



**Asia-Pacific
Economic Cooperation**

2016/CSOM/008
Agenda Item: 2.2.1

Economic Committee Report 2016

Purpose: Consideration
Submitted by: EC Chair



**Concluding Senior Officials' Meeting
Lima, Peru
14-15 November 2016**

Executive Summary

The Economic Committee (EC) had a busy and productive 2016 focused on the implementation of the Renewed APEC Agenda for Structural Reform (RAASR), Second APEC Ease of Doing Business (EoDB) Action Plan and the 2016 APEC Economic Policy Report (AEPR) on Structural Reform and Services.

This report provides APEC Senior Officials with an overview of the EC's achievements in 2016.

Recommendations

It is recommended that Senior Officials:

- Endorse:
 - the 2016 AEPR on Structural Reform and Services; and
 - the topic of Structural Reform and Human Capital Development for the 2017 AEPR, for the approval of Ministers.
- Welcome:
 - the Individual Action Plans that members have concluded to guide their domestic implementation of key structural reforms under RAASR;
 - the External Quantitative Indicators identified by the Policy Support Unit to assist with the evaluation of horizontal progress under RAASR; and
 - the EC and CPLG activities that have taken place in 2016.
- Note:
 - the planned activities for EC during SOM1 in 2017, including the proposal to hold a 'Competition Week'.

Attachment:

- 2016 AEPR on Structural Reform and Services (Individual Economy Reports not attached).

Economic Committee Report 2016

November 2016

Lima, Peru

I. OVERVIEW

In 2016 the Economic Committee aligned its overall effort with Peru's APEC theme of *"Quality Growth and Human Development."* In doing so the Committee supported Peru's priorities for 2016, in particular: advancing regional economic integration and quality growth; towards the modernization of micro, small and medium-size enterprises in the Asia-Pacific; and developing human capital.

More specifically, 2016 was a year of getting down to the business of implementing the ministerial mandate from the 2015 Structural Reform Ministerial Meeting (SRMM) – known as RAASR, or the **Renewed APEC Agenda for Structural Reform**. 2016 was the first year of the 5-year RAASR mandate, which strives to stimulate balanced and sustainable growth in APEC economies, while reducing inequality. Members have now concluded RAASR Individual Action Plans that contain their own economy-level priorities for implementation by 2020, while at the same time the Committee has also endorsed a set of external quantitative indicators to evaluate APEC-wide progress under RAASR.

2016 was also the first year for the Committee's important **Second Ease of Doing Business (EoDB)** Action Plan, under which United States-led work is underway to achieve a targeted 10 percent overall improvement by end-2018. In addition, the Committee took on the challenging topic of **Structural Reform and Services** for its annual **APEC Economic Policy Report (AEPR)**. This necessitated close cooperation with the Committee on Trade and Investment, Group on Services and the SOM Friends of the Chair on Connectivity and the parallel effort this year to conclude the APEC Services Competiveness Roadmap.

The Committee met twice in 2016, at SOM1 and SOM3, and held cross-fora events with the Committee on Trade and Investment (services), the Human Resources Development Working Group (human capital development) and the Sub-Committee on Standards and Conformance (the 9th Conference on Good Regulatory Practices). In addition the Chair pursued extensive cross-fora collaboration to share the results of the Committee's 2015 AEPR on Structural Reform and Innovation, and the chairs of the CTI and Small and Medium Enterprises Working Group attended EC1. The APEC Business Advisory Council and Pacific Economic Cooperation Council made valued contributions at both meetings as did the APEC Policy Support Unit (PSU) which played a major role in supporting the Committee's work, including on the 2016 AEPR, RAASR implementation, EoDB, and in hosting the Middle Income Trap Seminar and supporting the Joint EC-CTI Dialogue on Services at SOM3. Further, the Committee also collaborated strongly with the OECD, World Bank, UNCITRAL, UNIDROIT and HCCH, and intends to further develop such collaboration in the future.

