- transformed the structure and management of the public sector.

A full list of the reforms is attached as an appendix to this paper.

Reforms in detail

12 In the following pages I sketch the main outlines of each of these areas of reform. More detail is available in the OECD country reports of the time, as well as in official New Zealand publications such as the annual Budget papers. A point to be emphasised is that although it is convenient to analyse reform area by area, that is not how decisions arrive at a Cabinet table. All of these areas were tackled simultaneously. Indeed the government consciously sought to underscore the objective of equality of sacrifice by moving at the same time on as many fronts as possible.

Fiscal Reform

13 Fiscal reform remained a key objective and an intractable challenge throughout the reform period. In the fiscal year prior to the change of government (i.e. 1983/84) the deficit stood at 9% of the country's GDP. Expressed another way, it amounted to roughly half of all private sector savings, which helps to explain that government's move to control interest rates, as well as its requirement that banks invest fixed proportions of their reserves in government bonds. Despite the many measures employed to reduce government expenditure and increase its revenue, it was not until 1992 that the government accounts finally moved back into surplus (where, happily, they have remained ever since).

14 In the first instance, the process of restoring balance to the public accounts and thereby easing pressure on interest rates, was addressed more by raising revenue than by reducing government expenditure. Tax "loopholes" were closed and "tax expenditures", in the form of selective subsidies, were withdrawn. In addition a number of previous government investments were either realised or abandoned.

15 In response to the previous oil shocks, the government had sought to reduce New Zealand's dependence on oil imports by embarking on a series of what were known as "Think Big" projects. These included plants making ammonia and urea, and methanol, the expansion of New Zealand's sole oil refinery, the electrification of much of its main railway line, and the conversion of methanol into synthetic petroleum. Many of these projects had been financed "off balance sheet". Their recognition in the public accounts from 1985 added greatly to the levels of official debt. But their sale assisted in halting the flow of public subsidy, as well as in dramatising the transformation underway. For example, New Zealand's only steel mill was sold to the only bidder interested for NZ$300 million. It had previously received NZ$2,000 million in public assistance.

Corporatisation

16 The change in structure of the government's trading enterprises also had a favourable impact on the public accounts, as well as on the costs faced by private sector customers. The list of departmental activities restructured in this way included:

- the State Coal Mines (covering roughly half the country's coal resources);
- Air New Zealand (the state-owned airline);
- the Tourist Hotel Corporation (a chain of hotels catering to domestic and international tourists);
- the Forest Service (roughly half the country's exotic plantation forests);
- several publicly-owned banks, including the Bank of New Zealand (the largest trading bank), the Housing Corporation (the largest lender to the least wealthy for housing purposes), and the Rural Bank;
- oil exploration;
- the generation of most of the country's electricity (at that time largely from hydro sources); and
- the New Zealand Railways;
- the Post Office, which ran the country's telephone system and a bank as well as delivering mail.

17 Some of these, such as Air New Zealand and the Railways, were already operating as publicly owned corporations, but still subject to the close supervision of the government. Shortly after their appointment new Ministers were invited to approve the purchase of new aircraft engines for Air New Zealand. The Minister of Finance asked the obvious question: "Does anyone here have any expertise in aircraft engineering?" The answering silence was followed by a decision to refer the request back to the company. Surely its role was to make such decisions and the government's to hold it to account for its overall commercial performance.

18 Whilst a corporation in name, the Railways still received substantial public subsidies. These were gradually removed. This had two results: while staffing numbers fell, ultimately to around 40% of the previous level, but the volume of freight carried remained roughly the same, allowing considerable reductions in the costs charged to rail freight customers. Similar changes occurred in other enterprises. The cost of coal fell, as the workforce shrunk by half within its first year of trading, whilst winning the same volume of coal. The Forestry Corporation, which replaced the commercial arm of the former Forest Service, made many of its former employee's self-employed contractors, and saw its costs fall. At the same time the arm of the Forest Service that had previously had responsibility for indigenous forest protection became the Conservation Department, a core department of state with purely non-commercial objectives. Surplus land, not required by either agency, was sold.

19 The government which followed two elections later, that is in 1990, continued the reform programme. In particular, it addressed a number of areas of social expenditure, which the initial reform programme largely ignored. Thus in the 1991 Budget social security payments continued to be income tested (breaking a commitment to remove the "superannuation surcharge"), the Family Benefit (long paid to all mothers irrespective of their own or their household's income) was abolished, and the level of other transfer payments, such as the unemployment benefit was reduced. Accident compensation entitlements were also narrowed. At the same time the qualifying age for the retirement benefit was raised, gradually over

the following years, from 60 to 65. These measures greatly assisted the return to budget surpluses from 1992.

20 Thus it might be said that New Zealand's reform programme concentrated first on those areas of economic activity that went to the heart of the country's economic performance. Fiscal policy was no exception, but the areas of initial emphasis were those that had most immediate impact on the trading sector, be they tax rates or subsidy levels. The performance of the government's own trading activities was also an early and central focus. Only when reform in these areas had been largely exhausted did attention turn to the area of social expenditure.

Tax reform

21 Tax reform attracted considerable attention from the trio of Finance Ministers in the 1984-87 government. By 1989 the result was being described as "probably the least distorting tax system in the OECD"[2]. Marginal income tax rates were lowered, in two stages, from 66 cents in the dollar to 48 cents and then to 33 cents. At a time of burgeoning fiscal deficits this was achievable only through the elimination of almost all personal and business deductions and allowances, save only those incurred directly in the earning of the income in question. Thus home mortgage payments became no longer deductible. So too health insurance payments and private school fees, despite the argument that these assist to reduce public expenditure.

22 Life insurance and private superannuation payments were also no longer deductible. Instead, the taxation of all forms of savings moved to what became known as the "TTE" basis. That is, in the absence of any up-front deduction or allowance, these were invariably paid from tax-paid income; the earnings of the savings scheme were in turn taxed; but the resulting payments to savers were then exempt any further tax. It was as if all savings schemes were being treated as personal bank accounts, into which savers might pay their after-tax incomes, on which any interest earnings would be taxed, but from which any drawings would be regarded as tax-paid capital, not further taxable income.

23 Mention has already been made of the goods and services tax announced in the 1984 Budget. This took to 1986 to introduce. When it came it proved as comprehensive as the government's general programme, with only one little-acknowledged exemption (for domestic, as distinct from business, rent). All other goods and services were subject to tax, initially at the rate of 10%, then three years later at 12.5%. Thus even food, clothing, books, health services and local government rates were made subject to the new tax. This last was approved by the government party caucus by a margin of just one vote, the principal objection being that it amounted to a "tax upon a tax". But so, the Finance Ministers responded, did applying GST on top of the import duty on imports, and the tax stayed. Indeed it survives today.

24 Despite initial opposition, the goods and services tax proved an enduring legacy of the reform government, later being copied in Australia and many other countries. Part of this reaction is explained by the accompanying changes (particularly lowering the rate of direct income tax and raising social security payments in compensation), and part by the extensive effort to educate businesses as to the compliance requirements. Acceptance was also aided by New Zealand's near-universal business practice of rolling the tax into a single inclusive price for goods or services.

[2] OECD 1988/89 New Zealand Economic Survey

Thus the tax rapidly became hidden to those paying it: a boon achieved, for once, without legislative fiat.

25 Other tax changes included the elimination of the double taxation of company dividends, through the introduction of a system of “imputation credits”, and the alignment of the single rate of company taxation at 33 cents in the dollar with the top rate of personal income tax (although the latter is no longer the case). With lower tax rates and many fewer tax “loopholes” and special provisions, many businesses and individual tax payers found it much less advantageous to structure their businesses around the details of the tax code. Many accountants and tax advisors shared anecdotes of their clients’ reduced drive to avoid tax, and in many instances, such as the introduction of GST, the government exceeded its estimate of the expected tax take. It seemed that business was now concentrating on productive effort rather than tax minimisation.

Opening the Economy

26 Opening the economy to the outside world reinforced this renewed focus on the essentials of business. Prior to 1984 the previous government had begun tentative steps to remove, or at least reduce the impact of, New Zealand’s long-standing system of quantitative import controls. It had begun tentatively to tender the annual issue of import licences. It had also commenced a detailed programme of reviewing one by one each of New Zealand’s most sensitive (that is most protected) manufacturing industries.

27 Import licensing, combined with high rates of import tariff, meant that by 1984 New Zealand was almost certainly the most-protected against import competition of any member of the OECD. Within little more than a decade it was to become the least protected.

28 Undoubtedly the principal catalyst for change was the Closer Economic Relationship treaty concluded in 1983 between Australia and New Zealand. Each of these neighbours was the other’s largest market for manufactured exports. Each was a significant source of imports. Australia also maintained quantitative import restrictions in the form of tariff quotas – although not to the protective extent of New Zealand’s import licences. For many years the two countries had made annual attempts to find areas in which they could agree to eliminate their mutual tariffs. Increasingly these discussions had ended in frustration – once, famously, they agreed to eliminate the tariffs against each other on peas and beans, and on another occasion in respect of taps, cocks and valves. Even when tariffs were lowered or eliminated, quantitative restrictions remained. What was required, far-sighted Ministers finally agreed, was a step that truly transformed the relationship, if not their two economies.

29 In CER (as the treaty is known in New Zealand) the two countries agreed that by 1995 all tariffs and other import restrictions between the two would be eliminated. In 1988 it was agreed that progress since 1983 had been so satisfactory that the end-date was brought forward to 1990.

30 The knowledge that within a few years Australian competitors would be able to land their goods, without limit or restriction, in New Zealand galvanised the nation’s industrialists. Many feared their rivals “across the ditch”. Others saw opportunity. The most forward-looking grasped that to compete in Australia they would need to meet international standards of price and quality. Significantly, CER was a free-trade agreement not a customs union. It did not impose a common external tariff against

imports from third countries and nothing obliged either country to maintain any degree of protection on behalf of producers in the other. One manufacturing leader proclaimed that he was darned if he would see New Zealand "handed on a plate" to Australia. But rather than seeking to retain costly and controversial forms of industry assistance, his answer was to lift New Zealand's performance.

31 Smaller in scale, but perhaps of some international interest, was the SPARTECA agreement that New Zealand and Australia entered into with members of the South Pacific Forum in 1981. This allowed goods from Pacific island countries to enter New Zealand and Australia duty-free. In effect it was a one-way free trade agreement. While going some way towards assisting these small nations to advance their own development, it also provided further pressure on New Zealand (and Australian) producers.

32 Prior to 1982, import licences had been allocated on a purely historical basis. That is, only those who already held and used licences were entitled to have them renewed. Licences could not lawfully be traded. In theory, the only way for a prospective new entrant to obtain an import licence was to purchase a company that already held the requisite licence. Undoubtedly this system inhibited competition. It also reinforced a sense of incumbent privilege. It did little to encourage an export orientation among manufacturers. Rather the prevailing ethos treated exporting as a marginal activity to be undertaken only from a secure domestic base. Typically companies either concentrated on serving only the domestic market, or regarded the export of 10% of their production as a great success. These attitudes and that performance were all soon to change.

33 The removal of import licensing took place over several years. The tendering of licences (begun tentatively in 1982, and then in greater volumes and categories from 1984) helped determine the pace of the removal programme. Tender premiums were used to judge the volume of licence to be made available for each rolling 6-month tender period. Licence categories for which there was no or little demand were placed "licence on demand", then two years later all restrictions were removed. Sensitive industries, such as automobiles and clothing, were the subject of separate review, setting both licence volumes and tariff rates for the following years. The list of industries with their own industry plan now strikes the author as embarrassingly wide. It ranged from pet food to salt, from tires to cement. Painstakingly each was the subject of detailed examination. And in each case a timetable was established to reduce tariffs and eliminate quantitative protection.

34 The last import licences (in respect of clothing) were removed without fanfare in 1992. By then the burden of protecting New Zealand's domestic industries was being absorbed solely by tariffs – and these were increasingly being set in a multi-lateral context, always remembering the crucial impact of the by then duty free access from and to Australia.

Behind the Border

35 At the same time as New Zealand opened its borders it also removed much out-dated internal regulation. Many controls were abandoned outright. The Wheat Board, for example, disappeared and with it the Board's monopoly right to import wheat and the requirement that flour millers be licensed by the Board. At the same time wheat farmers were no longer able to oblige the Wheat Board to acquire their wheat, leading to more rational farming choices and the import of wheat at competitive prices, especially from Australia.

36 The Poultry Board similarly disappeared and with it the system of "egg entitlements" (or licences by another name), which had limited producers of eggs (but not those of chicken meat) to volumes set by the Board. The Board protested that its abolition would mean that the price of eggs would now fluctuate from season to season, to which this Minister replied: "You mean like lettuces?" The suggestion that consumers would be unfamiliar with, or even disconcerted by, seasonal price variations still seems absurd.

37 Milk producers were no longer obliged to deliver milk to the home and gradually its sale shifted to supermarkets. At the same time the controls on milk packaging were removed, facilitating its production in cartons rather than glass bottles. Regulations controlling the transport of dairy products were repealed.

38 More significantly, a number of restrictions on foreign ownership were relaxed. In contrast to its high level of protection against imports, New Zealand had not imposed high barriers against overseas investment. But some restrictions did exist and each of these was reviewed and a number removed. Those to go included rules against foreign ownership of broadcasting media and financial institutions.

39 Investment in broadcasting was also facilitated by the introduction of a system of tendering for radio spectrum (not unlike the process used to allocate import licences). This saw a large number of radio stations spring up, especially in Auckland, New Zealand's largest city.

Utilities

40 The transformation of New Zealand's electricity sector could easily occupy a paper all its own, but, in brief, the government pursued the same process of removing unnecessary restrictions and facilitating competition as it followed generally.

41 In the first instance the government surrendered its exclusive right to generate electricity. Initially this led some pulp and paper firms to co-generate, feeding surplus electricity back to the central grid. Next the New Zealand Electricity Department was converted into a corporation with private sector directors, then subsequently divided into four competing companies, one of which has since been privatised. These companies both generate and retail electricity, while the high-tension grid is owned and operated by a separate state-owned enterprise.

42 The distribution of electricity from the grid to individual customers is now undertaken by "lines companies", which previously were ad hoc, locally elected public authorities, with their own exclusive franchise areas. In 1992 these franchise areas were abolished and the previous electric power boards were re-formed as electricity companies, typically owned by trusts responsible to local electricity consumers. As the new companies began competing with each other they faced the need to remove the previous internal cross-subsidies between different classes of consumers. Typically this resulted in a fall in charges to commercial and industrial consumers and a rise in those faced by residential customers. The resulting controversy led to the forced separation of lines and generation/retail ownership – so as to remove any opportunity for exploitation of the monopoly lines function. More latterly (in 2003) the lines businesses have become subject to conventional utility rate regulation.

43 In a similar manner the telecommunications sector was first de-regulated, then privatised, and more latterly made the subject of conventional (in the sense of the adoption of an internationally standard approach to) utility regulation. Up to the mid 1980s, New Zealand's telephones were provided and operated by an arm of the Post Office. The Post Office was treated as a government department, answerable directly to a government Minister.

44 In 1987 the Post Office was split into three new commercial entities, all constituted as state-owned enterprises, i.e. limited liability companies, owned by the government but with private sector directors: New Zealand Post, Postbank, and Telecom. Postbank was sold to private interests in 1989 and Telecom in 1990, initially to American purchasers.

45 Finally, in terms of internal de-regulation, the underlying statutory authority for much of the previous controls, the Economic Stabilisation Act, was repealed. This had originally been adopted in 1947, in the aftermath of the Second World War. In subsequent years it had more than once been used to impose sweeping wage and price controls as well as quite specific interventions. Its removal was now hardly noticed.

Labour Markets

46 While the product markets for both industry and agriculture were the subject of sweeping changes, so too was the labour market. 1987 saw the abolition of compulsory arbitration, a measure for which New Zealand had earned fame at the turn of the previous century. At the same time the government sought to rationalise the number of trade unions. Now unions were to have at least 1,000 members. Over the next three years the number of unions fell by two-thirds. Perhaps more surprisingly the number and severity of industrial disputes also declined dramatically.

47 More far-reaching in its consequences was the State Sector Act of 1998. In effect this introduced a regime of "enterprise" bargaining in the core public sector. It also transformed the nature of public sector employment. The previous extensive code of rules governing employment in the public service was abolished. Amongst other things this meant that applicants from outside the public service no longer needed to demonstrate "clearly more merit" when competing with internal applicants for public sector appointments.

48 More strikingly, heads of government departments could no longer be termed "permanent heads". Instead they became chief executives and were placed on five year contracts. They became responsible for all employment, including industrial negotiations, within their department. At the same time the obligations to use the Government Accommodation Board, the Stores Board, and the government's cleaning service were abolished, along with a wide range of Treasury controls. In the government's eyes this meant that chief executives had simultaneously acquired clearer accountability for the performance of their department and greater flexibility with which to achieve this. One small indicator of change was the number of government activities which chose to relocate to cheaper accommodation outside central Wellington. The Stores Board was reformed as an SOE, competing with other suppliers, and cleaning services were now provided privately.

49 In 1991, following the change of government at the end of the previous year, the new government moved to address labour relations in the private sector. Its landmark reform was entitled the Employment Contracts Act. The previous system of national employment "awards", whereby all employers in a particular sector or industry were obliged to pay the same minimum rates, was abolished. Crucially, awards had been binding even on those who subsequently entered an industry, thus providing a floor for wages, and also frequently failing to recognise the differing circumstances of local regions or individual firms. The new Act allowed both collective and individual "contracts", but favoured the latter in several respects. At a stroke New Zealand's labour laws moved from compelling workers to belong to trade unions to not acknowledging unions at all. Unsurprisingly the law has since moved back to a more conventional mid-point, that continues to facilitate both individual and collective agreements, without undue privileges for union members.

Reform of Government

50 Reform of the state sector was further advanced by the passage in 1989 of the Public Finance Act. In many respects this formed the financial counterpart to the State Sector Act of the previous year. The Public Finance Act made two major changes: first, it moved the basis of financial reporting and control within the government from a focus on inputs (such as salaries, travel, and maintenance) to concern with outputs (such as policy advice, or particular regulatory services). Combined with the flexibility of management provided by the State Sector Act, this greatly changed the focus of both public sector managers and politicians. Provided managers stayed within their overall approved budgets they were free to move resources, for example between personnel and equipment or between travel and accommodation. And the government in turn focussed less on the "how" of government and more on the "what". This change was symbolised in the new performance contracts negotiated between Ministers and their new chief executives.

51 In the second major change in the Public Finance Act the government's accounts moved from a cash to an accrual basis. This latter move took three years to achieve, by which time the government was able to publish a complete public sector balance sheet. Finance Ministers spent some nervous moments contemplating how markets would respond to the news that the government's liabilities exceeded its assets. They asserted that what mattered was not the opening position but the direction of change over time, i.e. whether the position got better or worse from here. Similarly, arcane disputes as to how to value such items as roads, or library books (did valuing them imply that they were to be sold?) mattered less, we argued, than that the chosen methodologies were applied consistently over time, so that changes in value could be identified.

52 As a set of financial signals, the adoption of accrual accounting proved arguably almost as significant for the public sector as floating the dollar was proving for the economy as a whole. In particular it brought public attention to the existence of liabilities that had long been out of sight, if not of mind. An example was the guarantee against damage from earthquakes of almost all buildings, provided by the Earthquake and War Damage Commission, a Crown entity. After much debate this guarantee was confined to residential buildings only, leaving businesses to obtain their own insurance cover.

53 More significant was the government's liability for the pensions of retiring civil servants, especially since these were typically based on final salaries on retirement, i.e. on the basis of defined benefits rather than individual contributions. This liability was also largely unfunded, with the government choosing to meet its pension obligations year by year. Accordingly, in 1990, the government closed the main Government Superannuation Fund to new members. The incoming government at the end of that year extended the closing date by a year, but then confirmed the previous decision. Apart from the previous entitlements, which have been "grand-fathered", as we say, New Zealand's public pension schemes, including those applying to Members of Parliament, are now all based on members' contributions.

54 The Public Finance Act also changed New Zealand's fiscal year to end in June rather than March. Since the annual tax collection remained predominantly in March, this gave the government a better picture of its revenue before finalising its annual budget. The Act also laid down a strict timetable for the production of both the annual budget and the government's accounts, thus avoiding the previous absurdity of budgets being approved by Parliament just as the fiscal year expired.

55 Moving outside the main period of reform for a moment, the passage in 1994 of the Fiscal Responsibility Act saw the government obliged by law to follow generally accepted accounting practices in relation to its financial statements. By then it was already doing this. That Act also required the Treasury to prepare and publish a detailed and updated fiscal forecast and statement of economic conditions prior to each future general election. This change was aimed at avoiding the surprises as to the state of the government's affairs that had confronted the incoming governments in both 1984 and in 1990

56 The Fiscal Responsibility Act also required that in future the government adhere to certain "principles of responsible financial management":

- Reducing public debt to prudent levels;
- Thereafter ensuring that the government's operating expenses do not exceed operating revenues on average over time;
- Maintaining Crown net worth as a buffer against adverse risks;
- Managing fiscal risks prudently;
- Pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of future tax rates.

57 In the writer's view these principles are significant less for their binding nature (they are after all expressed in language that leaves wide room for interpretation) than for the fact that by the mid 1990s they were entirely uncontroversial.

The consequences of reform

Economic Impacts

58 In summary, New Zealand's economy first expanded, as the burden of excessive control was lifted, then contracted as the immediate consequences of the far-reaching changes were felt. The expansion phase was boosted by the lifting of the controls on wages and salaries imposed in 1982 and the 20% devaluation following the change of government in 1984. The subsequent tightening was reinforced as rising interest rates forced up the value of the New Zealand dollar, and the share and property markets collapsed (world-wide) in October 1987.

