



**Asia-Pacific
Economic Cooperation**

2017/SOM1/016

Agenda Item: 5

**Report from the Economic Committee to SOM1 2017
Under the APEC Services Competitiveness
Roadmap**

Purpose: Consideration
Submitted by: EC Chair
Forum Doc. No.: 2017/SOM1/EC/012



**First Senior Officials' Meeting
Nha Trang, Viet Nam
2-3 March 2017**

REPORT FROM THE ECONOMIC COMMITTEE TO SOM 1 2017 UNDER THE APEC SERVICES COMPETITIVENESS ROADMAP

Summary

This report fulfils the following task assigned to the Economic Committee under the APEC Services Competitiveness Roadmap (ASCR):

- *To report at SOM1 2017 on how the recommendations of the 2016 APEC Economic Policy Report on Structural Reform and Services ('2016 AEPR') will be implemented.*

This report also details broader implementation to date of the Renewed APEC Agenda for Structural Reform (RAASR), of which the 2016 AEPR is one element.

In broad terms, the EC has made good progress in implementing the RAASR mandate. Almost all tasks are underway, with several already completed. While the 11 recommendations of the 2016 AEPR apply overwhelmingly to future unilateral action by individual member economies, there have also been a number of APEC-wide implementation steps to date.

Report

In September 2015 Structural Reform Ministers met in Cebu, Philippines, and endorsed RAASR. RAASR follows its predecessors ANSSR and LAISR and provides updated guidance and a work program for APEC's structural reform agenda until 2020. RAASR's implementation is led by the EC.

In 2018, a meeting of High-Level Structural Reform Officials will review progress under RAASR. In 2020, the next SRMM will be held to evaluate the outcomes of RAASR and decide on the future of APEC's structural reform agenda.

RAASR is structured around five areas of work:

- Structural Reform and Inclusive Growth
- Structural Reform and Innovation
- Structural Reform and Services
- Tools for Structural Reform
- New Directions for Structural Reform in APEC

In addition under the Cebu mandate, Phase II of the Ease of Doing Business (2016-2018) was also endorsed.

The following paragraphs demonstrate the implementation to date under each of the areas of work and, in the case of structural reform and services, also outline how the recommendations of the 2016 AEPR will be implemented.

Structural Reform and Inclusive Growth

The EC was instructed to:

- a) Develop a policy framework on how structural reform, including those being initiated by other APEC committees and working groups, can contribute to inclusive growth
- b) Develop a set of indicators for evaluating inclusiveness of structural reform policies (as a priority component of the indicators that are being developed with the APEC Policy Support Unit for the assessment of RAASR)
- c) Share knowledge and experience relating to structural reforms that may affect inclusive growth, and identify policies to mitigate negative impacts, where warranted.

In this regard the EC has:

- With assistance from the PSU, developed and endorsed a set of external quantitative indicators for RAASR. Within the set of indicators are ones on inclusiveness.

The EC will start discussion on the issue of a policy framework at EC 1 2017.

The EC continues to promote the sharing of knowledge and experience in this area.

Structural Reform and Innovation

The EC Committee was instructed to:

- Complete the APEC Economic Policy Report (AEPR) on Structural Reform and Innovation, and recommend its adoption at the APEC Ministers' Meeting in November 2015
- Further consider the impact of its work on structural reform and innovation for policies needed to address the middle income trap, and slowing growth potential in other economies
- Consider information sharing with other relevant APEC fora on the policy issues arising from the AEPR on Structural Reform and Innovation, such as education, public investment, quality ICT infrastructure, intellectual property rights protection, dissemination of technologies through licensing and partnership, and a business-friendly investment climate (especially for MSMEs), on the basis of consensus within the relevant fora.

In this regard the EC has:

- Completed the 2015 AEPR, and had it adopted by AMM
- Shared it extensively with other relevant fora through briefings from the EC Chair in person at those fora
- Continued to hold middle income trap seminars, most recently in 2016

Structural Reform and Services

The EC was instructed to:

- Work on structural reform and services as one of the priorities for APEC, specifically:
 - To raise the importance of services in RAASR;
 - To encourage economies to implement unilateral reforms aimed at further improving the services sector, as part of their structural reform action plans under RAASR; and
 - For the APEC Economic Policy Report 2016 to focus on structural reform and services.
- Support the initiative to develop an APEC Services Cooperation Framework (ASCF), specifically:
 - To closely collaborate with the Committee on Trade and Investment (CTI)/Group on Services (GOS) and other fora, as appropriate,
 - To conduct public-private dialogues;
 - To conduct dialogues with sectoral regulators, policy makers, and business (through APEC cross-fora dialogue and cooperation); and
 - To consider developing a joint work program with GOS, which may include producing a set of recommendations for domestic regulation of the services sectors.