This year's AEPR delivers a strong message that structural reforms of services sectors do not need to wait for an international, regional or bilateral trade context before taking place. **Unilateral structural reforms of domestic services sectors can and should be pursued at the earliest opportunity to improve economic performance.** This message is even more important at this time of slowing trade

and productivity growth, and increased anti-global sentiment. The report also underlines the **importance of competition to the efficiency of services sectors** – a point underlined in the five case studies conducted which supplement the report. It also underlines the importance of **international regulatory cooperation** in the area of services to help overcome the costs that regulatory heterogeneity impose on firms.

In its plenary sessions this year, the Committee held several high-quality policy dialogues on relevant topics for economic growth in the region: economic trends; regulatory reform; competition policy; regulatory heterogeneity, regulatory cooperation and trade; and participation and transparency in policy-making. The Committee also implemented a number of successful projects.

Finally, throughout the year the Committee's five Friends of the Chair (FotC) groups (Corporate Law and Governance (CLG); Ease of Doing Business (EoDB); Public Sector Governance (PSG); Regulatory Reform (RR); and Strengthening Economic Legal Infrastructure (SELI)), as well as the Competition Policy and Law Group (CPLG), did essential work to support these efforts through a number of successful events and workshops. The advice and enthusiasm from these informal, voluntary FotCs - which meet briefly in the margins of each EC plenary meeting - is vital to the Committee's overall function.

II. EC CONTRIBUTIONS TO APEC PRIORITIES

A. RAASR Implementation

As an overarching kick-off event for 2016, the EC during SOM1 held a Workshop on SRMM implementation. Work was then carried forward under the five main sections of RAASR, each mandating different actions to be taken by members.

Under *'Structural Reform and Inclusive Growth'* the EC has worked to develop a set of indicators for evaluating inclusiveness of structural reform policies (as a priority component of the indicators that have been identified by PSU for the APEC-wide assessment of RAASR).

Under *'Structural Reform and Innovation'* the EC Chair took the 2015 AEPR on Structural Reform and Innovation to relevant groups including GOS, IPEG, AHSGIE, LSIF and PPSTI, and the Committee held a further Middle Income Trap Seminar focused on the Latin American experience.

Under *'Structural Reform and Services'* the EC made this topic its central focus for the 2016 AEPR (covered in more detail later in this report) and worked in support of the development of the ASCR by the SOM FotC on Connectivity, CTI and GOS. The EC and CTI also held a joint session on services, with support from PSU.

Under *'Tools for Structural Reform'*, Mexico organized the significant 9th Conference on Good Regulatory Practice, which delivered on its theme of building high-level support for reform. The EC also took up the issues of regulatory reform, and transparency and participation in policy-making, in dialogues in the EC's plenary sessions. Further, the EC also held events and a dialogue on issues surrounding the promotion of international legal instruments to strengthen the legal infrastructure

of APEC economies. Finally, the EC and CPLG Chairs encouraged members to include self-assessment of barriers to competition in their RAASR implementation. This will also be a focus for the forecast 'Competition Week' at SOM1 2017 (see further the last section of this report).

Under *'New Directions for Structural Reform in APEC'*, the EC has been focused on supporting members as they conclude their own Individual Action Plans, including through the development of a Questionnaire for this purpose. 21 IAPs have now been concluded, and contain self-selected priorities for structural reforms by the end of the RAASR mandate in 2020. This process was greatly assisted by a Workshop on drafting IAPs which was held mid-year by Australia, in addition to ongoing advisory services being available to developing economies as they drafted their plans. In addition, PSU has identified a set of external quantitative indicators which members have endorsed. These will be used to help evaluate APEC-wide progress under RAASR as well as complement the monitoring of progress at IAP level.

B. Second EoDB Action Plan and Implementation Plan (2016-2018)

The Second EoDB Action Plan contains the same familiar priority areas from Phase I – starting a business, getting credit, trading across borders, enforcing contracts and dealing with permits – with an overall 10% improvement sought by end 2018.