59 Gradually however, most of the critical indicators began to return to more acceptable levels. Inflation fell back to single figures by 1988 and less than 1% in 1992. The government's accounts moved into annual surplus from 1992. Unemployment rose from 4% in 1987, when New Zealand first adopted internationally comparable survey methods of determining this measure, to 11% in 1992 and then gradually back to under 4% at the present time. Public debt was more than halved as a share of GDP.

60 Only the balance of payments remained both negative and high in proportion to the country's income. But thanks to the repayment of public debt and the restoration of the government's accounts this now represents an imbalance purely in private payments. As in other countries, controversy continues to surround its interpretation. If Australia, with whom New Zealanders are accustomed to compare themselves, can continuously maintain balance of payments deficits then perhaps New Zealand should not be overly anxious at this sole negative feature of its current economic performance.

61 Best of all, the rate of growth picked up, seemingly to a new plateau. Whereas between 1986 and 1994 New Zealand had managed only 0.3% growth each year, from 2000 it has managed almost ten times that rate of growth. Stronger growth is now widely acknowledged as the result of the investment in reform.

Social Impacts

62 The most obvious social impact of the economic reforms was the increase in the number of people displaced from their employment. Historically New Zealand had enjoyed a very low rate of unemployment - a fraction of 1% for much of the early 1970s - partly as a consequence of the high level of protection against imports. Opening the economy disrupted many businesses, especially in the manufacturing sector.

63 Within the state sector, the commercialisation of trading activities, such as forestry and the railways, also saw sharp falls in the numbers of those directly employed. Initially this down-sizing was addressed through voluntary redundancy. Many former forestry employees, for example, chose to become self-employed contractors.

64 The removal of farm subsidies affected farm values, and falling farm incomes combined with rising interest rates caused many farmers to lose some or all of the equity in their farm. A few farmers literally walked off their land, but this outcome was rare. Instead the government established a painstaking process of reviewing each farmer's position, whereby each lender, including the government-owned Rural Bank, shared the burden of writing-down the value of each farmer's outstanding debt. In absolute terms, far more employment was lost in cities than in rural towns.

65 Perhaps for this reason the agricultural sector was more supportive, albeit sometimes grudgingly, of the reform programme, than many urban interest groups. The trade unions in particular were aghast at the government's programme. They were especially affronted that this was happening under a "Labour" government, with whom they had formal ties. But their opposition proved wholly insufficient to divert a government convinced, as it frequently proclaimed, that "there was no alternative" to these reforms.

Political Impacts

66 If the economic and social consequences of reform were relatively predictable, at least in overall terms, the political impacts were perhaps less obvious. At first, in this

writer's view, the reforms were greeted on the whole with guarded acquiescence. Many people were prepared to acknowledge that "things couldn't go on the way they had been". On the other hand, the pace and breadth of change engendered much debate. And for everyone who urged greater caution or restraint it seemed there was someone else who sought to spur the government on to further change.

67 In the result, after only three years, and two months before the economy was to experience a significant downturn, the government was re-elected with an increased majority. Many of its traditional supporters clearly withheld further support (majorities fell in many working class constituencies), but middle class support moved across to bolster the government's overall majority. It was as if many people were saying: "We agree that the changes have not had long enough to work".

68 Three years later, it was a different story. The message was clear: "You have had long enough". Opinions differed as to whether the divisions that Ministers had allowed to appear between 1988 and 1990, in contrast to their earlier public solidarity, had cost them support. Or had the state of the economy been the more proximate cause of their defeat? Either way the period of reform appeared over. Except that it wasn't. The government elected in 1990 continued to narrow the fiscal deficit, to reduce inflation, to reform producer boards, to corporatise power boards, to privatise state-owned enterprises and, in addition, to reform the labour market and to slash social expenditure.

69 In 1993 voters responded. A referendum on the form of electoral system saw a majority opt for proportional representation in place of New Zealand's previous "first past the post" system based on single member constituencies. This change made it unlikely that any single political party would now be able to form a government in its own right. Coalitions between competing parties would instead be required, removing the previous "tyranny of the majority", as the powers of New Zealand's single party governments had sometimes been described. It is certainly important to acknowledge that the absence of both a written constitution and an upper house of parliament meant that very little constrained the reform governments of 1984-92.

70 If public attitudes displayed some backlash against those responsible for reform, nevertheless there seemed to be no sentiment in favour of returning to the old ways of comprehensive and intrusive regulation. Businesses spent less time lobbying in Wellington and more looking for opportunities, especially in export markets offshore. Fiscal surpluses became de rigueur (whereas a previous Minister of Finance had once dismissively pronounced that the public wouldn't recognise a deficit if they fell over it). Only in respect of the privatisation of public assets did public attitudes seem unreconciled to the outcomes of the reforms. But even here, there was little enthusiasm for any re-nationalisation.

The impact on business

71 The commercial sector especially appreciated the change in business climate. Many reforms directly enhanced their opportunities, from lower tax rates to cheaper raw materials. The more flexible labour market reduced the cost of hiring staff – if not in absolute terms, at least in the sense that businesses were more able to control that cost and ensure that it reflected each firm's circumstances.

72 In general terms it had never been very difficult to establish a new business in New Zealand. But the exceptions to this norm were nevertheless important. Banks could now incorporate as limited liability companies (something that previously had required a separate act of parliament). Businesses which needed to import their raw

materials or components were no longer held to ransom by those - often their competitors - with precious import licences.

73 Other reforms also reduced business input costs, from the abolition of licensing of petroleum retailers to the removal of the artificial protection of rail freight against competition from road transport. Import costs fell across the board with the removal of import licensing and the lowering of import tariffs. Many reductions were dramatic, notably the cost of automobiles and farm machinery. The introduction of competition between New Zealand's ports proved crucial to both exporters and importers.

74 Reform of the financial sector reduced the risk margin within interest rates, whilst lower inflation reduced rates in absolute terms. The abolition of controls on interest rates meant that banks again lent to home purchasers and lawyers lost the share of property lending they had artificially acquired when interest rates were set centrally. Risks were now allocated more rationally.

75 The tax system was simplified explicitly – a particular exercise with this objective was mounted in 1990, to be followed by a number of similar programmes since. But more generally the lowering of tax rates and the removal of deductions and allowances streamlined the tax system and reduced the cost of compliance. Some small businesses complained at the cost of registering for and collecting the new goods and services tax, but for many this tax was a boon. Apart from the cash flow implied in holding tax payments between collection and payment, it was generally acknowledged that GST was easy to enforce and meant that those in the "informal cash economy" at least paid tax on their purchases.

76 Above all, the opening of the economy to international competition breathed life into many sectors. Whereas previously many manufacturers had sworn by the notion that exporting required the prior acquisition of a secure domestic base, now new entrepreneurs demonstrated that sound businesses could be built on export opportunities alone. And to some extent the same trends away from both agriculture and manufacturing and towards growth in services have played out in New Zealand as around the globe.

77 Thus a whole new "industry" sprang up in the 1990s providing education to overseas students, both in New Zealand and, in smaller numbers, in the foreign students' home countries. Similarly electronic communications and technology have created new business opportunities. These trends however have been more readily accepted, and the response to them has been more sure-footed, as a result of the reforms which opened New Zealand to international pressures and opportunities. In particular, the maxim that to compete successfully in a global world we must ourselves be internationally competitive struck a chord with both the business sector and policy makers. Now New Zealand compares its performance with that of others the more readily for knowing that the option of closing its borders is no longer available. And it is not just the government which makes such comparisons. So too do private capital markets. For better or worse (though there is now little debate as to which) New Zealand's markets are open for business.

78 It is a source of modest pride that New Zealand has for the last two years topped the World Bank's rankings for ease of doing business. Given the competition, this result has not been easy to achieve. But undoubtedly the change of mindset, in favour of reducing the cost of doing business and away from "heavy-handed" regulation, has contributed to this result. Two years ago, in "Doing Business in 2004" the World Bank conclusion that "(c)ountries that consistently perform well across the Doing

Business indicators do so because of continuous reform." Undoubtedly New Zealand's experience exemplifies this.

Closing Observations

79 Let me conclude with a number of observations on the processes the government followed during the main reform period. These are offered in no particular sequence or order of importance, partly because most of them were not matters of deliberate or conscious determination at the time. Indeed in some respects what follows might still be a matter of debate, even amongst those responsible for the reforms.

No Grand Plan

80 The first point is that there was no grand plan. The government did not set out with a strategy or critical path which laid out the requisite decisions in neat and logical order. Government and politics aren't like that. Instead, invariably, ministers struggle to hold on to a sense of what is important as they wrestle to dispose of what is urgent. Perhaps we were lucky in the number of issues that were both urgent and important.

81 We did however begin with clear support for change. This did not take the form of support for the details of individual changes. Indeed many of these, although orthodox in an economic policy sense, nevertheless came as a surprise to those directly affected. But the programme as a whole attracted widespread support. There was a general, if not a specific, grasp that things needed to change.

82 Many interest groups embraced change even when it affected them directly. For example, wheat growers argued at first against removal of the Wheat Board's monopoly, despite the prospect of Australian competition. On being given four years to adjust they returned to plead that de-regulation be sped up. Growers who had been allowed to sell direct to flour mills had an advantage the others argued was unfair. In the result it took only two years to remove the previous protections.

Not Unfettered De-Regulation

83 An important point is that not all 'reforms" amounted to the simple repeal of previous controls. "De-regulation" inadequately describes the reform process. More accurately, the government reviewed the entire system of regulatory controls, item by item. For example, on the lifting of the general price freeze in November 1984, 33 separate items still remained under specific price control. They ranged from milk to window glass, from apples and pears to metal pipes and pipe fittings. Each was painstakingly reviewed and in each case a recommendation was made to the Cabinet that control was no longer required. By 1990 only the price of wholesale gas continued to be set by officials.

84 In some cases regulation was strengthened. The most obvious and important example is New Zealand's competition or anti-trust legislation, the Commerce Act. This governed both monopolistic behaviour, such as predatory pricing, and the acquisition of monopoly power through acquisition or merger between businesses. In 1986 this law was strengthened, partly to come into line with its Australian counterpart. Even here however, outdated aspects were abandoned, for example the previous provisions against "profiteering".

85 The passage of the Commerce Act proved controversial, especially amongst officials and Ministers. Some within the Treasury argued in favour of relying on open borders

to create market "contestability". Others thought this insufficient by itself. Once the law was reformed however, Ministers and officials found that the stronger rules against monopoly behaviour provided useful arguments in favour of removing other unnecessary restrictions. The flour-milling sector previously mentioned was a good example.

Micro-economic Reforms Critical

86 Another important point is that whereas the government's principal concern in 1984 was to achieve stability in the "macro" indicators, the principal means of achieving this required that it address a daunting number of "micro" markets. Some years into the process the writer stumbled across this advice from the economist, Mancur Olson: "The best macroeconomic policy is a good microeconomic policy. There is no substitute for a more open and competitive environment."3 New Zealand's experience exemplified this maxim precisely.

87 One technique employed by the Minster of Finance for the first four years, Roger Douglas, was to craft reform "packages" affecting unrelated sectors in disparate ways. This helped to maintain the momentum of reform. It also helped underline the notion that everyone was being expected to sacrifice their previous privileges. More than one affected party confessed that they had thought to challenge the government's decision, but seeing who else was affected they forbore.

88 Perhaps the high watermark of such an approach was achieved in the Government Economic Statement of December 1987, two months after the share market crash. This included:

- the details of the new system of company imputation credits;
- changes to the taxation of international earnings;
- changes to the tax treatment of superannuation and life insurance;
- a new tax regime for petroleum mining;
- a number of other "base-broadening measures" including changes to the tax treatment of charities and sports bodies;
- changes to the provisional tax system (used by the self-employed);
- changes to the system of withholding tax payments, for example in relation to foreign dividends;
- a new, long-term tariff policy;
- a revised "assistance policy" for the motor vehicle industry (that included removing them from import licence protection altogether from the beginning of 1989);
- the de-regulation of the telecommunications industry;
- wholesale reform of local and regional government (which ultimately reduced the number of local authorities from 700 to less than 100); and
- a wide-ranging review of occupational regulation.

89 Arguably this particular package included one measure too many, as it also foreshadowed the reduction of personal income tax to a single rate from October 1988. This was not to be, as the Prime Minister in particular thought better of this move and unilaterally announced its abandonment two months later. Understandably this led to tension between the Prime Minister and his Finance Minister, culminating in the latter's resignation the following year.

[3] *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, Yale University Press, 1984

90 Until this unfortunate disagreement, and in many respects even afterwards, the government proved remarkably coherent and collegial. It had waited nine years to get into office and had to look back to the 1940s for a time when its party had been re-elected to successive terms of office. So the maxim of “hanging together or hanging separately” struck home.

Not Picking of Winners

91 For all our enthusiasm for packages of reform, we sought with some care to avoid the trap of “picking winners”, that is of seeking to identify the sectors of the economy most likely to prosper and bestowing on them particular assistance or support. There were several reasons for this forbearance. In particular the previous decade had seen a number of such endorsements from the previous government, especially in relation to the energy sector. These decisions had invariably proved expensive and in retrospect looked unfortunate. Greater neutrality on the part of government seemed preferable both on efficiency and fiscal grounds.

92 Another motivation behind our caution in seeking to identify leading sectors or areas of likely growth was the sense that our information as government was too imperfect. As the Minister responsible for domestic industry I received an early piece of sage advice from an old hand: “Don’t presume that industries in their entirety are either destined to succeed or fail. Within each sector will be some who will prosper and some who will fail.” The trick it seemed was to determine which was which. But the policy instruments available to any government are arguably too blunt for this task. Better it seemed to lay out clear directions and allow investors and managers to make their employment and capital choices accordingly.

Home Grown Solutions

93 In a similar vein, the direction of change seemed more important than the distance travelled at any one point of decision. Most issues required several initiatives before one could be satisfied with the outcome. But did this matter? Must all reform take the shape of a single “big bang”? I think not. What was crucial was surely the consistency of approach. If one area took several years to address and another only months, what mattered was that private decision-makers saw the likely direction of change and made investment and employment decisions accordingly. Reducing import barriers, for example, took more than ten years. But from the outset few could doubt the ultimate need to be competitive.

94 I should like to conclude with this point: what we did was home grown. I do not mean that the intellectual ideas involved were all fashioned locally. That is far from being the case. Indeed in almost all respects we could look to precedents in many other countries. Australia was proceeding down a very similar path at almost as vigorous a pace and provided many useful parallels as well as encouragement from political colleagues. Other English speaking countries, notably Canada, the United States and the United Kingdom were fertile sources of policy ideas.

95 But the order in which issues were tackled, and indeed the large number of issues that successive governments chose to tackle, were entirely determined on the basis of local needs. The sequencing was often far from ideal. Theory suggested addressing the labour market well before the financial sector, for example. But politics, so it has been said, being the art of making possible that which is necessary, we did what we could when we could.

96 What this means is that the "New Zealand experience" will not readily transplant elsewhere, at least taken as a whole. That some have found encouragement in what we achieved is an enduring satisfaction. But we did not set out to impress anyone else, nor to establish any grand theory or model. Rather we reacted, as we thought belatedly, to a combination of challenges that had lingered too long unaddressed. We did what we did in the service – as we saw it - of our country. And were held to account as we deserved to be.

David Caygill
(former New Zealand Minister of Finance)

May 2006

Appendix

SUMMARY OF REFORMS

Import protection

Phasing out of import licensing	1983-89
Reduction of import tariffs	1986-92
Removal of specific protection for 18 specific “industry plan” sectors and incorporation into general tariff reform programme	1984-92
Slower reduction of tariffs on remaining “special” industries (textiles, clothing and footwear)	1987-96

International capital controls

Removal of controls on outward investment/borrowing	1984
Free entry of foreign direct investment (except for offshore islands, farmland and fishing)	1985-89
Very liberal regime for portfolio investment/repatriation of profits	1985

Exchange rate

Deregulation of foreign exchange trading	1984
20% devaluation against a basket of currencies	1984
Free float of currency on foreign exchange markets	1985

Monetary policy

Devotion of monetary policy instruments to deflation with target of price stability (0-2%) by 1992	1989
Independence of Reserve Bank from government formalised	1989

Finance

Abolition of credit growth guidelines	1984
Removal of separate requirements for trustee banks, building societies, finance houses, stockbrokers	1985-87
Removal of entry barriers to banking	1985-86
End of formal financial controls (reserve ratio requirements, sector lending priorities)	1985
Removal of interest rate controls	1984
Abolition of export credit guarantees	1984
Removal of ownership restrictions on financial institutions	1985
Liberalisation of stock exchange	1986

Energy

Corporatisation of State Coal Mines	1987
Financial restructuring of oil refinery	1988-91
Removal of licensing of service stations	1988

End of price control (except on wholesale sale of gas)	1984-88
Sale of Crown gas exploitation/distribution interests	1988-90
Sale of other Crown energy interests	1990-92
Corporatisation and restructuring of electricity generation, transmission and distribution	1986-91

Transport

Removal of restrictions on road/rail carriage	1983-86
End of quantity licensing on trucking	1984
Corporatisation of state rail, air and bus interests	1982-84
Corporatisation/sale of airports and Airways Corporation	1986-91
Opening up of domestic aviation industry	1987
Granting of a number of landing and on-flying rights to foreign airlines in New Zealand	1989
Corporatisation of ports	1989
De-regulation of taxi industry	1990
De-regulation of stevedoring industry	1990
Tendering of local authority bus services and liberalisation of licensing requirements	1990-91
Removal of cabotage on coastal shipping	1991

Agriculture

Termination of Supplementary Minimum Prices on agricultural products	1984
Termination of domestic boards for eggs, milk, wheat	1984-88
Agricultural tax concessions removed	1985
Termination of concessional financing of producer boards	1986-88
Review of compulsory producer marketing board arrangements	1987

Research and development

Removal of concessions for research and development – put on equal footing with all investment	1984
Cost-recovery of public R & D work	1985
Establishment of a contestable pool of public funds	1990
Corporatisation of government research bodies	1992

Labour market

Introduction of voluntary unionism	1983
More market-based bargaining, but compulsory unionism reintroduced	1984
Some contestability in union coverage	1987
Radical reform: voluntary unionism, contestable unions of any size, any arrangements for joint or individual employer/employee bargaining	1990

Business law

Efficiency based regime to govern mergers and trade practices	1986
Fair Trading Act governs consumer rights	1986
Review of Town and Country Planning Act	1987-90
Review of securities legislation and takeover law	1988-91
Review of intellectual property regime (patent, copyright, trademarks and designs)	1990-91
Resource Management Act: more liberal planning and environmental law	1991

Crown Minerals Act clarifying property rights to mineral resources	1991

Other de-regulation measures

End of wage/price freeze	1984
End of export market development incentive schemes	1984
Phase out of export performance tax incentives	1984-87
End of price control, replaced by price surveillance powers	1984-88
End of state regulated monopoly rights	1984-89
Removal of some occupational licensing	1985-90
Removal of quantity licensing on almost all industries	1986-88
Removal of producer co-operative tax advantages	1989
End of restrictions on shop trading hours	1989

State trading activities

Removal of almost all state regulated monopoly rights	1984-89
Corporatisation of 24 state-owned enterprises (in transport, finance, tourism, forestry, broadcasting, utilities and service industries)	1987-88
Restructuring to isolate natural monopoly elements of state-owned enterprises	1989-91
Full or partial privatisation of Air New Zealand, Bank of New Zealand, Petroleum Corporation, Tourist Hotel Corporation, Shipping Corporation, Rural Bank, Government Life, Forestry Corporation, Post office Bank, Telecom and others	1987-91
Sale of other assets, e.g. irrigation rights, fishing rights	1983-88
Requirement for local authorities to corporatise Local Authority Trading Enterprises	1990-91
Encouragement to local authorities to sell holdings in airports, ports and local utilities	1991

Taxation

Simplification of corporate taxation	1985
Broadened tax base through goods and services tax on almost all final domestic consumption	1986
Removal of most other indirect taxes	1986-91
Removal of tax concessions for savings – put on neutral footing	1987
Flattening and lowering of personal income tax rate, with top rate aligned with corporate tax level	1988
Review of international tax regime	1992

Expenditure control

Attempts at reduction in government expenditure, especially in administration and industry development	1985-
Reform of core government departments on corporate lines with separation of policy, provision and funding	1986-
User-pays principles for remaining state trading activity	1986-
Abolition of 50 quangos and quasi-governmental organisations	1987
Assignment of proceeds of sale of state-owned enterprise assets to pay public debt	1987-
Redesign of government accounts on more commercial basis, accrual accounting, output-based monitoring systems	1988
Public sector management reform	1989
Renewed attempt at reduction in social spending	1991

Social services

Reform of compulsory education system, based on elected Boards of Trustees	1988-90
Tightening of requirements, extension of age, and reduction of benefits for government funded old age pension scheme	1989-92
Tightening of requirements and reduction of levels of unemployment benefits and other government social transfers	1990
Integration of state housing assistance into private sector rental and mortgage provision	1991
Quasi corporatisation and fee-paying for tertiary educational institutions	1992
Separation of funding from provision of state health services and establishment of Crown Health Enterprises	1992

The Doing Business project

Generating reforms

Caralee McLiesh
World Bank Group

Montreal
May 9th 2006

Doing Business: a time-and-motion study

- You own a business
- You want to do a transaction
- How would this transaction go?
  - how many procedures
  - how much time
  - at what cost
  - how many documents
- How did this transaction go last year?