In this regard the EC has:

- Completed the 2016 AEPR, and had it adopted by AMM
- Shared it extensively with other relevant fora through briefings from the EC Chair in person at those fora

- Endorsed the RAASR Sub-Fund, which specifically encourages projects in the area of structural reform and services
- Met jointly with CTI in 2016 to foster collaboration in the area of the ASCR, with joint efforts to continue in 2017 – including with GOS

Specifically in respect of the 2016 AEPR, the EC notes the following with regard to the 11 recommendations made therein (see Annex to this report for the full text of the Recommendations):

<u>Recommendations</u> ¹²	<u>APEC-wide implementation to date</u>
1. Pay more attention to services.	Briefings of 2016 AEPR to relevant fora, including HRDWG, GOS, LSIF, HWG, FCBDM, ECSG, TWG, AHSGIE, CTI Joint meeting with CTI Endorsement of RAASR sub-fund; operational from Session 1 2017 For economies as appropriate through IAPs
2. Pursue reforms on a unilateral basis.	Endorsement of 21 RAASR Individual Action Plans (IAPs), which are living documents to be implemented within the RAASR period
3. Focus on productivity.	For economies as appropriate through IAPs
4. Rely on market mechanisms and competition.	For economies as appropriate through IAPs
5. Recognize and measure the positive spillover effects of structural reform.	For economies as appropriate through IAPs
6. Apply value chain perspectives to leverage services reforms.	For economies as appropriate through IAPs
7. Adopt a whole of government outlook to anticipate potential silo problems.	For economies as appropriate through IAPs
8. Consider need to address adjustment costs.	For economies as appropriate through IAPs 2017 AEPR forthcoming on structural reform and human capital development
9. Design reform programs to be flexible to reflect learning by doing.	Reviews of IAPs (and, to come, overall review of RAASR at mid-point in 2018)
10. At the APEC level, pursue cross-fora collaboration and joint work programs.	Briefings of 2016 AEPR to relevant fora, including HRDWG, GOS, LSIF, HWG, FCBDM, ECSG, TWG, AHSGIE, CTI 2015 AEPR collaboration with PPSTI 2016 AEPR collaboration with CTI and GOS 2017 AEPR collaboration with HRDWG ASCR collaboration with SOM, CTI and GOS
11. Implement measures to measure progress and impacts of structural reforms.	Endorsement of external quantitative indicators Individual measures for economies as appropriate through IAPs

¹ These recommendations apply overwhelmingly to unilateral actions which are within the domain of individual member economies. 2017 represents the first full year of implementation for the IAPs.

² See Annex for the full text of the 11 recommendations from the 2016 AEPR.

Tools for Structural Reform

The EC was instructed to:

- a) Encourage economies to increase their efforts to promote international regulatory cooperation;
- b) Consider holding a 2016 APEC GRP Conference on the theme of building high level support for reform (which includes international regulatory cooperation)
- c) Consider ways to facilitate stakeholder participation in public consultation processes throughout the APEC region, that are open to both domestic and foreign stakeholders
- d) Promote awareness and wider use of international legal instruments to strengthen the legal infrastructure of APEC economies; and
- e) Encourage member economies to undertake a self-assessment of barriers to competition, including a review of current competition laws and policies.

In this regard the EC has

- Held the successful 9th Good Regulatory Practices Conference with SCSC in 2016, at which the following conclusions were reached:
 - o *It is clear that most APEC economies have most of the elements of GRP in place in some form or other, but it is also clear that we all need to learn to use them effectively.*
 - o *Overall, GRP requires;*
 - *Political commitment;*
 - *Regulatory oversight bodies that are empowered and independent;*
 - *A robust regulatory impact assessment (RIA) process; and*
 - *Effective approaches to engaging stakeholders.*
 - o *A broad view of international regulatory cooperation is also desirable within the EC framework.*
- Held a Workshop on Dispute Resolution – the key to efficient settlement of business disputes in collaboration with UNCITRAL, which introduced various UNCITRAL instruments providing a predictable and effective legal framework, benefiting the international business community and fostering international trade and investment, as well as a proposal for building an online dispute resolution (ODR) platform for APEC economies to facilitate speedy dispute resolution in cross-border trade, particularly for micro, small and medium enterprises with limited resources
- Held other dialogues/events/projects under EC on regulatory quality, transparency and public consultation, use of international instruments, and self-assessment of barriers to competition