During 2016, in terms of cross-cutting activities, an EoDB Workshop on "One-Stop Shops to Improve the Business Environment" was held on the margins of SOM1, where economies shared best practices and discussed innovative techniques to implement EoDB reforms focusing on one-stop shops. Additionally, a Study on "Assessing APEC getting credit and enforcing contracts frameworks according to international best practices" is ongoing.

On getting credit, a Workshop on supply chain finance and implementation of secured transactions in cross border contexts was held on the margins of SOM3. On enforcing contracts, two events have been held – a Workshop on alternative dispute resolution and the 2016 APEC conference on EoDB in the field of enforcing contracts – while another event has been endorsed as a self-funded project for implementation at SOM1 2017. And under trading across borders, a Workshop on best practices on critical issues in the WTO TFA was held under CTI.

Economies will continue updating the EoDB Implementation Plan to reflect all the capacity building and technical assistance activities to be developed in the period of 2016-2018.

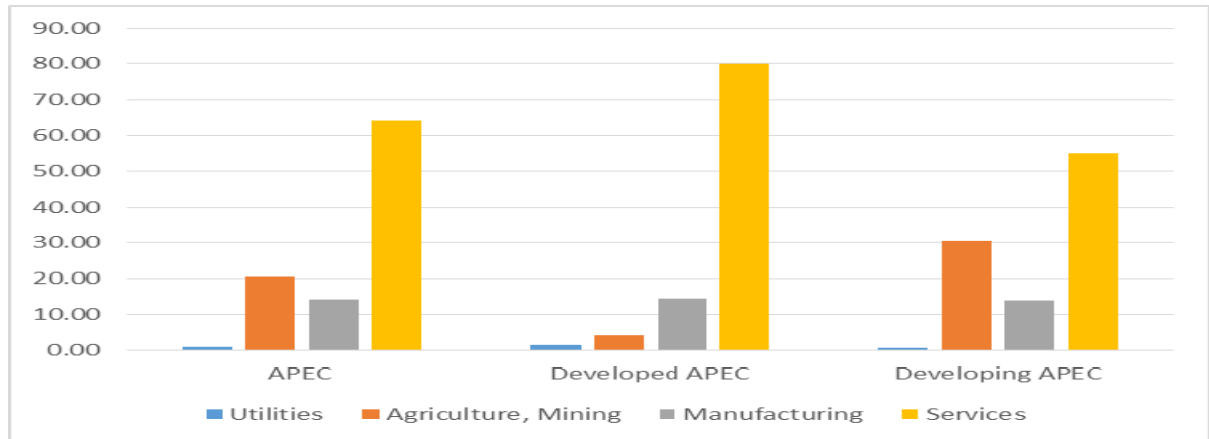
Finally, during EC2 the PSU presented the final assessment of APEC's EoDB Initiative (2009-2015), which showed that APEC economies achieved an overall improvement of 14.6% by 2015. This report also highlighted that progress was uneven across different priority areas with the highest progress achieved in the area of Starting a Business.

C. AEPR on Structural Reform and Services

One of the main outputs of the Economic Committee this year is the 2016 APEC Economic Policy Report on Structural Reform and Services.

The report begins by noting that services sectors across APEC now account for over half of all economic activity and, in most individual economy cases, significantly more. The share of services in GDP and employment has been steadily increasing in recent years, and is projected to continue. In addition, services are a significant employer of women, and most MSMEs are in services. Unlocking the potential of services sectors is therefore not only critical to economic development but also to reducing inequality.