Doingbusiness indicators

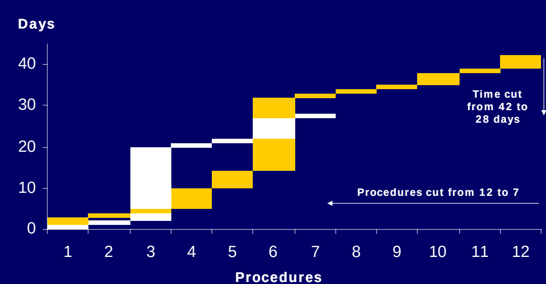
2004	2005	2006

•Regulation of entry
•Labor regulations
• Contract enforcement
• Credit markets
  • credit information
  • collateral
• Bankruptcy
	• Corporate governance
	• Property registration
		• Business licensing
		• Taxation
		• Trade facilitation

	Updates of '04 topics	*Updates of '04 and '05*

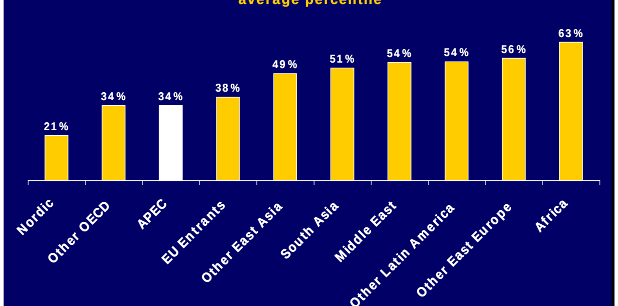
www.doingbusiness.org

Starting a business in Russia: 2002 & 2005



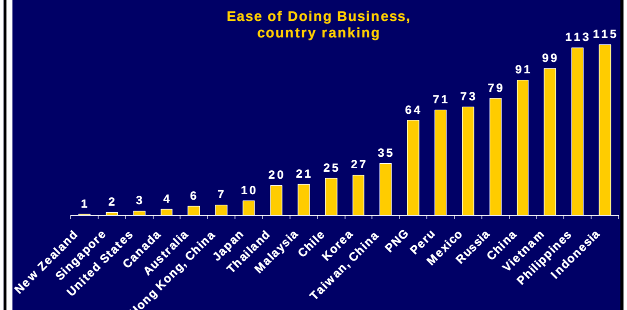
Source: Doing Business database

APEC performs well as a group...

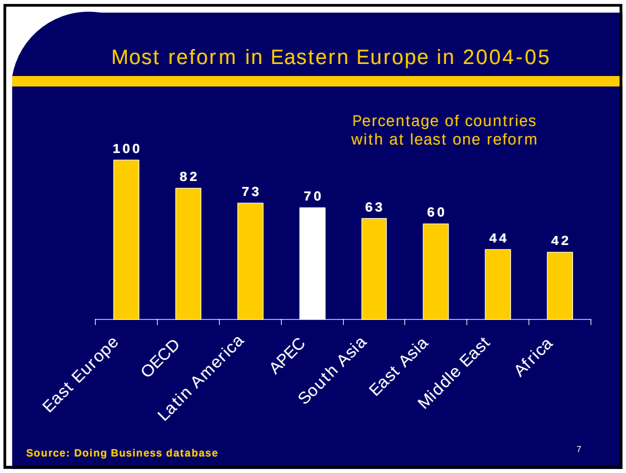


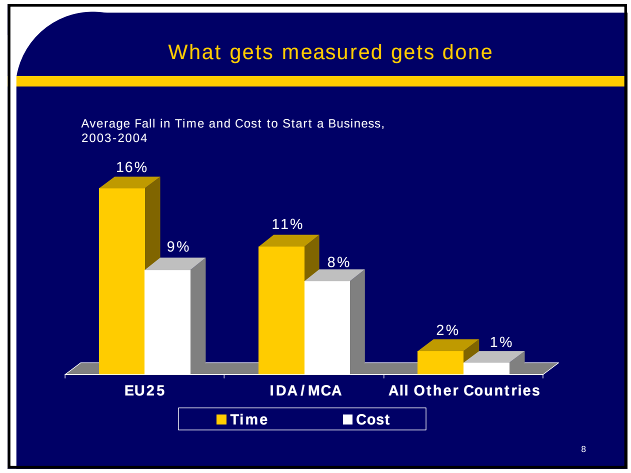
Source: Doing Business database

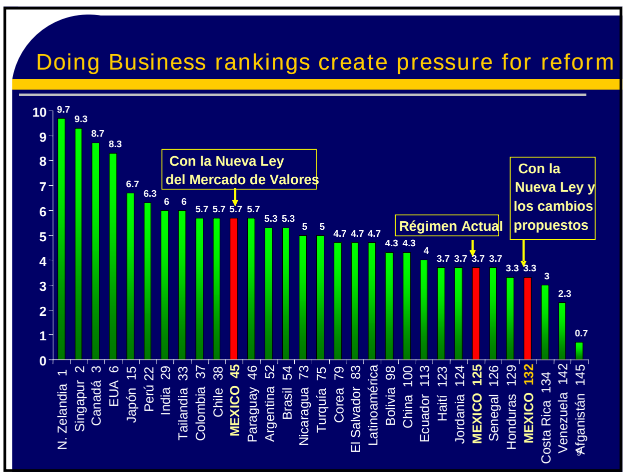
...but with a large range within APEC



Source: Doing Business database





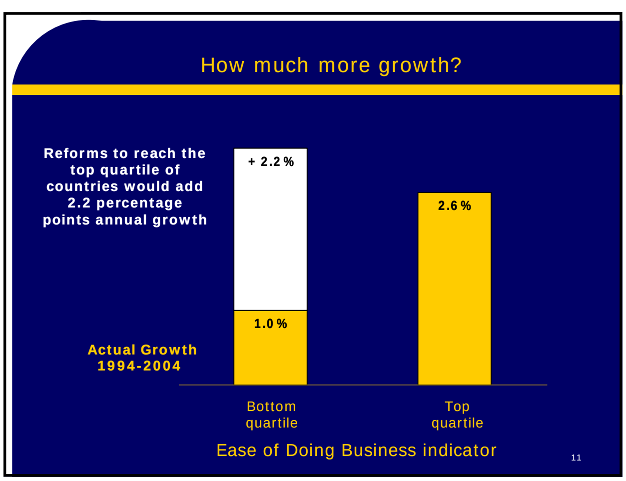


Doing Business shows who to learn from

Starting a business: some best practices and reforms

• Make registration electronic	Australia, Singapore, New Zealand, Canada, Vietnam
•Standardized company documents *Facilitate document processing at registry and prevents errors*	Singapore, Malaysia, Norway
• Reduce or eliminate minimum capital requirement	France, China, Serbia, Japan (planned)
•Single access point for businesses *Makes start-up twice as fast, if number of visits are reduced*	Colombia, Russia, Turkey, Belgium

10



APEC Symposium on Private Sector Development

CASE STUDY – MEXICO

How to improve business environment in México? The Mexican experience on simplifying administrative procedures and regulations

Federal Regulatory Improvement Commission
COFEMER

May 9, 2006
Montreal, Canada

Regulation must contribute to the competitiveness of the countries:

✓ It should be simple, transparent and practical;
✗ It should not be complicated inefficient or just "for experts".

✓ It should minimize distortions in the market;
✗ It should not create more distortions or privileges for a few.

✓ It has to be coherent with the legal framework;
✗ It cannot be against the legal Mexican system or its reality.

✓ It must produce more benefits that costs;
✗ It must not establish unnecessary obligations.

✓ It should be drafted in conjunction with the productive sectors;
✗ It cannot be made in an obscure manner.

¿How COFEMER contributes to the competitiveness?

COFEMER

Federal Register of Formalities and Services (RFTS)

Collaboration Agreements with States and Municipalities, and the Rapid Business Start-up System (SARE)

Regulatory Impact Analysis (RIA)

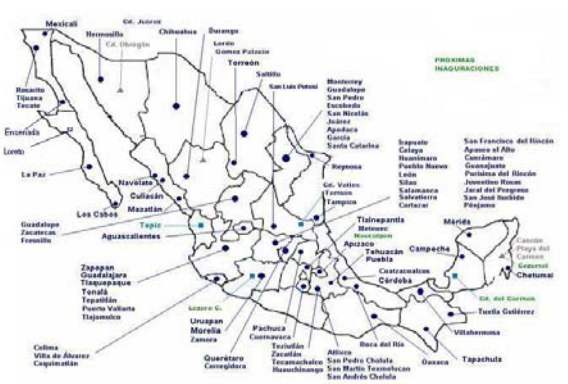
Regulatory Reform Programmes (PMR)

Reducing administrative burdens in the municipalities context

COFEMER has worked since 2000 in **simplification strategies for reducing administrative burdens** in the federal level, and also with the regulatory powers of **states and municipalities**, by:

- ►Support for state and municipal regulatory improvement programmes by the System for Rapid Business Start-Ups (SARE)
- ► Regulatory co-ordination agreements with 31 states and municipalities
- ► Diagnosis of municipal regulatory quality and guides for municipal regulation development in conjunction with academic institutions.

Cities with SARE May 2006



Doing Business in Mexico

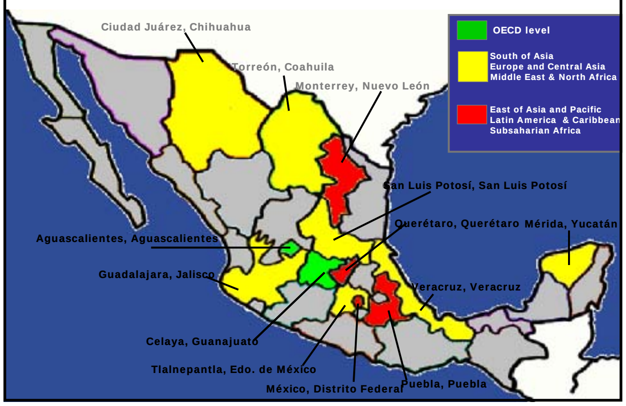
►COFEMER carried out a joint study with the "Doing Business" team of the World Bank in order to analyze regulatory matters in 12 cities of Mexico, in correspondence with 155 economies in the world.

►In 2005, at the proposal of the Mexican Office of the Presidency for Public Policies (OPP), the World Bank accepted to extend the project in Mexico to other cities in addition to Mexico City, with the purpose of widening the vision of how to do business in our country, in four indicators:

- ► Starting a Business
- ► Registering Property
- ► Getting Credit
- ► Enforcing Contracts

►The analysis included 12 cities of Mexico: *Aguascalientes, Ags.; Cd. Juárez, Chih.; Celaya, Gto.; Guadalajara, Jal.; Mérida, Yuc.; Monterrey, NL.; Puebla, Pue.; Querétaro, Qto.; San Luis Potosí, SLP.; Torreón, Coah.; Veracruz, Ver.; y Tlalnepantla, Edo. Mex.*

Days to start-up a business in México



Main results of Doing Business indicators

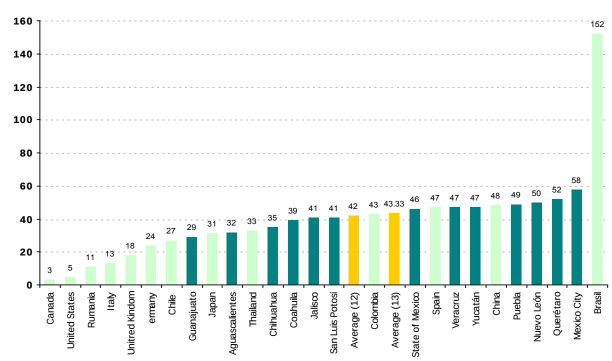
✓It remains much to be done to improve regulation at the federal, state and local level and that reform may contribute to reduce informal economy, because:

- ❖Diminish costs, eliminate discretionality and promote the formality.
- ❖Give legal certainty to the private sector, increase incentives for investment and facilitate commercial activities.

✓The World Bank estimates that women (whom represent half of the informal economy) and the young and inexperienced workers looking for their first job would be the most benefited with the reforms.

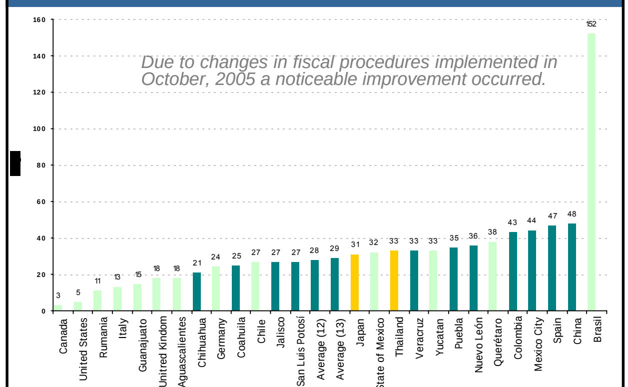
www.cofemer.gob.mx

Time for starting up a Business in Mexico before October 2005



www.cofemer.gob.mx

Reduction of time for starting up a business



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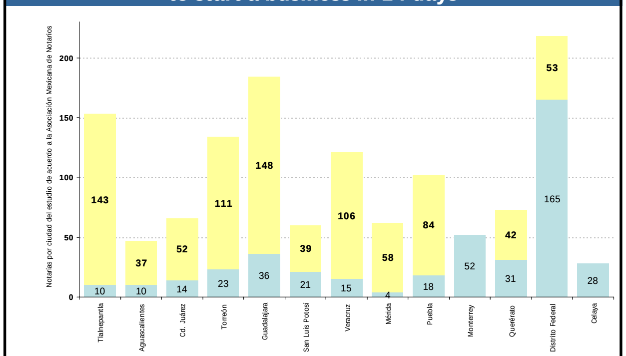
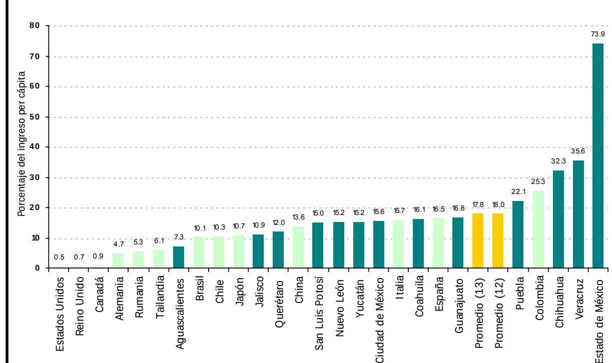
An on-line registration to subscribe to the RFC reduces time to start a business in 14 days



Elaborado con información de la Asociación Mexicana de Notarios y SAT

www.cofemer.gob.mx

Cost figures to start-up a business



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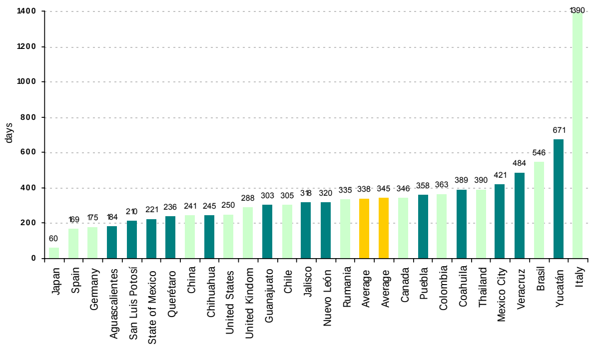
Time Enforcing Contracts



¿What is the Federal Government doing to improve the indicators?

1. A workshop with the Mexican States and diverse municipalities in March 2006 where best practices could be exchanged.
2. Review the cost derived from notarization and registry fees.
3. Reduce to one day the authorization given by the Secretariat of Foreign Affairs (S.R.E.) for the name of the company.
4. Reduce to one day the registration to the Mexican System of Business Information (SIEM).
5. Eliminate the formality of registration to the National Institute of Statistics, Geography, and Information (INEGI).

¿What is the Federal Government doing to improve the indicators?

6. To promote that a larger number of notaries have an on-line registration to subscribe to the Federal Registry of tax-contributors (RFC).
7. To have transparency in a jointly work with the Federal Agency for the Consumers (PROFECO), a study of “Who is who in notarial costs and in the Public Registries of Commerce in order to start up a business?”
8. Promote coordinated actions with the municipalities to facilitate the granting of licenses of function in the whole country.
9. Prepare a second study that could comprise one city of each of the 31 states, with the World Bank support.

www.cofemer.gob.mx

Ms. Julia Vazquez Gutierrez

Director of Special Projects, Federal Regulatory Improvement Commission (COFEMER)

May 9, 2006
APEC, Montreal

British Columbia Regulatory Reform Initiative

Regulatory Reform Office
Ministry of Small Business and Revenue

May 9, 2006

British Columbia Regulatory Reform Strategy

- In 2001, Cabinet approved the following strategy for carrying out regulatory reform and developing better or smart regulation.
- The strategy consists of five components to:
  - measure regulatory burden,
  - review existing regulation,
  - control new regulation,
  - measure & report performance, and
  - create a structure to lead initiative.

A Comprehensive Approach

Five Components:

1. Measure Regulatory Burden:
→ Regulatory Requirement Count

2. Review Existing Regulation:
→ Three-Year Reform Plans

3. Control New Regulation:
→ Regulatory Reform Policy

4. Measure & Report Performance:
→ Targets and Quarterly Report

5. Create Structure:
→ Regulatory Reform Office

Regulatory Reform Example

WCBA	2001	2006	
Statute (1)	1,655	1,406	-249
Regulations (13)	15,500	13,030	-2470
Policy (64)	18,153	9,475	-8,678
Total	35,308	23,911	-11,397 -33%

Some Accomplishments

- Passed a new Business Corporation Act
- Revised the Partnership Act
- Amended Small Business Venture Capital Act
- Streamlined liquor licensing and administration
- Amended Workers' Compensation Act
- Amended Employment Standards Act
- Reviewed over 3000 fees and licenses
- Streamlined Forest Practices Code
- Amended mining, oil and gas regulations
- Modernized real estate legislation
- Passed new Safety Act
- Passed Industry Training Authority Act

Result – Ease of Doing Business

Examples

- 50% reduction in processing time
- Permit approvals reduced from 28 steps / 20 working days to 7 steps in 14 working days
- Appeal process reduced from 5 months to 6 weeks
- Turnaround for certification from 6 to 2 weeks

Strategic Shifts

FROM:	TO:
Process driven	Results-based
Prescriptive, rigid	Flexible
Risk-averse	Risk-managed
Secondary impacts ignored	Secondary impacts managed
Invasive, rigid, authoritarian	Enabling, adaptive

BRITISH COLUMBIA

Business Community Support

- *Meeting the reduction target will be a huge accomplishment for the BC government. What's even more outstanding is being the first government across the country to take such huge steps forward on accountability and transparency.*

Laura Jones, Vice-President, Canadian Federation of Independent Business

- *For the first time, forest resource planning and regulations provide clear and consistent direction for balancing the values of British Columbians want and enjoy from their forests.*

John Allen, President and CEO, Council of Forest Industries

BRITISH COLUMBIA

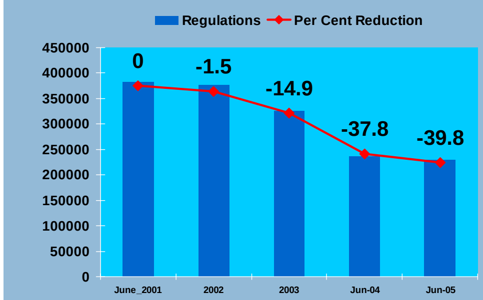
Business Community Support (cont'd)

- *The Business Council of BC was represented on the Red Tape Reduction Task Force that provided recommendations to government on priorities for reducing red tape. We are pleased that government has acted on many of these recommendations. We also encourage further efforts to streamline and reduce the regulatory burden on BC businesses. Improving the regulatory climate is a key requirements for attracting new investment and building a more competitive economy. The BC business community strongly endorses the work government is doing on regulatory reform.*

Jock Finlayson, Executive Vice-President, Business Council of BC

BRITISH COLUMBIA

New Era Commitment Exceeded



BRITISH COLUMBIA

Regulatory Reform Results

- BC Economy is booming and BC leads the nation in job creation with over 294,000 new jobs since 2001.
- In March 2006, BC posted an unemployment rate of 4.4 percent, the lowest in over 30 years.
- BC business owners are among the most optimistic in Canada. Looking ahead, 43 percent plan to hire more full-time staff in the coming year according to the Canadian Federation of Independent Business.
- In 2005, retail sales topped $50 billion for the first time ever and 2006 started off even stronger with $4.3 billion in sales in January alone.

BRITISH COLUMBIA

The Top Priorities for Action

- Getting tax rates to acceptable levels
- Improving tax incentives for business investment (eg in research and development)
- Increasing the availability of credit from the non-banking sector
- Decreasing the number of procedures needed to start a business
- Improving labour productivity
- Improving the adequacy of transport infrastructure in your economy
- Improving the efficiency of the public sector
- Reducing the costs of starting a business
- Cutting the volume of government regulation
- Enhancing and strengthening the regulation covering the protection of intellectual property rights

ABAC	APEC BUSINESS ADVISORY COUNCIL (ABAC)

NZ Members
Sir Dryden Spring, Chairman, WEL Networks Ltd
Wendy Pye, Managing Director, Wendy Pye Ltd
Philip Lewin, Chief Executive Officer, Positively Wellington Business
Brian J Lynch, Director, NZ Institute of International Affairs (Alternate Member)

‘Encouraging the Development of the Private Sector’

Results from a 2006 ABAC Business Survey

In early 2006, the APEC Business Advisory Council (ABAC) secretariat conducted a business survey entitled ‘Encouraging the Development of the Private Sector’ to help inform discussions at the APEC symposium on ‘Enabling Private Sector Development’ held in Montreal, Canada, 9-10 May 2006. The survey was administered by the New Zealand ABAC secretariat in conjunction with the New Zealand Ministry of Economic Development.

The purpose of the survey was to help identify the key issues that should be addressed in order to encourage the development of the private sector in APEC economies. The survey was designed also to assess the extent to which specific areas of regulation, government support and assistance and macro-economic conditions currently either ‘encourage’ or ‘discourage’ the development of the private sector within APEC. Many of the questions mirror those used by the World Bank in its annual *Doing Business* report in order to allow some direct comparisons with that data.

Philip Lewin

Sir Dryden Spring

Wendy Pye

Survey Respondents by APEC Economy

The intended respondent population were ABAC members and other private sector representatives from APEC economies to whom ABAC members chose to circulate information about the survey. Members of the APEC SME Working Group also were invited to inform business organisations, such as Chambers of Commerce, of the survey and to encourage officers of those organisations to complete it. The survey was internet-based and conducted from February to May 2006. Respondents were required to identify their respective economy when entering the online survey.

The following table sets out the number of responses received from each economy as at 1 May 2006.

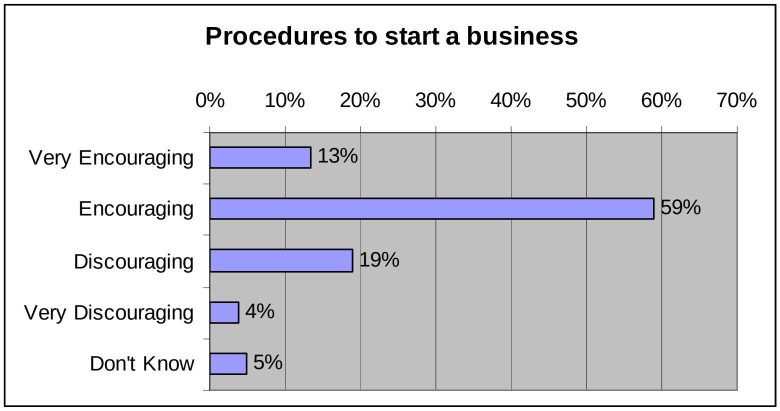
Australia	37
Brunei Darussalam	2
Canada	23
Chile	9
People's Republic of China	14
Hong Kong, China	6
Indonesia	30
Japan	13
Republic of Korea	5
Malaysia	5
Mexico	4
New Zealand	39
Papua New Guinea	1
Peru	2
The Republic of the Philippines	6
The Russian Federation	1
Singapore	6
Chinese Taipei	15
Thailand	5
United States of America	5
Viet Nam	1
Total Respondents	**229**

1) Regulation

Starting a Business

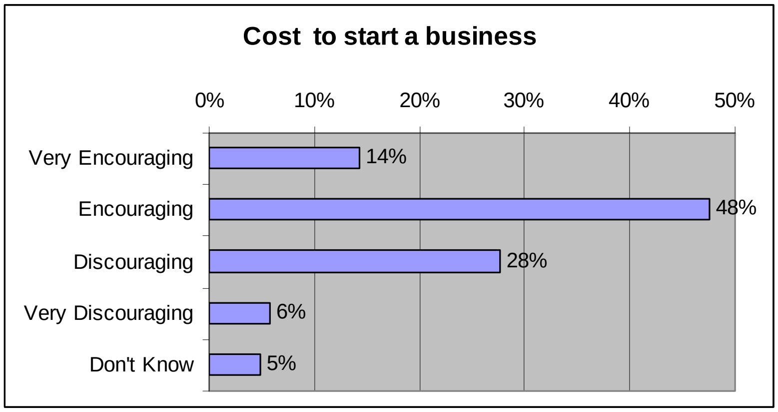
1.1 Procedures to start a business

The majority of respondents were positive about the procedures required to start a business. Fifty nine percent of respondents thought that the procedures were encouraging and thirteen percent thought they were very encouraging.



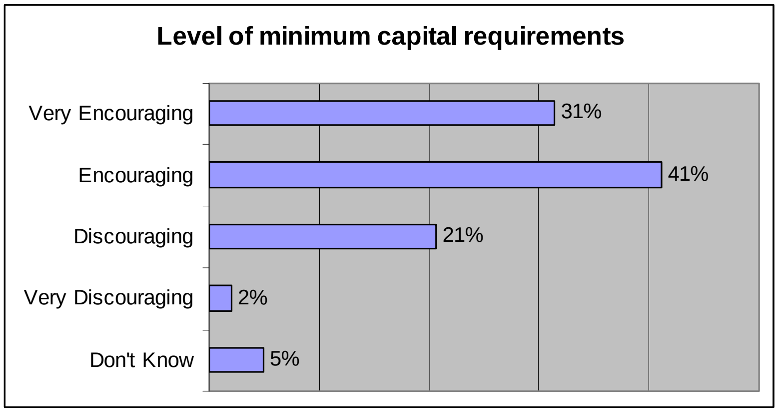
1.2 Cost to start a business

Similarly, respondents were positive about the costs of starting a business. Forty eight percent of respondents considered the current costs of starting a business as encouraging.



1.3 Level of minimum capital requirements

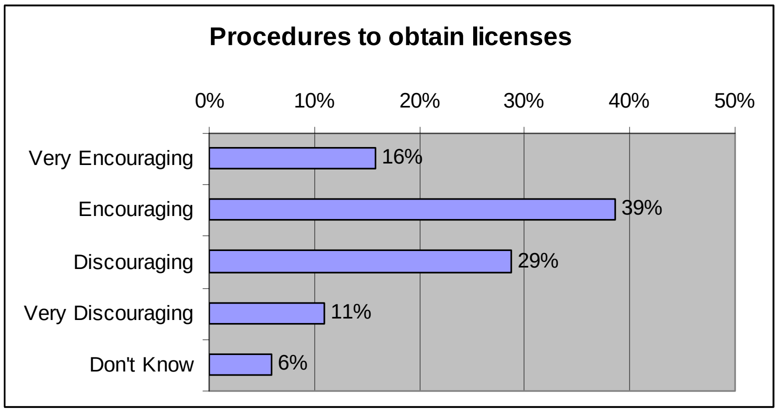
Twenty three percent of respondents considered the level of minimum capital requirements to be either discouraging or very discouraging.



Licenses Required to Operate a Business

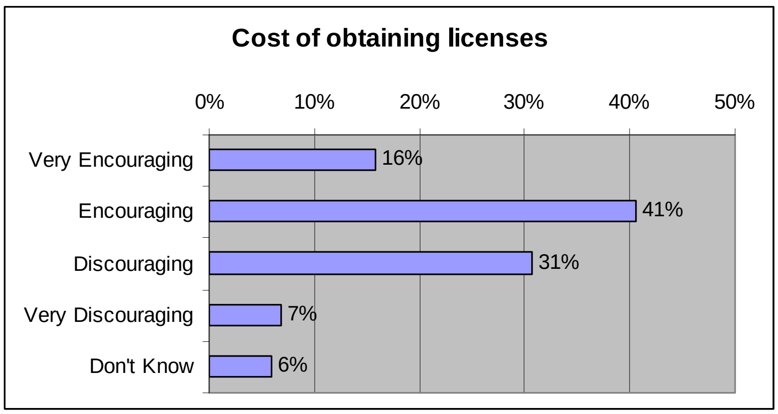
1.4 Procedures to obtain licences

Just over half of respondents considered the procedures to obtain licenses were encouraging or very encouraging.



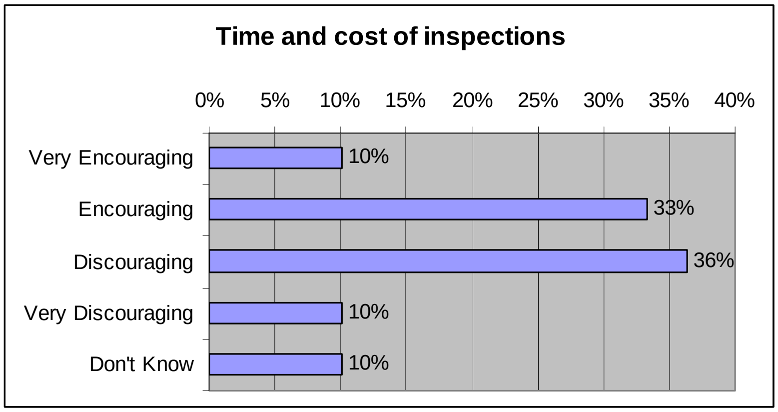
1.5 Cost of obtaining licences

Fifty seven percent of respondents though the current costs of obtaining licenses were encouraging or very encouraging.



1.6 Time and cost of inspections

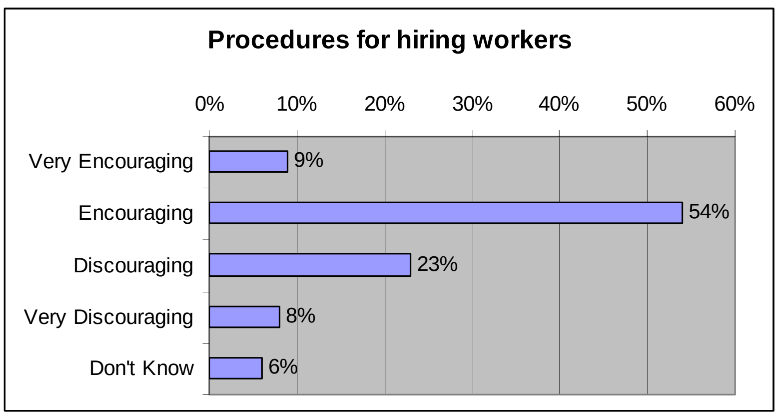
The majority of respondents were negative about the time and cost of inspections. Forty six percent considered this discouraging or very discouraging.



Employment-Related Regulation

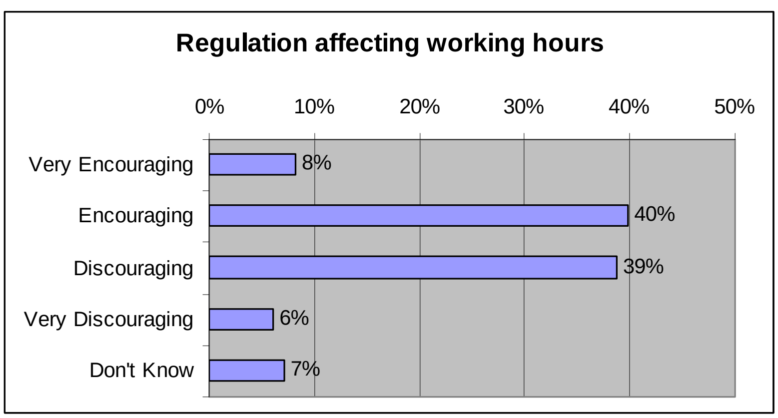
1.7 Procedures for hiring workers

Over sixty percent of respondents were positive about the current procedures for hiring workers.



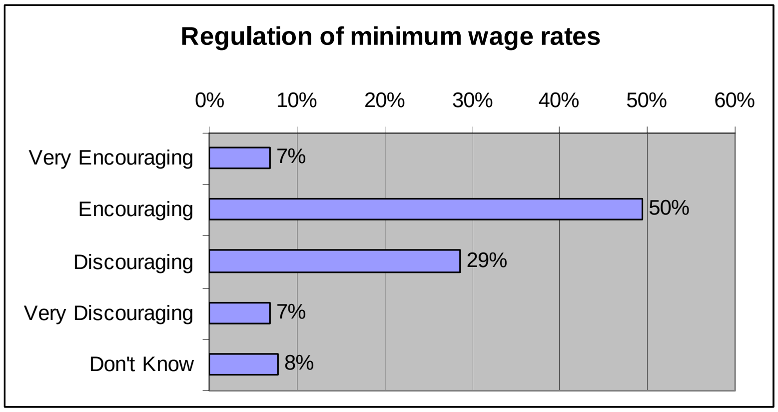
1.8 Regulation affecting working hours

Six percent of respondents were very discouraged about the regulation affecting working hours in their economy.



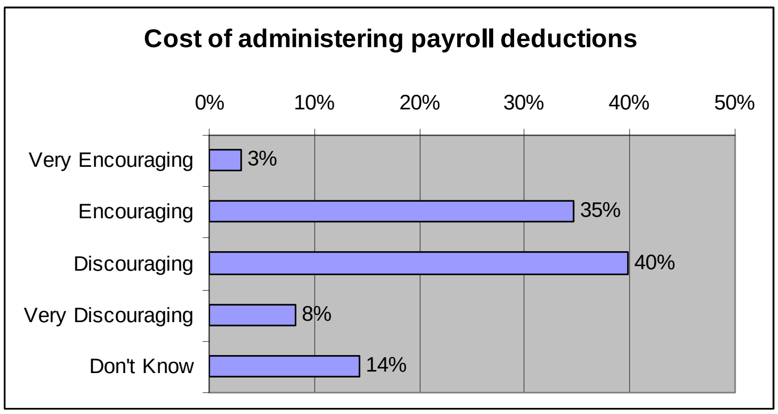
1.9 Regulation of minimum wage rates

Fifty seven percent of respondents were encouraged or very encouraged about the regulation of minimum wage rates.



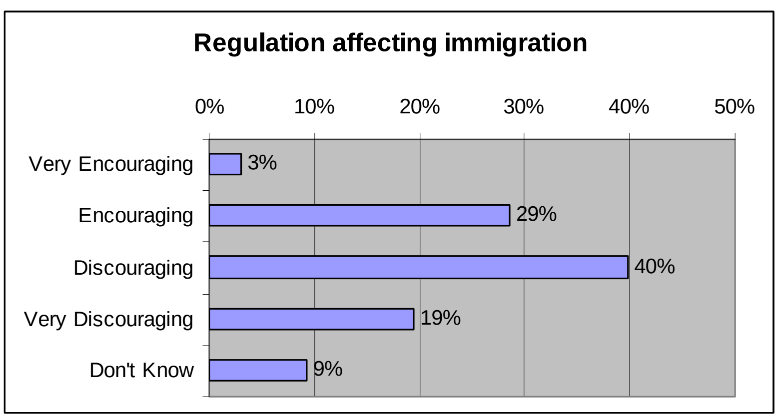
1.10 Cost of administering payroll deductions

Respondents were generally negative toward the cost of administering payroll deductions. Forty eight percent considered this discouraging or very discouraging.



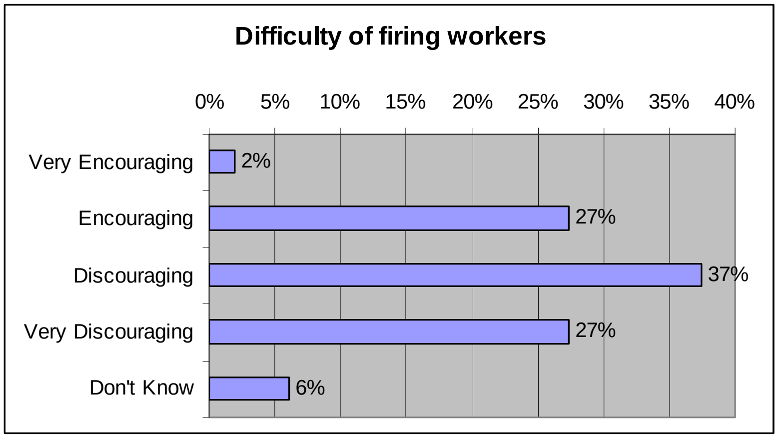
1.11 Regulation affecting immigration

Only thirty two percent of respondents were positive about the regulation affecting immigration.



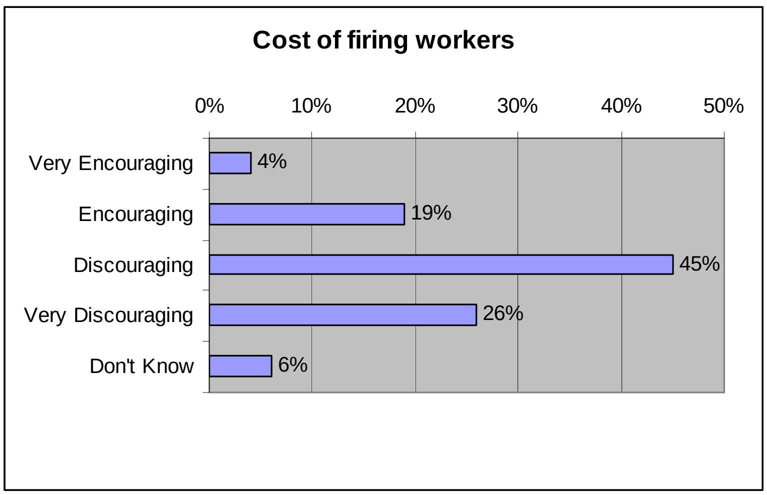
1.12 Difficulty of firing workers

Sixty four percent of respondents were negative about the difficulty of firing workers.



1.13 Cost of firing workers

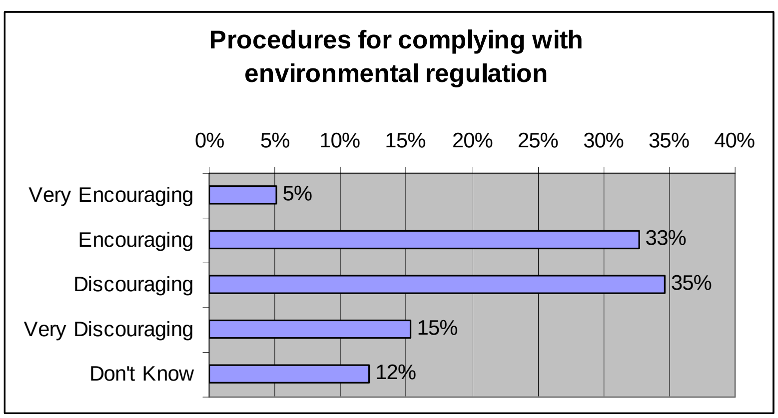
Similarly, seventy one percent of respondents were negative about the cost of firing workers.



Environmental Regulation

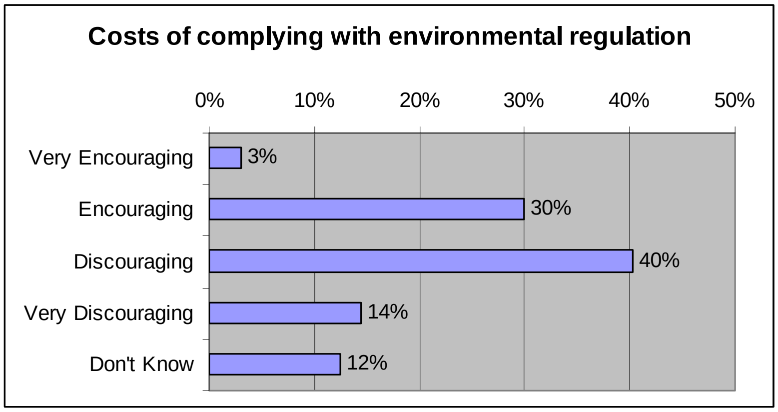
1.14 Procedures for complying with environmental regulation

Fifty percent of respondents were discouraged or very discouraged by the procedures for complying with environmental regulation.



1.15 Costs of complying with environmental regulation

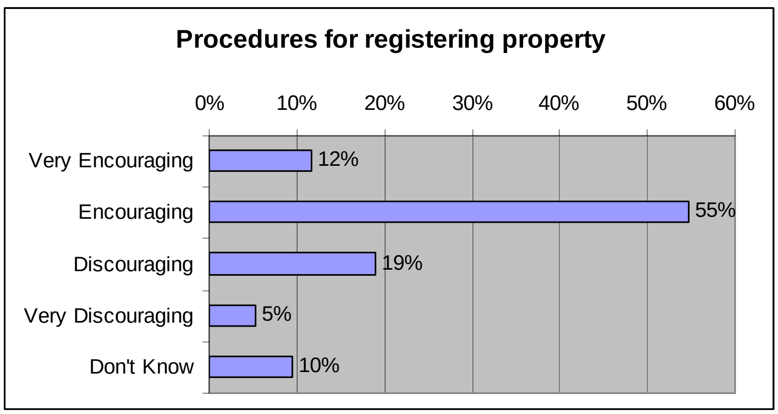
The majority of respondents were also negative about the costs of complying with environmental regulation.



Registering Property

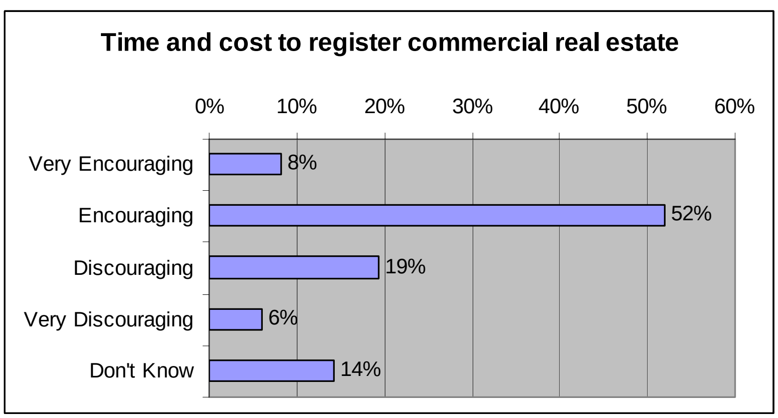
1.16 Procedures for registering property

Sixty seven percent of respondents were positive about the procedures for registering property.