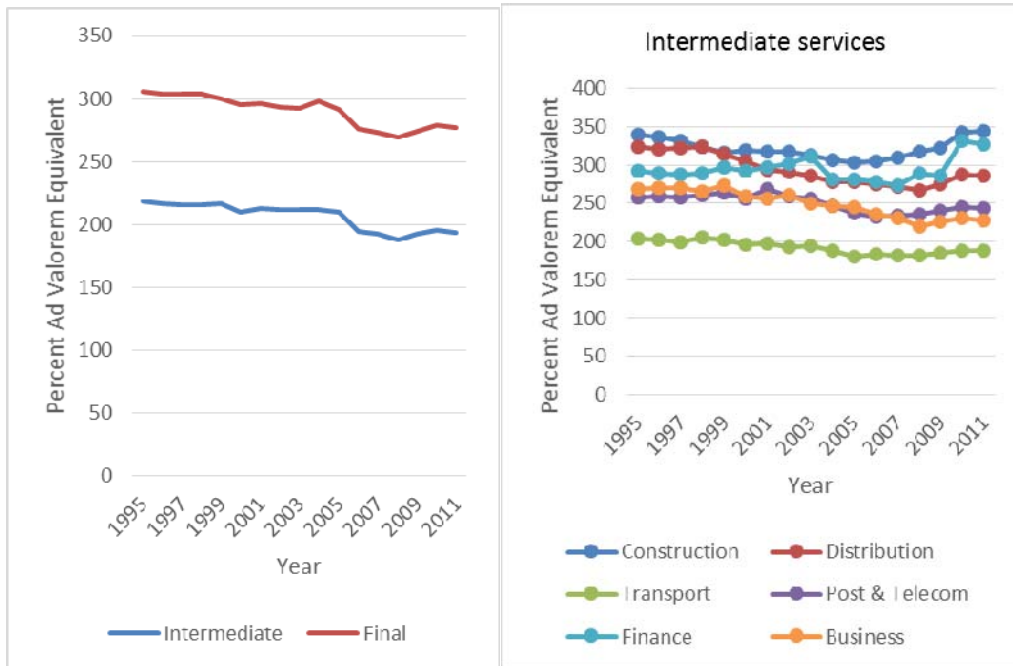
Services sectors are by far the greatest source of employment across APEC as a whole



Structural reforms that strengthen the quality and efficiency of services help economies compete in markets, innovate and attract investment in order to expand and grow. Promoting competition is also key to improving the performance, productivity levels, and growth of the service industry. As illustrated in the AEPR case studies, removing impediments to foreign participation and foreign direct investment brings new skills and technologies, fosters innovation, lowers costs and creates more jobs.

In addition, when it comes to trade in services, there is also much more to be done. Costs to trade in services remain high, particularly when compared to costs to trade in goods. And given the importance of intermediary services in the trade in goods, this also creates a drag on the more advanced efforts being made to liberalize the trade in goods.

Costs to trade in services remain high and significant improvements are needed



The report draws a number of important recommendations for the consideration of Senior Officials and Ministers, including the following:

- Structural reforms should be pursued unilaterally where possible, and informed by international experience and best practice;
- Reforms should focus on productivity, promoting new entry, and ensuring market-based competition;
- The positive spill over effects are significant and should be a key part of the story to deliver support for such reforms;
- A value chain approach to reform can help identify complementarities and linkages across sectors;
- Reforms should be designed to be flexible and dynamic in this age of significant technological advancement; and
- APEC offers a solid platform for collaboration and cooperation on structural reforms.

The Committee produced a Factsheet of the AEPR that will also be distributed at AMM.

A final draft of the 2016 AEPR on Structural Reform and Services is attached for endorsement by SOM for final approval by the AMM.

The EC has agreed to put forward Structural Reform and Human Capital Development as the theme for next year's 2017 AEPR. It is recommended that SOM endorse this topic for the 2017 AEPR and seek final approval from the AMM.

D. Other Policy Discussions, Seminars and Workshops

As reported to Senior Officials during the year, the Committee also held several additional policy discussions, workshops, and seminars closely linked with APEC priorities.