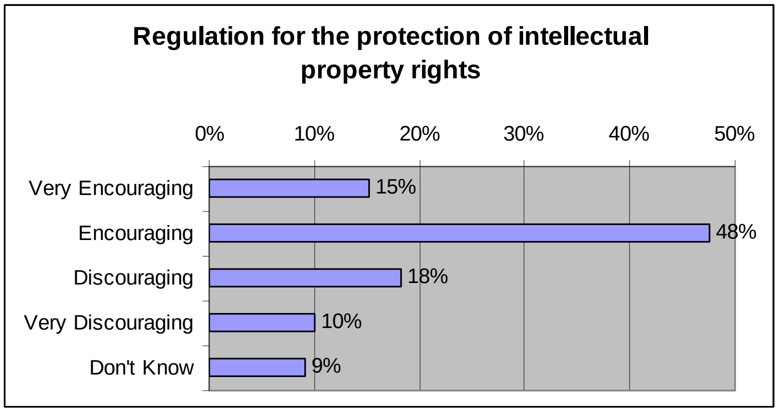
1.17 Time and cost to register commercial real estate

Similarly, the majority of respondents were positive about the current time and cost it takes to register commercial real estate. Fourteen percent said they did not know.



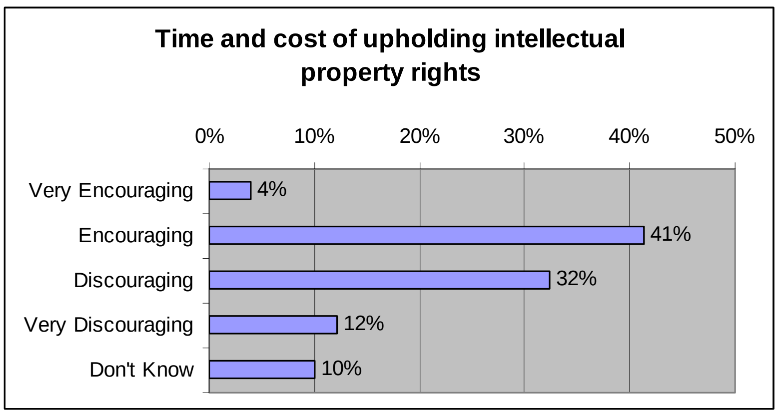
1.18 Regulation for the protection of intellectual property rights

Sixty three percent of respondents were encouraged or very encouraged about the regulation for the protection of intellectual property rights.



1.19 Time and cost of upholding intellectual property rights

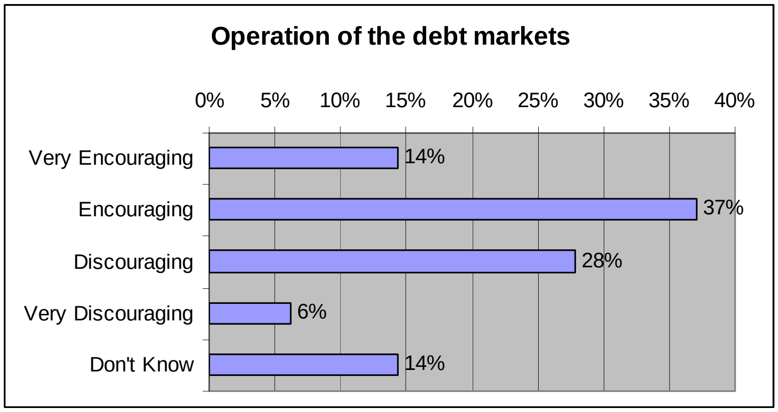
Forty four percent of respondents were negative about the time and cost of upholding intellectual property rights.



Finance

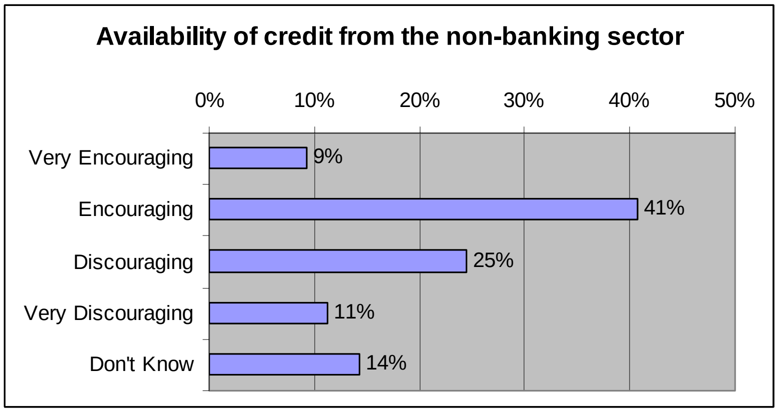
1.20 Operation of the debt markets

A slim majority of respondents were positive about the operation of the debt markets. However, fourteen percent said they did not know.



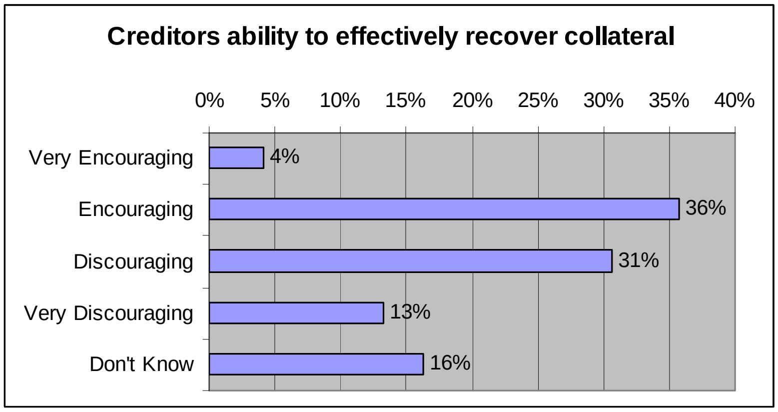
1.21 Availability of credit from the non-banking sector

Fifty percent of respondents were positive about the availability of credit from the non-banking sector.



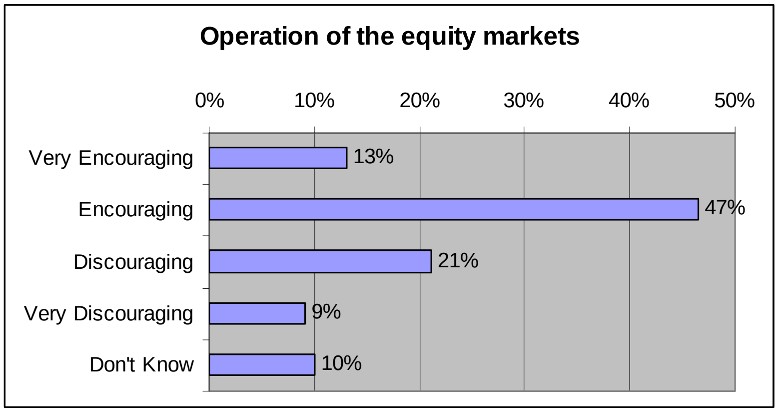
1.22 Creditors ability to effectively recover collateral

The majority of respondents were negative about the ability of creditors to effectively recover collateral. However, sixteen percent said they did not know.



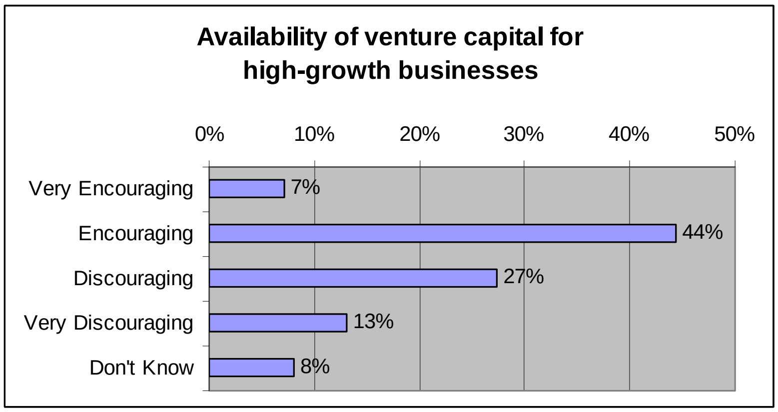
1.23 Operation of the equity markets

Sixty percent of respondents were encouraged or very encouraged about the operation of the equity markets in their economy.



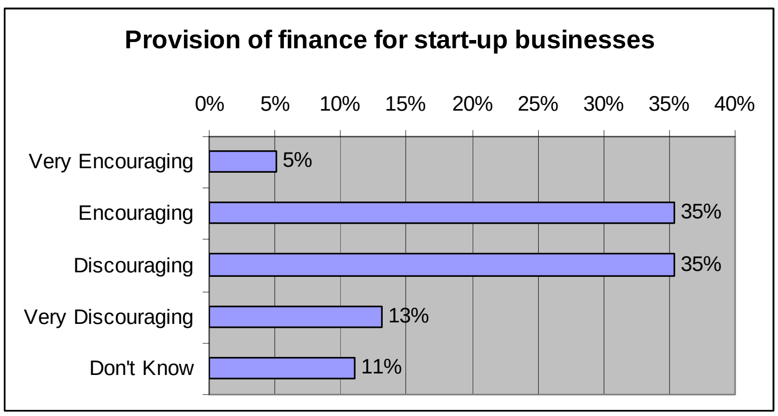
1.24 Availability of venture capital for high-growth businesses

A slim majority of respondents were positive about the availability of venture capital for high-growth businesses.



1.25 Provision of finance for start-up businesses

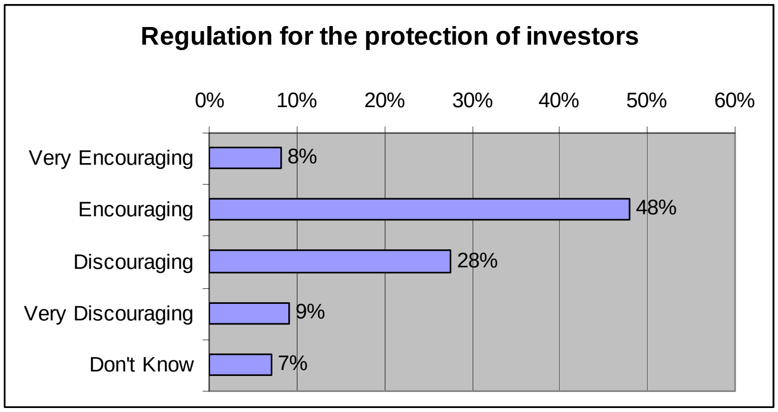
Respondents were divided about the provision of finance for start-up businesses. Exactly thirty five percent of respondents found this encouraging and discouraging.



Protecting Investors

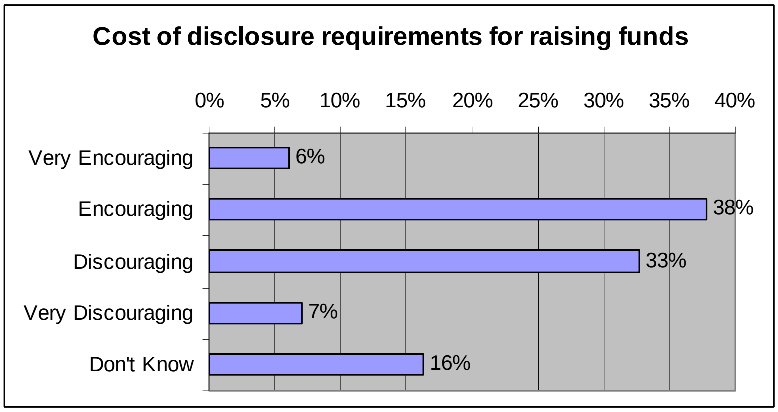
1.26 Regulation for the protection of investors

The majority of respondents were positive about the regulation protecting investors.



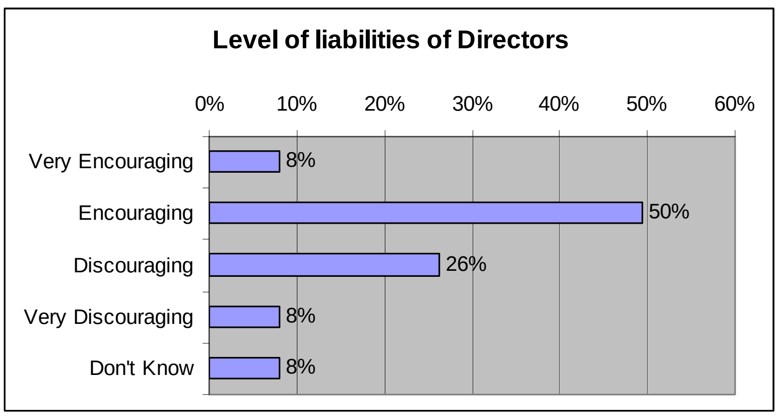
1.27 Cost of disclosure requirements for raising funds

Thirty eight percent of respondents were encouraged by the cost of disclosure requirements for raising funds, while thirty three percent found this discouraging.



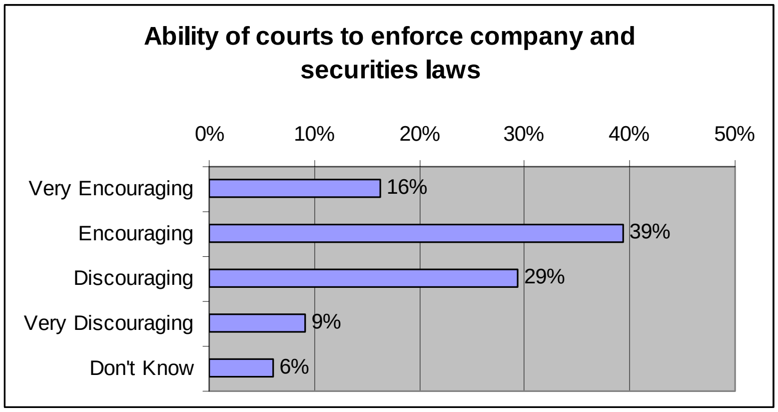
1.28 Level of liabilities of Directors

The majority of respondents were positive about the level of liabilities of Directors.



1.29 Ability of courts to enforce company and securities laws

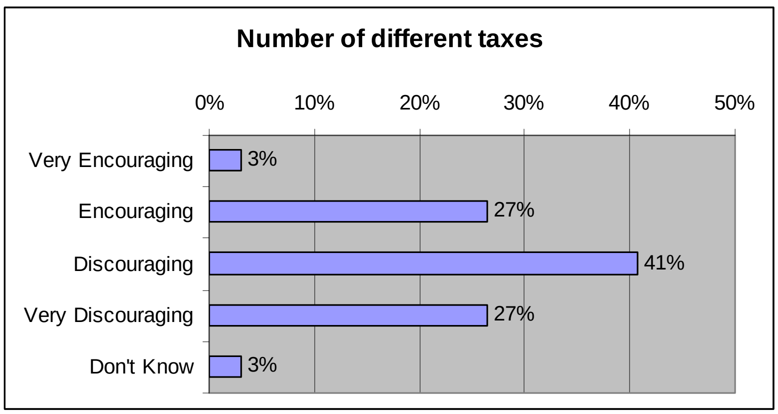
Fifty five percent of respondents were encouraged or very encouraged by the ability of courts to enforce company and securities laws.



Paying Taxes

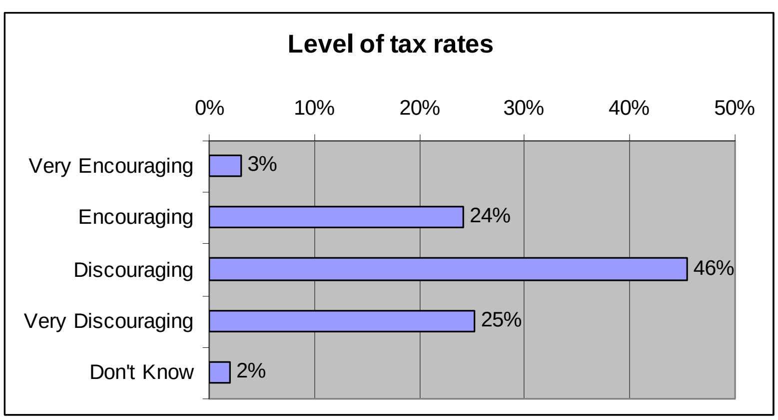
1.30 Number of different taxes

Sixty eight percent of respondents were negative about the number of different taxes.



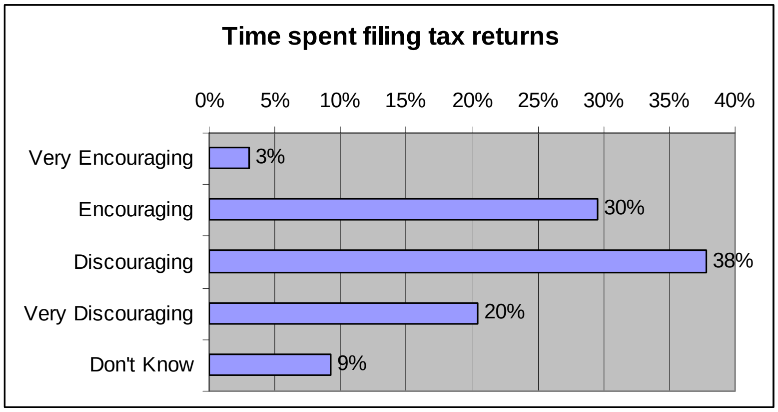
1.31 Level of tax rates

Similarly, the majority of respondents were negative about the level of tax rates. Twenty five percent found this very discouraging.



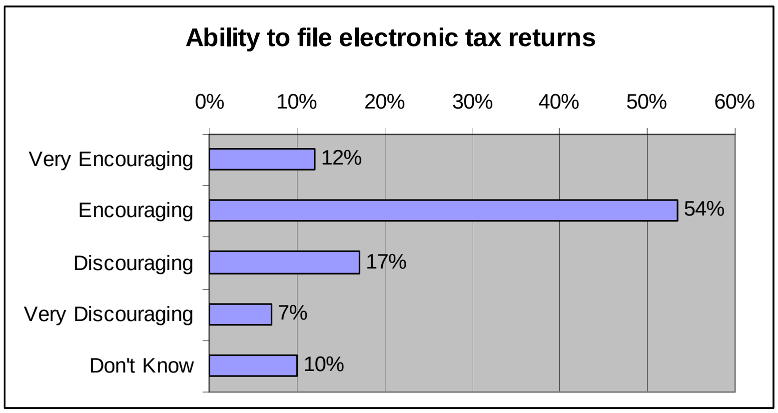
1.32 Time spent filing tax returns

Just thirty three percent of respondents were positive about the time it takes to file tax returns.



1.33 Ability to file electronic tax returns

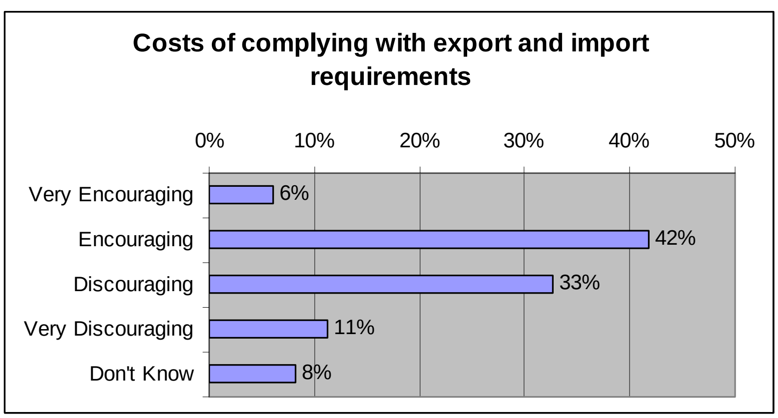
Respondents were positive about the ability of businesses to file electronic tax returns. Fifty four percent found this encouraging.



Trading Across Borders

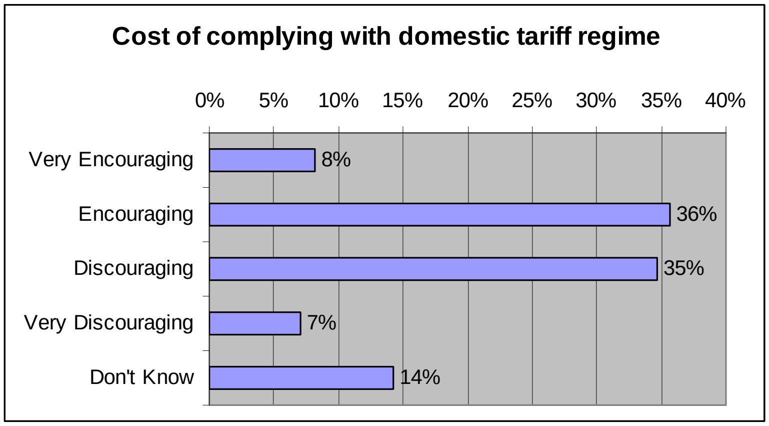
1.34 Costs of complying with export and import requirements

The majority of respondents were positive about the costs of complying with export and import requirements.



1.35 Cost of complying with domestic tariff regime

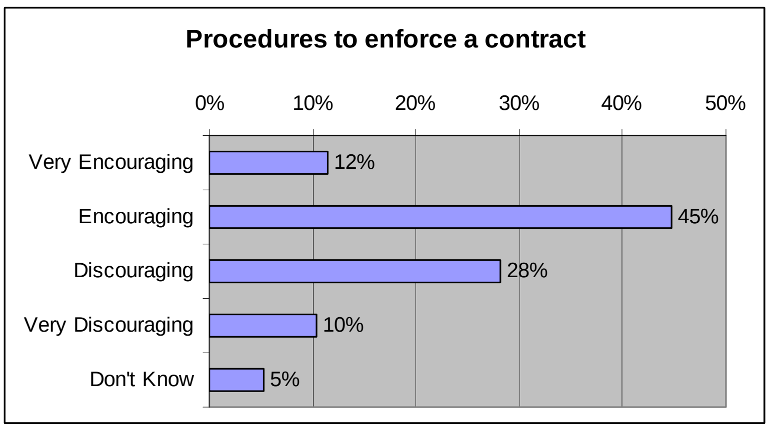
Forty four percent of respondents considered the cost of complying with the domestic tariff regime either encouraging or very encouraging.