Policy discussions were held on:

- Competition policy: dialogues were held at both EC and CPLG to consider how to fulfil the SRMM instruction that economies undertake a self-assessment of barriers to competition, including a review of current competition law and policies. OECD and World Bank participated.
- Economic trends: noted the importance of balancing short-term fiscal and monetary responses with longer-term goals of improved governance and structural reform, and recalled that in the PECC State of the Region survey for 2015-2016 two of the largest risks to growth identified were failure to implement structural reform and a lack of political leadership. PSU and PECC participated.
- Regulatory reform: looked at case studies of regulatory reform in the areas of green investments, innovation, and SMEs and noted the importance of improving regulatory procedures and cross-fora collaboration. PSU and consultants from Singapore, Australia and the United States participated.
- Regulatory heterogeneity, regulatory cooperation and trade: challenged members to ensure that their trade and regulatory agendas were complementary rather than in conflict or unconnected, and suggested a shift away from the market access narrative towards a stronger narrative around regulatory cooperation and its impact in lowering costs. PSU, EUI and OECD participated.
- Participation and transparency in policy-making and implementation: communication, consultation and participation of the public in policy making and regulatory processes not only improved trust in government but delivered better economic outcomes. These elements needed practice but were also part of a necessary mind-set in government. This event was organized by SELI and PSG. HCCH, UNCITRAL and OECD participated.

The Committee held the following Seminars and Workshops:

- SRMM Instructions: Implementation Workshop
- CPLG Workshops (3 in total) on Promoting Competition International Best Practices to Implement ANSSR Goals
- EC SELI Seminar on Alternative Dispute Resolution – the key to Efficient Settlement of Business Disputes
- EC EoDB Workshop: One-Stop Shops to Improve the Business Environment
- EC Structural Reform Capacity Building Workshop - Developing RAASR Individual Action Plans
- EC – SCSC 9th Conference on Good Regulatory Practices
- EC SELI Workshop on Supply Chain Financing and Secured Transactions in Cross-Border Contexts
- CPLG Seminar on Leniency Programs for the Repression of Anticompetitive Conduct
- EC Seminar on the Middle Income Trap
- Joint EC-CTI Dialogue on Services

The Committee has also been concluding two additional projects not mentioned elsewhere in this report:

- 02 2014T - Online Learning Program for Enhancing Regulatory Impact Analysis (RIA) within APEC (Australia). Completed.
- 10 2014A - Diagnostic Report on the Competitiveness and the overall market of the port industry in Papua New Guinea (PNG). Due for completion in December.

Currently, the EC has 6 ongoing funded projects (though several are concluding now) and CPLG has 4 (with two due to conclude shortly). EC has 2 active self-funded projects and CPLG 1.

The EC was successful in 2016 with 2 funded-project applications, and CPLG also with 2.

III. EC GOVERNANCE

The EC Chair, Mr Rory McLeod (New Zealand), has been endorsed to serve one final year in 2017. Thereafter a new Chair will be selected.

Chinese Taipei has concluded its term as Convener for the FotC on Public Sector Governance. Thailand has kindly agreed to take over as PSG Convenor from 2017.

In line with its Terms of Establishment, the EC will conduct a review every 2 years – with the next one to take place during SOM1 2017.

IV. FUTURE WORK

The Committee is expected to hold the following events in the margins of EC 1 2017 in Nha Trang, Viet Nam:

- ‘Competition Week’ featuring:
 - Seminar on Investigative Powers of Competition Agencies (Peru, CPLG 01 2016A)
 - Seminar on Economics of Competition Policy (Viet Nam, CPLG 02 2016A)
 - Workshop on OECD Toolkit on Self-Assessment of Barriers to Competition
 - CPLG Meeting
- Workshop on the Use of International Instruments to Strengthen Contract Enforcement in Supply Chain Finance for Global Businesses (including MSMEs) – Hong Kong, China and SELI
- Potential additional event on Online Dispute Resolution (ODR) for MSMEs business-to-business disputes
- Policy dialogues on Government Procurement, and Competition Policy (TBC)

The Chair will also be promoting the outcomes of the 2016 AEPR to relevant APEC fora, and the team for the 2017 AEPR on Structural Reform and Human Capital Development will begin work on this endeavor. The team of economies responsible for the 2017 Report will be Peru, Viet Nam, Indonesia and Canada.

In addition, from Project Session 1 2017 the RAASR Sub-Fund (funded by Australia) will be available to qualifying projects which target the implementation of structural reforms within an economy's IAP.