Enforcing Contracts

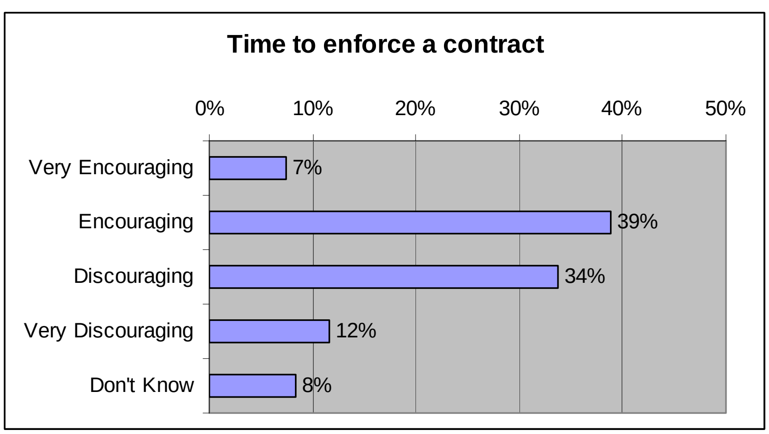
1.36 Procedures to enforce a contract

The majority of respondents were positive about the procedures to enforce contracts.



1.37 Time to enforce a contract

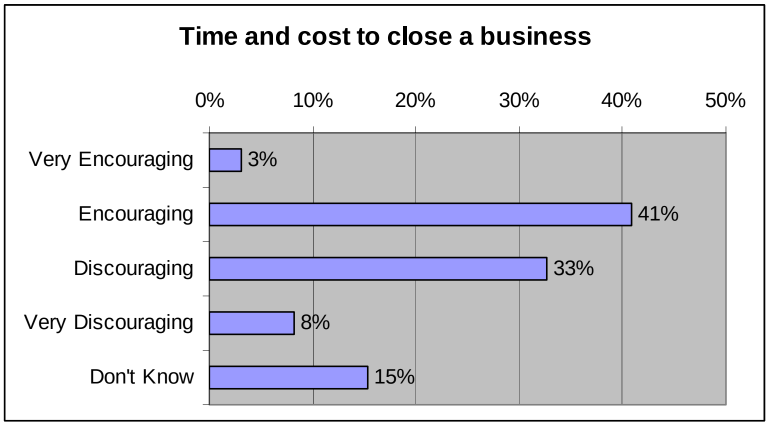
Thirty nine percent of respondents were encouraged about the time to enforce contracts.



Closing a Business

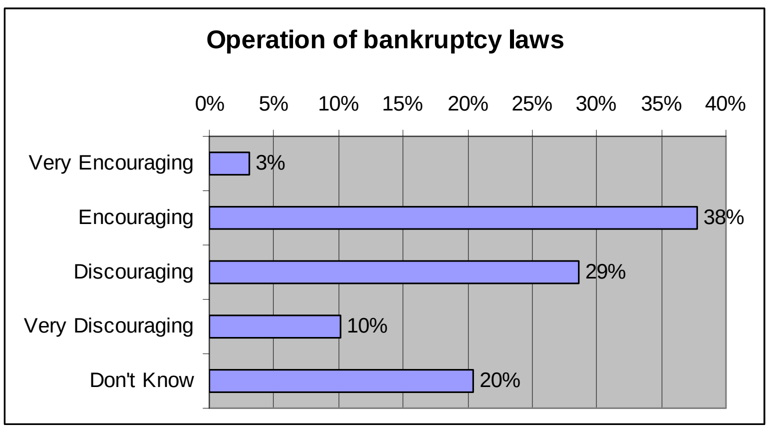
1.38 Time and cost to close a business

The majority of respondents were positive about the time and cost to close a business. Fifteen percent said they did not know.



1.39 Operation of bankruptcy laws

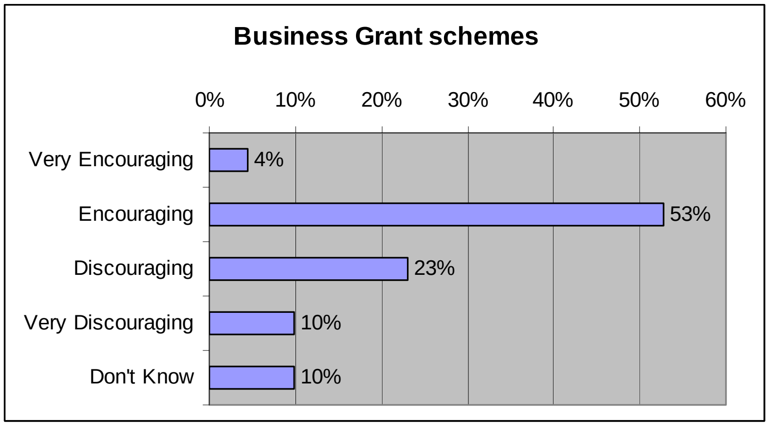
Thirty eight percent of respondents were encouraged by the operation of bankruptcy laws. However, twenty percent said they did not know.



2) Firm Level Support and Assistance from Government

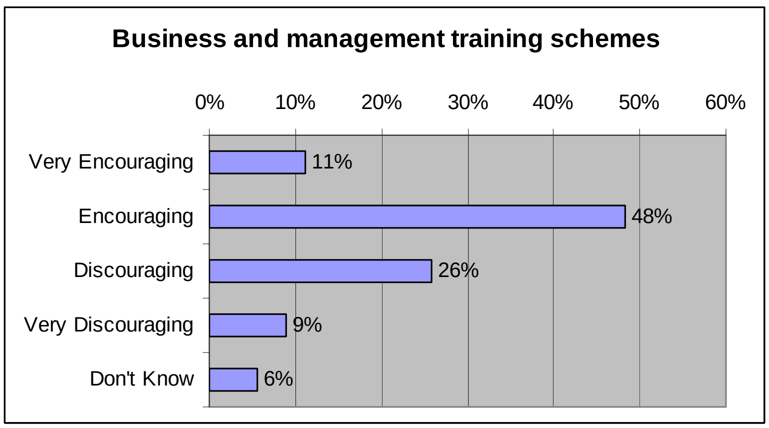
1.40 Business grant schemes

The majority of respondents were positive about government-sponsored grant schemes for business.



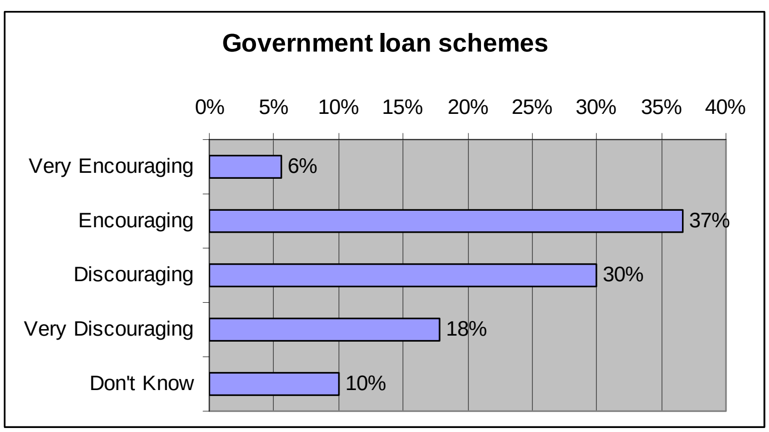
1.41 Business and management training schemes

Fifty nine percent of respondents were positive about business and management training schemes.



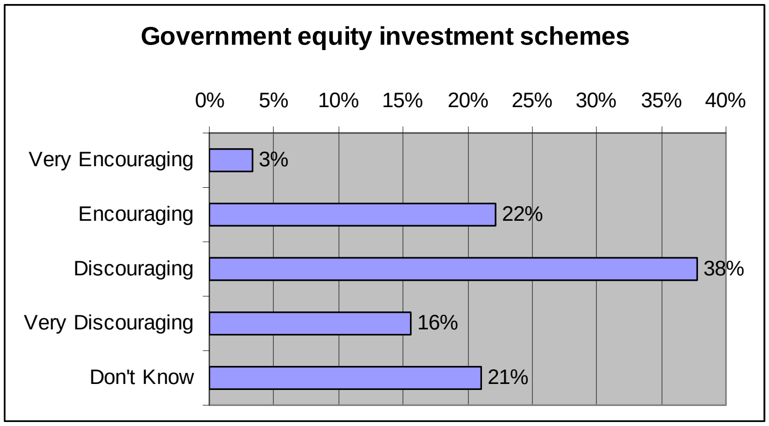
1.42 Government loan schemes

The majority of respondents were negative about government loan schemes. Eighteen percent considered them very discouraging.



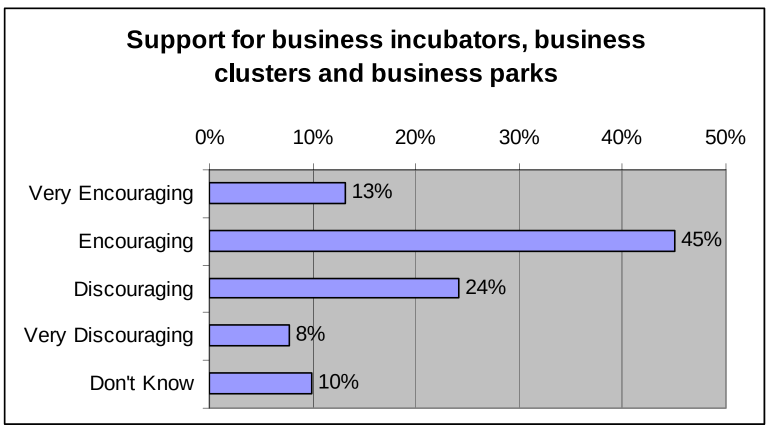
1.43 Government equity investment schemes

Similarly, respondents felt negatively toward government equity investment schemes. However, twenty one percent said they did not know.



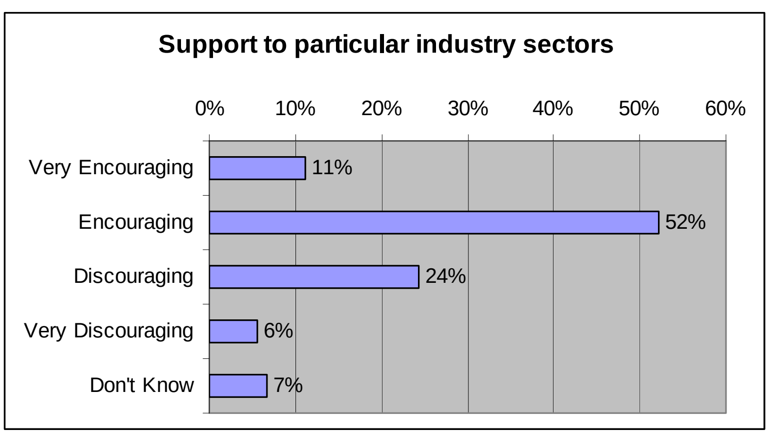
1.44 Support for business incubators, clusters and business parks

Fifty eight percent of respondents were encouraged or very encouraged by the support for business incubators, business clusters and business parks.



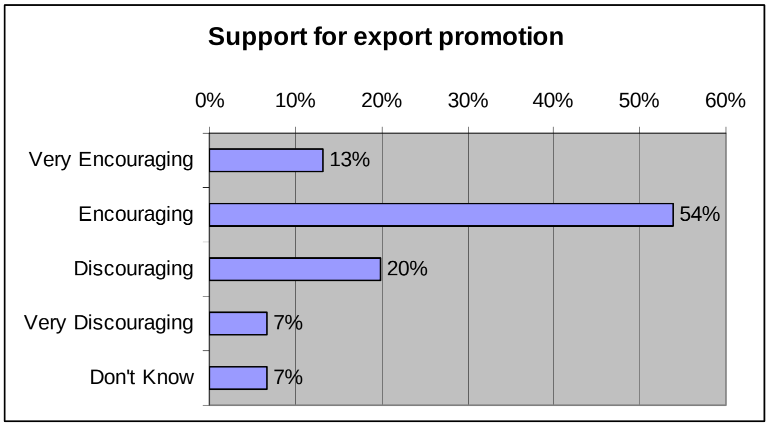
1.45 Support to particular industry sectors

The majority of respondents were positive about the support to particular industry sectors.



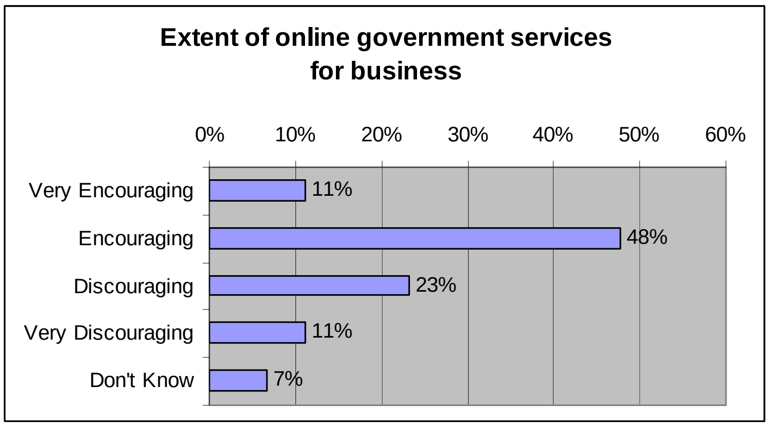
1.46 Support for export promotion

Sixty seven percent of respondents were encouraged or very encouraged by the support for export promotion.



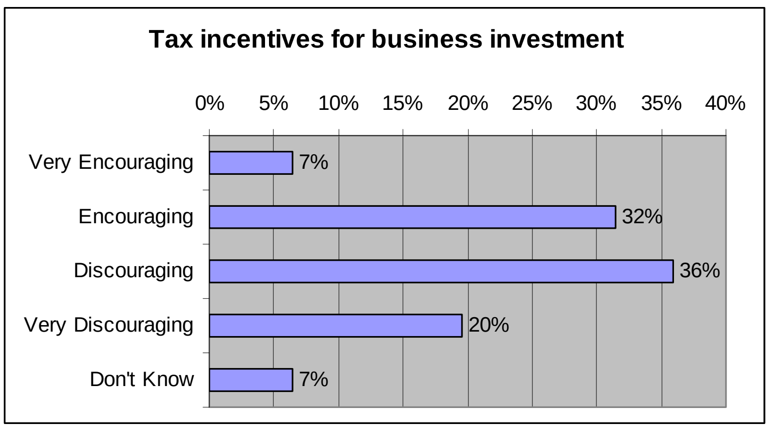
1.47 Extent of online government services for business

Respondents were positive about the extent of online government services for business.



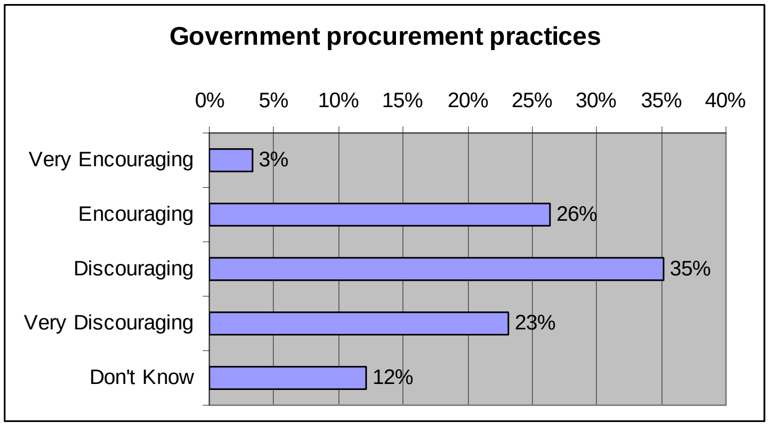
1.48 Tax incentives for business investment (e.g. R&D expenditure)

The majority of respondents were negative about the tax incentives for business investment. Twenty percent found this very discouraging.



1.49 Government procurement practices

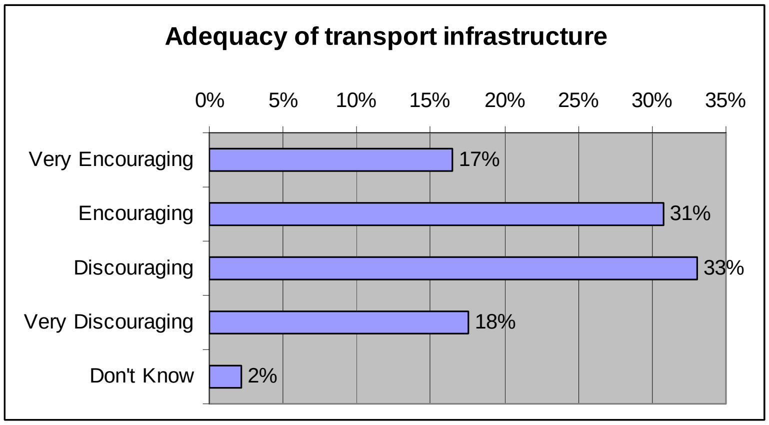
Twenty three percent of respondents found government procurement practices very discouraging, compared to just 3 percent who found it very encouraging.



3) Other Factors Influencing the Development of the Private Sector

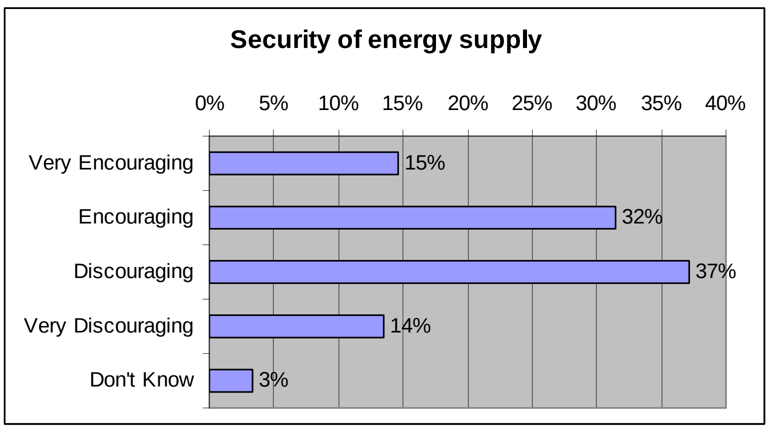
1.50 Adequacy of transport infrastructure

The majority of respondents were negative about the adequacy of the transport infrastructure in their economy.



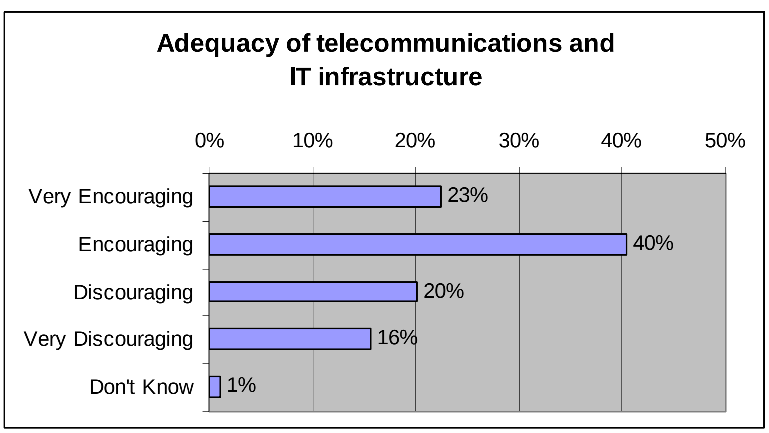
1.51 Security of energy supply

A slim majority of respondents felt negatively about the security of energy supplies.



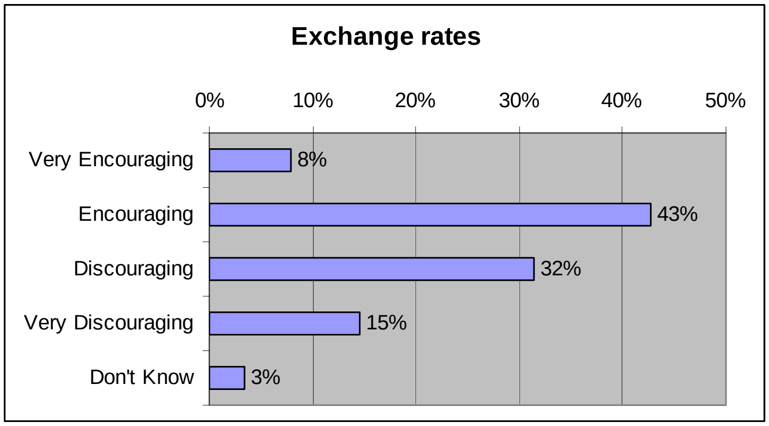
1.52 Adequacy of telecommunications and information technology (IT) infrastructure

Sixty three percent of respondents were encouraged or very encouraged by the adequacy of telecommunications and IT infrastructure in their economy.



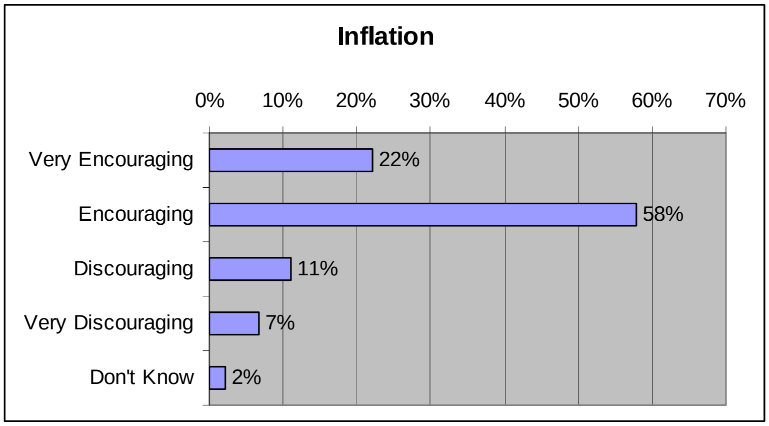
1.53 Exchange rates

Respondents were generally positive about exchange rates, although fifteen percent considered them very discouraging.



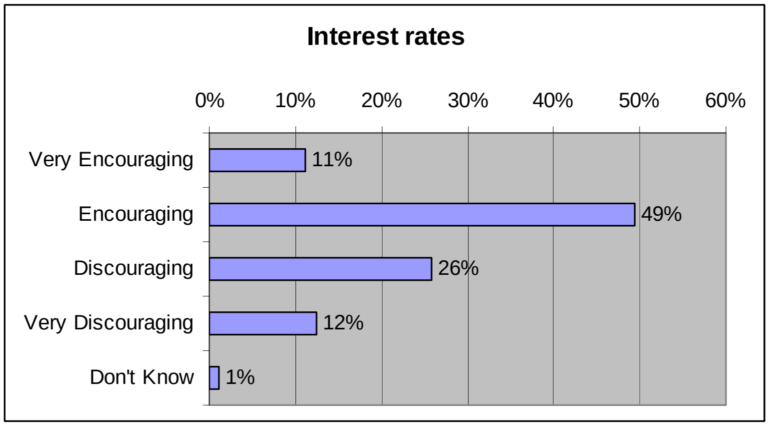
1.54 Inflation

The overwhelming majority of respondents were positive about inflation in their economy.



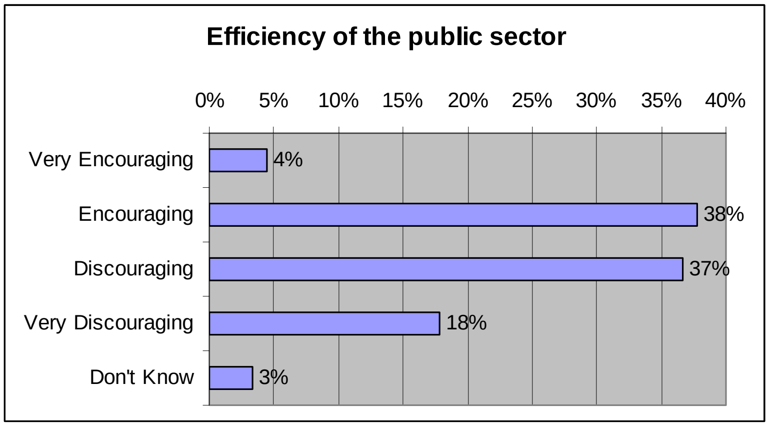
1.55 Interest rates

Sixty percent of respondents were encouraged or very encouraged by interest rates.



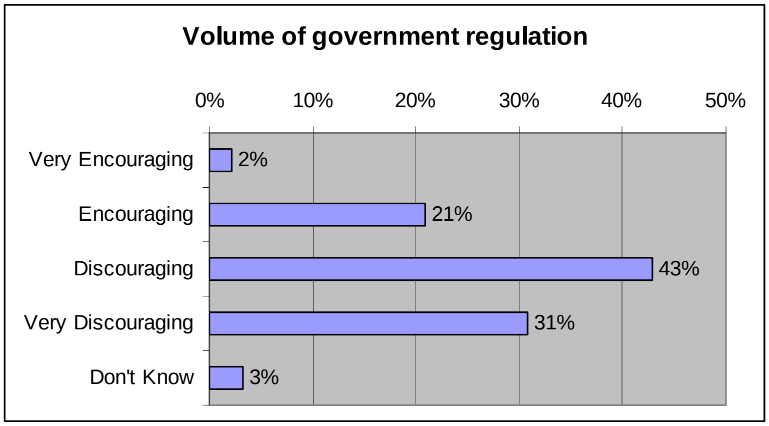
1.56 Efficiency of the public sector

The majority of respondents were negative about the efficiency of the public sector in their economy.



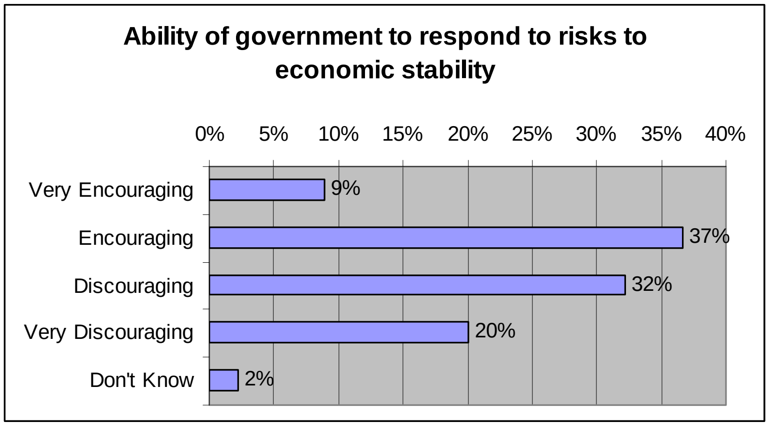
1.57 Volume of government regulation

A large majority of respondents were negative about the volume of government regulation. Thirty one percent considered this very discouraging.



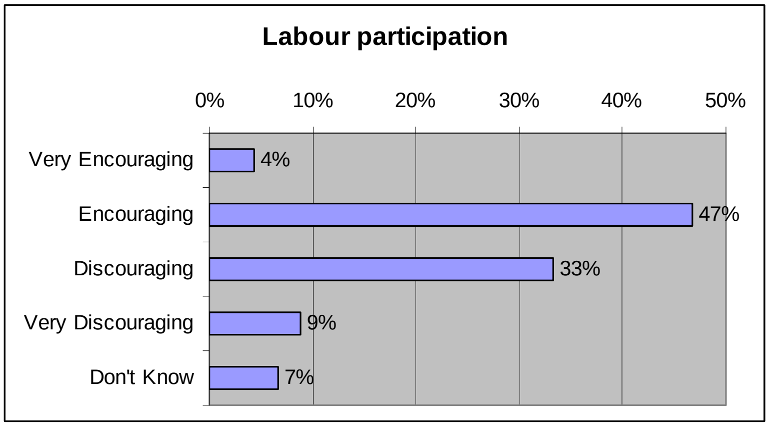
1.58 Ability of government to respond to risks to economic stability

Fifty two percent of respondents were discouraged or very discouraged about the ability of government to respond to risks to economic stability.



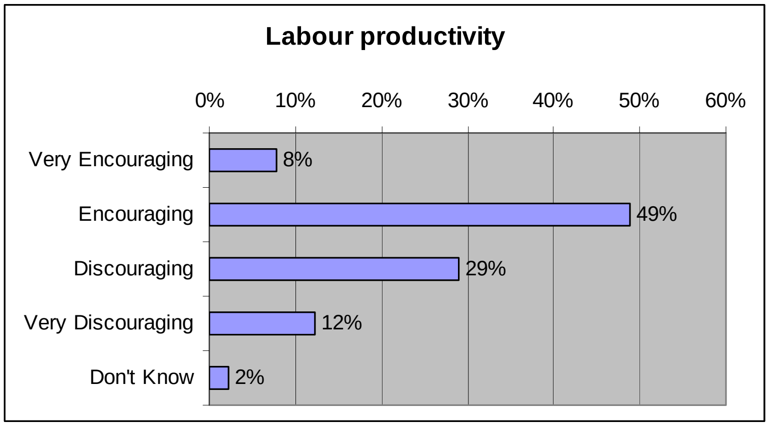
1.59 Labour participation

The majority of respondents were positive about labour participation in their economy.



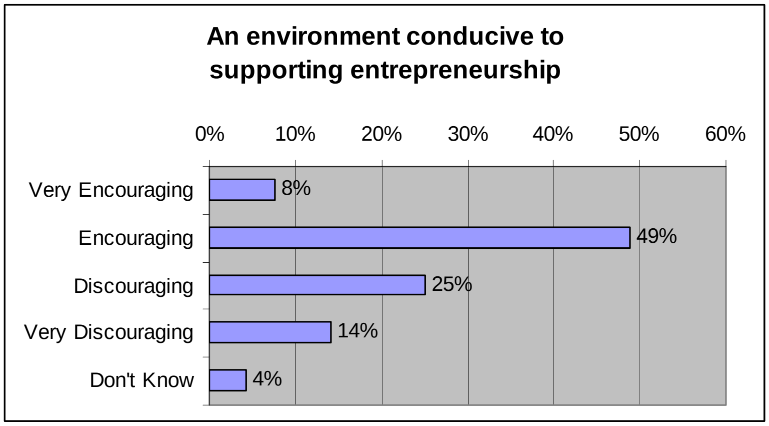
1.60 Labour productivity

Fifty seven percent of respondents were encouraged or very encouraged about labour productivity in their economy.



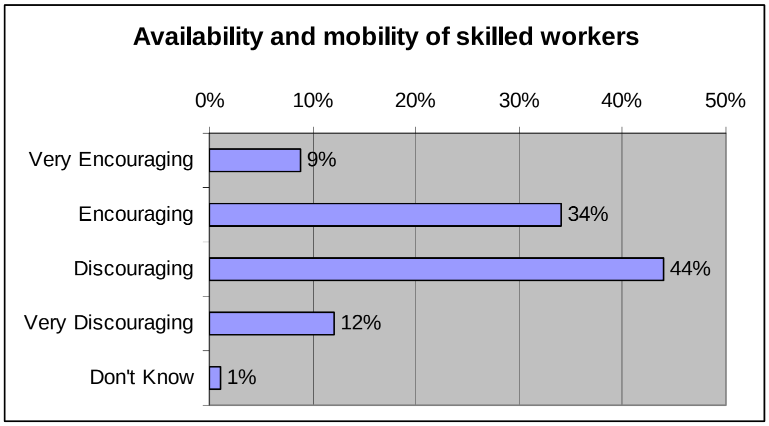
1.61 An environment conducive to supporting entrepreneurship

The majority of respondents considered their economy to have an environment conducive to supporting entrepreneurship. However, fourteen percent found it very discouraging.



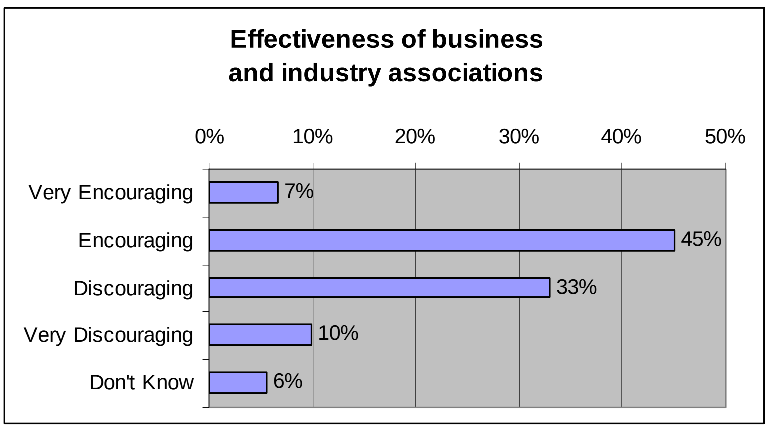
1.62 Availability and mobility of skilled workers

The majority of respondents felt negatively about the availability and mobility of skilled workers.



1.63 Effectiveness of business and industry associations

A slim majority of respondents were positive about the effectiveness of business and industry associations.



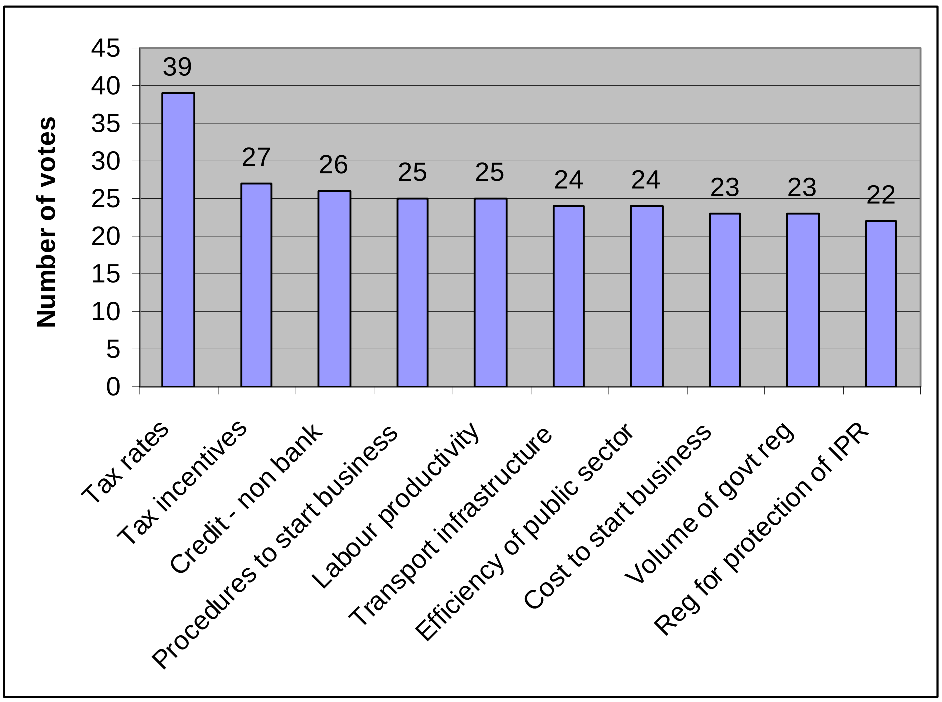
4) Key Priorities for Encouraging the Development of the Private Sector

Respondents were asked to rank their top three priority areas for action to encourage the development of the private sector in their economy. The areas were drawn from the sixty three survey questions on regulation, government assistance and support and macro-economic conditions.

The following ten areas were ranked the highest across all respondents:

1	Level of tax rates
2	Tax incentives for business investment (e.g. R&D expenditure)
3	Availability of credit from the non-banking sector
4	Procedures to start a business
5	Labour productivity
6	Adequacy of transport infrastructure
7	Efficiency of the public sector
8	Cost to start a business
9	Volume of government regulation
10	Regulation for the protection of intellectual property rights

Top ten priority areas by numbers of votes:



Issues regarding tax clearly scored the highest results, perhaps reflecting the high proportion of respondents from developed economies. However, other regulatory issues around starting a businesses and intellectual property rights also scored highly.

May 2006

Developed economy perspective on business regulatory frameworks- Singapore

Presented by Mr. Teng Theng Dar,
ABAC Member, Singapore
9 May 2006

Agenda

- Snapshot of Singapore
- Characteristics of business climate
- Importance of business regulatory reforms
- Initiatives to regulate business environment
- Benefits accruing from framework

Snapshot of Singapore I

- **Total Population** ('000): 4,351.4
- **Annual Growth** (%): 2.6
- **Singapore Residents**('000): 3,553.5
- **Annual Growth** (%): 1.9
- **Land Area** (Sq km): 699.4
- **Population Density** (Per Sq Km): 6,222

Snapshot of Singapore II

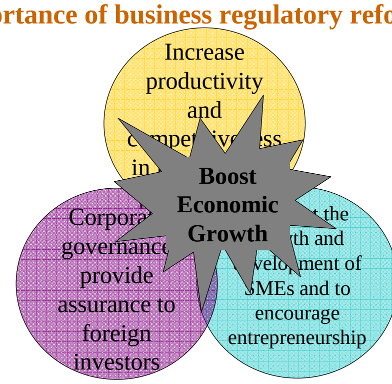
GDP at Current Market Prices (S$bn)	194
Per Capita GDP (S$)	44,666
Real Growth (%)	6.4
Sectors (% of GDP) Manufacturing Wholesale & Retail Trade Business Services	 27 15 13
Total Trade (S$bn)	716
Trade Growth (%)	14

2005 Statistics

Characteristics of business climate

1. **Open Market Economy**
   - susceptible to effects of globalisation
   - Dependent on foreign trade (3.7 times of GDP)
2. **Importance of local small, medium enterprises (SMEs)**
   - Comprise 92 % of total establishments, 51% of workforce and generate 34% of total value added
3. **Leadership role of government in private sector**
   - Government-linked companies accounted for 13% of GDP
   - And 40% of total capitalization of Singapore Stock Exchange in 2004

Importance of business regulatory reforms



Initiatives to Regulate Business Environment in Singapore

National Standardisation Programme

1. Promotes wide acceptance of Singapore standards in industry and government

Online Application System for Integrated Services (OASIS)

Focuses on cutting red tape for licences and making the application of licences efficient, more

Action Community for Entrepreneurship (ACE)

1. Private and public sectors to create a more entrepreneurial environment in Singapore

SME21

1. Foster a creative Singapore where ideas and intellectual efforts are valued, developed and

Competition Commission of Singapore

1. Promote healthy competitive markets

Intellectual Property Office o Singapore (IPOS)

1. Foster a creative Singapore where ideas and intellectual efforts are valued, developed and

Corporate Governance Committee

Review the approach, development and promotion of best practices in corporate governance amongst publicly listed companies in Singapore

Benefits Accruing from Initiatives

- National and International Standards
- Streamlined business processes (Case example: CrimsonLogic)
- Feedback on regulatory framework
- Financial aid for SMEs
- Fair playing field
- Protection of IPR
- Corporate Govern...

Strong tripartite partnership between workers, employers and the government

- ✓ Increased competitiveness and productivity
- ✓ Ease of doing business
- ✓ Lower business costs
- ✓ Fostering entrepreneurship and assistance to SMEs for future economic growth
- ✓ Attract Foreign Direct Investments

Accolades

- Most Cost-Competitive Place for Business (KPMG Competitive Alternatives Study, 2006)
- 2nd Most Potential for Investment (BERI Report Aug 2005)
- Least Bureaucracy and Red Tape in Asia (Political & Economic Risk Consultancy, Jun 2005)
- Ranked 2nd on Ease of Doing Business (World Bank Survey)
- Ranked 6th in Best Business Environment (EIU)

IMPROVING BUSINESS REGULATORY FRAMEWORKS TO PROMOTE PRIVATE SECTOR DEVELOPMENT IN A TRANSITIONAL ECONOMY

THE CASE OF VIETNAM'S ENTERPRISE LAW

Presented by Pham Chi Lan
Senior Advisor
Prime Minister's Research Commission

1

1. Situation prior to Enterprise Law 1999 reform

- Viet Nam was a low-income country in transition from a centrally planned to a market-oriented economy. Reform process started in late 1986.
- The legal frameworks for private enterprises were issued in 1990.
- By 1999 there were #2 million household businesses and # 40,000 private enterprises. Almost 100% of them were SMEs.
- In 1999 Enterprise Law (EL'99) was enacted.

2

Main features of pre-EL'99 reform policies:

- specific business laws for different categories of owners/ forms of investment . The private businesses were particularly disadvantaged.
- a cumbersome, overlapping , inconsistent regulatory environment.
- high costs and inequities of business entry. Potential business had to submit 20 documents, get 30 seals, wait for 3 months, and pay about USD 700 for a license.
- following registration, additional licenses were required for actual activities.
- to incorporate a private enterprise it took 6-12 months and cost USD 700-1,400.

3

- arbitrary minimal capital requirements for different sectors.
- enterprises have to specify in advance details on scope of business activities
- no specified procedures for changes of company's name, shareholding structure, scope of business activities.
- weak market institutions constrained private business development.
- bureaucrats had considerable administrative discretion in the approval process.
- many opportunities for corruption and delays.
- basic business registration information was not available to the public
- the system was costly, but did not achieve implied policy objectives.

4

2. Major objectives and impetus for reforms

Major objectives:

- **Sustain economic growth, improve living conditions, macroeconomic stability.**
- **Modernize and industrialize the country to "catch-up" with neighboring countries.**
- **Integrate into the regional and world economies.**

Major impetus:

- **Pressure for strong growth & enhanced competitiveness**
- **Pressure to create new jobs to reduce poverty & increase incomes**
- **Pressure to stop the downturn in export growth & FDI inflows from 1997.**
- **Greater focus on domestic resource mobilizations requests to improve business environment .**
- **Equity and anti-corruption concerns.**

5

3. Key reform changes under EL'99

Simplified business entry:

- licensing system was replaced by registration
- enterprises can do business in all sectors / areas that are not prohibited by laws
- enterprises have full autonomy in oporation & governance
- no requirement on arbitrary minimal capital
- negative lists were clearly defined
- enterprises are protected from undue State interference

6

Regulations on the EL'99 implementation helped:

- abolishing about 150 business licenses/permits and thousands of sub-licenses /conditions issued at local level .
- developing services provided by business registration offices.
- dissemination of information to business about their rights and obligations.
- setting up business information system opened to the public.
- clarifying requirements for doing business in conditioned sectors.

7

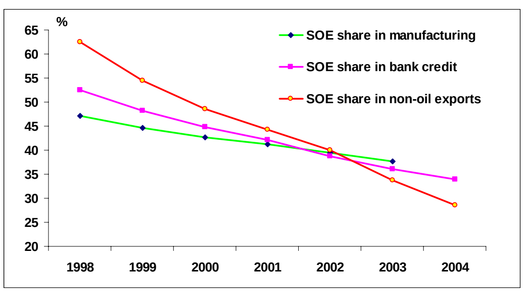
4. Achievements in implementation of EL'99

Achievements in business development:

- #180,000 new enterprises set up with capital of # USD15 billion in 6 years 2000-2005.
- >800,000 new household businesses registered .
- Number of private enterprises registered for export - import trade increased by 5 times to >20,000 by 2005.
- Private sector enjoyed highest growth and increasing shares in the economy: 48.5% in total GDP, 27% in investment, 30% in non-oil export trade of Vietnam.
- Strengthened status of biz associations and biz media.
- Reduced costs of registering a company. Average start-up costs is now # USD 350, total time # 2 months.

8

Reduced Importance of State-Owned Enterprises



9

Achievements in economic and administrative reforms

- A leap forward in creating level playing field and competition environment.
- New impetus to the development of services and factoral markets: labour, capital, land, real estate, technology…
- Further liberalisation of trade and investment.
- A break-through in administrative reform, improve transparency, consistency, uniformity and predictability
- Improve the efficency and accountability of the state system, reduce bureaucracy and corruption.
- Facilitate Vietnam's regional and int'l integration.
- Significant change in the roles of the private sector and civil society.

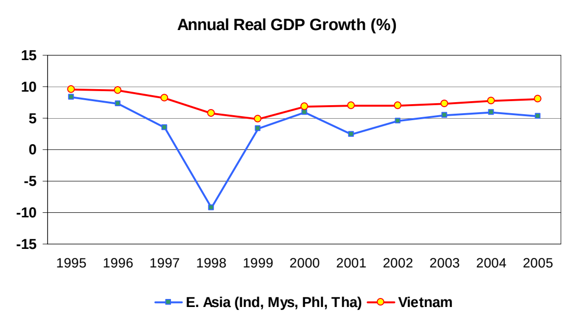
10

Achievements in economic development and poverty reduction

- Create >1 million new jobs a year.
- Develop trade and investment, strong economic growth.
- Mobilise internal resources for economic development
- Develop business links between Vietnam and the world market.
- Improve equitable development between different groups /regions by creating more equal opportunities.
- Help poverty reduction by providing jobs and income opportunities.
- Enhance enterpreneurship, especially among young people and women (70% of new businesses were set up by young people and 30% by women).

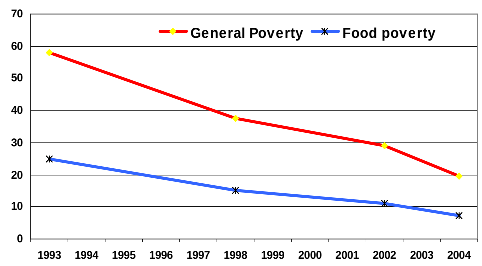
11

Vietnam's Strong Growth Performance



12

…and Unprecedented Poverty Reduction



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5. Factors for the success

a. The EL'99 is part of a longer term reform process

- Broader macroeconomic and institutional reforms lay the foundations for PSD and EL.
- Positive shift in public and official attitude towards PS.
- Other important reforms introduced during the EL drafting and implementation, including policies on SMEs.
- Further regulatory reforms are expected.

b. Learning and diffusion in facilitating policy formulation

- "Learning by doing" and learning from regional experiences.
- Results of experimentation and regional experiences disseminated .
- Interest groups involvement: private sector, FDI…
- Role of the champions among businesses & reformers

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c. Institutional arrangements and capacity

- Drafting committee and special task force set up to cordinate reform efforts.
- Complementary actions at the provincial level.
- Availability of resources and skills incl. int'l supports
- Mobilizing official and public support for reform (government, business, the media, NA members...)

d. Government commitment to reforms and credibility

- Role of businesses were highlighted by state leaders
- Strong official endorsement of private sector
- Strong official commitments to trade and investment liberalisation and business environment improvement.
- Democratisation of law making process

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6. What next?

- Acellerate institutional reforms with focus on important areas: SOEs, banking, governance…
- Busy agenda to improve policy & legislative systems in compliance with WTO & other int'l commitments.
- Implement AFTA and other int'l commitments.
- Further improve business environment & enhance competitiveness.
- Enforce new Unified Enterprise Law (UEL) and Common Investment Law (CIL) from July 2006.

16

Major reforms of the 2 new Laws UEL &CIL

- *Uniform legal framework and level playing field for all economic actors, regardless their ownership/ nationality.*
- *Business freedom to all.*
- People can do business/ invest in all areas which are not prohibited by laws (clearly define negative lists).
- Registration mechanism will be applied universally.
- Eliminate unnecessary approval and licensing systems.
- Assure the rights of enterprises / investors in selecting types of company, investment forms, corporate governance and changes suitable to them.
- Develop appropriate mechanism / tools for enforcement

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Deal With Binding Constraints to Growth

WB's ICA Report 2006

Constraints	East Asia	Vietnam	The World
Access to finance	17.4 **	37.4	30.1 **
Access to land	9.9 **	26.4	14.5 **
Labor skills and education	23.8	22.3	20.4 *
Transportation	15.2 **	21.6	12.4 **
Macroeconomic stability	34.1 **	16.8	40.2 **
Corruption	28.6 **	12.8	36.8 **
Labor relations	17.4 **	10.9	17.3 **
Legal system	27.3 **	5.5	21.6 **
Crime and theft	19.3 **	4.0	25.7 **
Licenses and permits	14.4 **	1.4	15.9 **

8

THANK YOU VERY MUCH
FOR YOUR ATTENTION

For more information please contact

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CHECK AGAINST DELIVERY

TALKING POINTS

FOR

STEPHEN WALLACE

VICE-PRESIDENT OF THE CANADIAN INTERNATIONAL

DEVELOPMENT AGENCY

APEC Symposium on Private Sector Development

Montréal, Quebec
May 9, 2006

- Good afternoon everyone.

- Let me begin by saying that President Greenhill has asked me to convey his regret that he is not able to be here today.

- However, I am delighted to have the opportunity to be here in his place.

- You are a powerhouse audience.
    - Many of you are economic leaders.
    - You hail from economies throughout the Asia-Pacific and around the globe.

- Despite our diversity, I know we are all here today because we share a common belief.

- We believe that rapid, sustained economic growth is key to achieving the Millennium Development Goals, and ultimately, to eliminating global poverty.

- In developing countries, a dynamic private sector and strong markets are essential to achieve the kind of growth that creates real income and business opportunities for the poor.

- We know that the private sector drives job creation, innovation and growth.

- But in many countries, entrepreneurs — especially small and medium enterprises — often operate at the margins of the formal economy.

- They lack access to legal protection for their assets or transactions, or to financial and other resources needed to become more productive, to innovate and to grow.

- They often operate in regulatory environments that are not conducive to stimulating competitive dynamic business.

- When about one-fifth of the world's citizens live in dire poverty – on less than $1.00 a day – we cannot afford to overlook the opportunities that private sector development can offer for global economic growth and poverty reduction.
- A dynamic private sector creates meaningful jobs and meets the needs of consumers.

- It also increases productivity and generates tax revenues that can support essential public services like health and education.

- Support for private sector development also helps lay the groundwork for an open, rules-based trading system and spreads the benefits of new technologies.

- For all these reasons, I strongly believe that private sector development is crucial to the fight against poverty.

- Many of our developing country partners have identified private sector development as a priority sector for development cooperation.

- And they recognize that countries such as Canada can offer experience and assistance in private sector development, for example in building the legal and regulatory frameworks that underpin successful economies.

- That's why private sector development is a priority area for Canadian development assistance.

- Our efforts include promoting entrepreneurship.
    - We want to build the capacity of entrepreneurs by helping them access the skills and knowledge they need to innovate and grow.
    - And, we want to improve access to appropriate debt, equity and financial instruments for micro entrepreneurs and small- and medium-sized enterprises.

- As well, we’ll help entrepreneurs in developing countries connect to new markets by helping them integrate into the global trading system.

- We’ll help them gain access to new local, regional or international markets for their goods and services.

- Finally, we’ll help to create a business-enabling environment with the right conditions for the private sector to flourish.

- This will include:
    - Supporting local business associations;
    - Encouraging accountable private and public institutions that support competitive local and national markets;

  - Promoting socially and environmentally responsible enterprise practices;
  - Fostering a favorable climate for domestic and foreign investment, including through financial sector development;
  - Helping with legal and judicial reforms that provide for stable and clear development and enforcement of contracts that are essential to business; and
  - Cutting red tape and encouraging regulatory reforms to reduce the costs and complexity of doing business.

- As we look across the globe – including in the Asia-Pacific region – we see CIDA success stories everywhere.
  - In Vietnam, we are helping to improve governance in the banking sector.

- In the Philippines, we are providing technical assistance to encourage the growth of businesses.
    - CIDA, along with Australia, is supporting the creation of a Private Enterprise Partnership through the International Finance Corporation to facilitate the development of small- and medium-sized businesses.
        - Building on the IFC's vast experience helping small and medium enterprises around the world, and CIDA's longstanding private sector development programming in the Philippines, the Private Enterprise Partnership will help reduce the cost of doing business, strengthen and deepen Philippine financial markets to improve businesses' access to finance, and help them improve their revenue streams.

- In Indonesia, we are participating in a G8 Business Climate pilot in Indonesia, together with the United States and Japan.

- On the bilateral front in Indonesia, we are working with the Asia Foundation to help business associations and local governments remove barriers to doing business and employment growth in Sulawesi.

    - This project strives to:

        - reduce barriers to trade;

        - increase recognition of the contribution women make to the Sulawesi economy;

        - improve the business licensing process and shorten approval times; and

        - increase the capacity of business associations to advocate for their members.

- We will build on our success in private sector development programming in the Asia Pacific region and elsewhere.

- CIDA's solid and productive relationship with the private sector will continue to play a key role.

- Businesses are key to our success in delivering international assistance — not just in private sector development, but in all sectors, including governance, health, education, environmental sustainability, and gender equality.

- There is a world of opportunity out there.

- And a world of opportunity is exactly what development is all about.

- This symposium is a call to action to mobilize the strength of the private sector and harness its energy to promote economic growth and achieve the Millennium Development Goals.

- We know that we — as a global community — have the tools, the know-how and the financial resources to end poverty in our generation.

- Working together, we can find a way to make business work for poverty reduction.

- Thank you.

-30-

Two Publications

OECD's *Guiding Principles for Regulatory Quality and Performance* (April 2005)

APEC-OECD Integrated Checklist on Regulatory Reform (2004)

Observations

Treat the mosquito not the itch

Go tell it on the mountains, over the hills and everywhere

Not Measured; soon forgotten

No Will! No Way!

Comments from OECD

Thank you Rupert/Drew for that introduction and for the skilful way in which you have guided our proceedings over these two sessions.

I want to share with you some observations taken from OECD experiences – both good and bad – as reported in country reviews of regulatory reform and the implementation monitoring that has been going on in the OECD since 1998.

To the extent that the OECD has produced Holy Writ on this subject, it is captured in the OECD's *Guiding Principles for Regulatory Quality and Performance* that were revised and re-issued in April 2005. They have a companion piece – the *APEC-OECD Integrated Checklist on Regulatory Reform* - the latest version of which was published in 2005 also, and can be found on the APEC website.

Based on this material, I have four observations to share with you about successful regulatory reform including my reflections on what we have heard here since lunchtime yesterday.

My first proposition is that we should set out to 'treat the mosquito not the itch'.

By this I mean that unless regulatory reforms are designed to attack the heart or source of the problem – it is a waste of time even starting. Too often in the past governments have taken the approach that it is sufficient to respond to symptoms of problems through isolated, single initiatives rather than investigating and fixing the cause of the problem. To take a simplistic example – putting in place a penalty regime to ensure the rail company runs the trains on time rather than recognising that the rundown state of the government's railway infrastructure is the reason travel is frequently disrupted.

One-off responses of that kind can be effective, short-term, and are generally easy to implement – but they never permanently fix the problem. Cost-effective regulation is a product of good problem definition, right incentives, right principles and good decision-making processes, including consultation with the public. Vietnam's reforms, so well articulated by Madam Pham Chi Lan yesterday, appear to be an exemplar of that good process.

My second observation is - 'Go tell it on the mountains, over the hills and everywhere'.

It is not possible to over-communicate the need for regulatory reform and the strategies and processes needed to implement it. The messages (and the actions associated with them) have to be clear, consistent and visionary. We heard David Caygill convey, still, his sense of wonder that New Zealand's reforming government of 1984 was re-elected in 1987 with an increased majority

– despite having unleashed the most disruptive reform agenda in that country's history. But this is because they had sold well the need for reform. In this context I could not help but admire Mr Ten Theng Dar's ability to articulate the Singapore story. When citizen's like him are able to see their role and feel that they are a partner with the government in a reform process, then true and lasting reform is assured.

My third point – 'Not Measured; soon forgotten'.

The OECD has made programme evaluation a mantra. The expectation is that governments will be able to describe intended outcomes of reform processes in terms that can be measured (eg 95% of the trains will run on time) and that they report honestly against those targets frequently and publicly. If targets are not being met then the government should make changes to the policy and its implementation – not just change the targets.

The premise that what gets measured gets done will be familiar to the business people of ABAC. The British Columbia process described yesterday by Gail Greenwood is an excellent example of this principle in practice in government. So too was Mexico's use of World Bank data to monitor its reform process.

My final thought is "No Will! No Way!"

David Caygill explained to us why, from a political perspective, regulatory reform is hard. Therefore unless the leader of the government is personally committed to change and is willing to ensure the reforms are applied with consistency and equal force at all levels of government, then it simply is not worth starting a reform process.

APEC Leaders recognised this back in 1999 when they endorsed a series of principles for enhancing competition and regulatory reform. Those broad principles state that to be successful a reform process must be non-discriminatory (i.e. favour neither the public nor private sector), comprehensive, transparent in both the policy rules and implementation process, and incorporate clear understandings about who is accountable for what and what happens if things go wrong. Those principles remain valid today, and I hope your Statement to this year's APEC Leaders will include reference to them.

Let me conclude by paraphrasing David Caygill's insightful commentary. The path to regulatory reform is likely to be neither straight nor smooth, nor, necessarily, capable of being drawn in advance with engineering precision. But one thing is for certain – you'll never arrive at the end of the journey unless you begin it and do so with a fervent desire to be held responsible for fully completing it.

Thank you.

Ease of Doing Business

Symposium on Private Sector Development

Montreal
May 2006

ADB

Issues Raised Yesterday

- Open, transparent and well governed markets are very necessary.
- Good macroeconomic environment is necessary for improved quality of doing business.
- How would this transaction go? At what cost?
- Increasing the availability of credit from non-banking sector is important.
- Improving the quality of infrastructure is important in an economy.
- A sound financial market infrastructure is very important for development.

ADB

ADB's Local Currency Initiative-Background

- Heightened risk perception of unhedged foreign currency borrowing as a result of Asian financial crisis.
- Weak macro economic climate affecting FDI and infrastructure projects.
- Weak banking sector
- Under developed capital markets
- Emerging market currencies considered volatile and susceptible to devaluation.
- Modified accounting standards providing for transparent treatment of currency fluctuations

(Developing countries need billions of dollars and their local currency equivalent to build a strong infrastructure to spark an investment boom. They also need to strengthen their financial sector.)

ADB

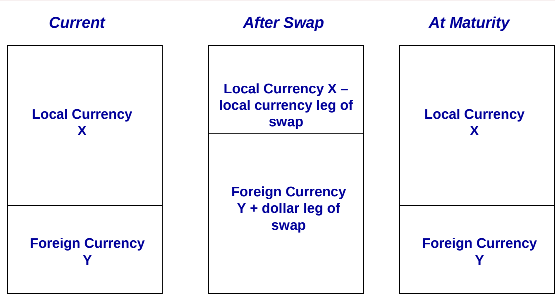
ADB's Local Currency Initiative-Background

- Significant impact of local currency devaluation on balance sheet of borrowers. Project viability threatened.
- Banks carry both maturity and currency mismatch risks
- Lending banks traded currency risk for a credit risk.
- Devaluation pass through in tariffs faced stiff resistance from consumers of "user to pay" projects.
- Borrowers in emerging markets have a strong preference for local currency denominated borrowing.

(While developing countries need to attract capital, investors prefer local currency alternatives due to volatile patterns.)

ADB

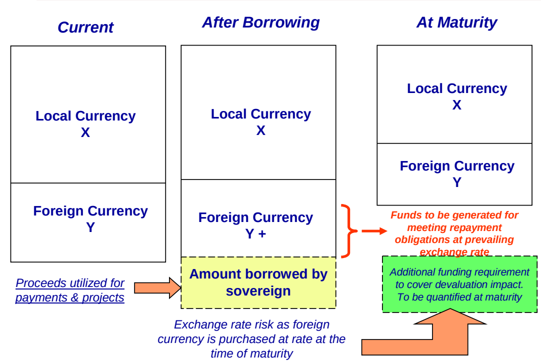
Impact of Swap – Change in Currency Composition of Reserves



A Cross Currency Swap is not a borrowing by a developing member country and is undertaken at market based pricing principles

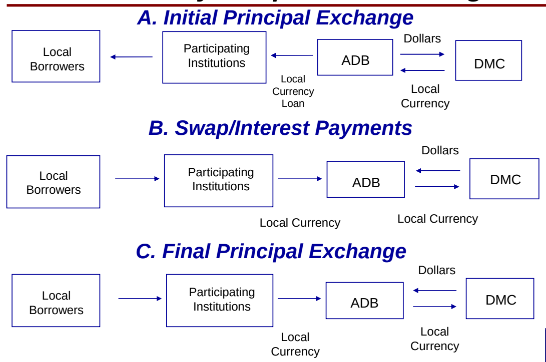
ADB

Impact of Borrowing



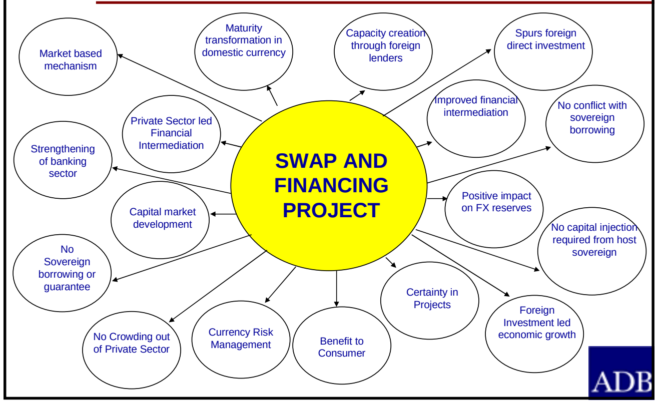
ADB

Schematic Diagram
Local Currency swap and Financing



ADB=Asian Development Bank, DMC=Developing Member Country.

Macroeconomic Stability



Role of ADB

- ADB's local currency lending initiative would
  - ** strengthen long term domestic debt/capital markets.
  - ** provide depth for extended tenors to investors.
  - ** strengthen banking sector
  - ** improve financial intermediation
  - ** develop local currency swap markets.
  - ** facilitate access to financing of institutions.
- Assist DMCs in development of a regulatory framework.
- ADB involvement would send an important message to private sector.

(ADB is taking a leadership role for development of local markets in its developing member countries.)

Role of ADB (cont'd)

- ADB's participation is intended to catalyze financing from local and foreign sources, and not to compete with them.
- Capacity creation.
- Promote private sector development.
- Support strategic objective of its developing member countries in attracting private capital.
- Promote partnerships, transparency, corporate governance, and corporate social responsibility.

(ADB's dual capability of having public and private sector operations under one roof offers important synergies. This combination enables ADB to deliver a comprehensive development solution).

ADB 's Private Sector Development Strategy

- Comprehensive framework for promotion of private sector (both domestic and foreign)
- The private sector is the engine of economic growth
- Sustained, rapid growth is necessary condition to achieve ADB's overarching objective of reducing poverty in the Asian and Pacific region.

ADB 's Private Sector Development Strategy

Three Strategic Thrusts

- Help governments create enabling conditions for private sector investment.
- Generate business opportunities for private sector through its public sector activities.
- Catalyze private sector investments

Ease of Doing Business: Canada/New Zealand Joint APEC Symposium on Private Sector Development

Discussion Group Report-Back

Broad Themes

- Complementary to results of ABAC survey and World Bank work
- Transition from informal to formal
- Behind-the-border problems, but touch on trade policy
- Capacity building, both for businesses and for governments

Some High Priorities

- Regulatory Burden
- Taxation Complexity
- Access to Finance
- Labour Law Complexity

Regulatory Burden

- Three aspects: content, transparency, and administration
- Make it easier to start a business
- One-stop shops
- Transparency: plain language, online availability, user-friendly organization
- Train government officials -- promote service culture

Taxation Complexity

- Reduce number of taxes
- Taxation by different levels of government
- On-line filing
- Equitable taxation (and enforcement)
- Fewer exemptions

Access to Financing

- Promote business incubators and public-sector sources of finance/mentoring
- Encourage formalization
- Increase competition in financial sector (including strengthen micro-credit facilities)
- Encourage banks to reduce paperwork requirements (e.g. online services)

Labour Law Complexity

- Make hiring and dismissal easier
- Guidelines/best practices on employment management -- benchmarks for individual economy regulation
- Labour mobility among economies, including mutual recognition of foreign credentials
- Employment standards -- realistic and enforceable

Moving Forward

- Use World Bank Indicators to Benchmark Progress
- Use APEC Individual Action Plan Process, including Peer Review
- Joint Outreach Activities with World Bank
- Exchange of Information and Survey Criteria (APEC - World Bank)