New Directions for Structural Reform in APEC

Ministers (economies) committed to strengthening and enhancing the economic relevance and scope of individual economy action plans under RAASR through

- i) increased consultation and engagement with business, both at the individual economy level, and through APEC and ABAC;
- ii) encouraging economies to nominate reform actions under all pillars and across all sectors;
- iii) the convening in 2018 of a high-level structural reform officials' meeting to assess progress with RAASR; and
- iv) the convening in 2020 of the third Structural Reform Ministerial Meeting to evaluate the results of the RAASR implementation.

Ministers (economies) also agreed to:

- Using quantitative indicators to measure APEC-wide progress on structural reform and support an APEC structural reform progress report developed by the APEC PSU with the EC, as part of the mid-term review of RAASR in 2018 and a final review in 2020.

In this regard the EC has:

- Reached out to ABAC including through a briefing of the EC Chair to ABAC in 2016
- Encouraged ambition in the RAASR IAP process
- Endorsed the set of quantitative indicators, with thanks to the PSU.

The EC will hold a first discussion on the 2018 meeting at EC 1 2017.

Annex: Full text of Recommendations from 2016 AEPR

- 1. Pay more attention to services.** The performance of services sectors matters for the simple reason that services already account for over half of all economic activity in APEC economies and in most instances significantly more than that. The share of services in GDP and employment will only increase looking forward especially as developing economies expand into digital and internet businesses and demand for services grows with rising incomes. Services impact the competitiveness of all firms in an economy because many services are inputs into production. Services performance is also critical for inclusion, as access to services and the quality of services available to citizens directly impact on their welfare. Most SMEs are in the services sector and so is the majority of employment. Thus, services must be a central focus of economic policy and structural reform efforts aimed at bolstering inclusive growth. This may imply a need to 'rebalance' the degree of attention given to different sectors of the economy – away from agriculture and manufacturing (assembly-based industries) in favour of a greater focus on the development and performance of services sectors.
- 2. Pursue reforms on a unilateral basis.** Structural reforms in services sectors should be pursued autonomously. This does not imply that international agreements such as through the WTO, Trade in Services Agreement (TiSA), or regional trade agreements cannot be helpful in providing a supportive framework for reforms. But the burden of structural reform initiatives rest on individual governments. They can be and should be informed by international experience and efforts to determine what constitute good practices – an area in which APEC has a long-standing track record.
- 3. Focus on productivity.** There are many possible rationales and reasons for undertaking structural reform in services sectors. The economic literature and international experience with such reforms suggests that the aim should be to improve the economic performance of services sectors. Performance is a multi-dimensional concept and goes beyond seeking to lower prices for consumers or costs for the industries that source services. The evidence discussed in this report suggests there is a good case for focusing on total factor productivity. This may be reflected in lower prices/costs but may also be associated with better access and improved quality, variety and choice. The different dimensions of performance are all relevant from the perspective of greater inclusion, but from a growth perspective what matters is improving service sector productivity.
- 4. Rely on market mechanisms and competition.** A focal point (premise) for structural reforms is to enhance competition on domestic markets through removal of policy driven barriers to entry by new firms and reduction of restrictions on the ability for firms to pursue mergers or acquisitions. Identifying and removing entry restrictions should be a basic element of reforms – measures that inhibit new entry, including by start-ups and foreign-owned companies – as entry is a major driver for better performance. This should be broadly conceived to include a focus on capital markets as a vehicle for such entry. Often achieving the greater competition through new entry will require ancillary regulatory measures that preclude incumbent operators from increasing the costs of switching to new suppliers for customers – requiring portability of telephone numbers is an example. Identifying such ancillary pro-competitive regulation is an important dimension of the design of structural reform programs and is one that can benefit from consultations with consumer organizations and the industries concerned – including buyers of services.
- 5. Recognize and measure the positive spillover effects of structural reform.** Services reforms can have many positive effects, and experience reveals that many of these take the form of ancillary, unanticipated benefits. Reforms generally will expand choice and improve quality, and may broaden access to services. Reforms may lead to firms starting to export by connecting to GVCs or e-commerce platforms. They are often drivers of innovation, bringing about new services and new products. The implication is that reforms should be defined as

going beyond the realization of narrowly defined targets but being motivated by such positive spillovers. A corollary is that systems be put in place to identify and measure spillover effects so as to be able to monitor and document the effects of a reform process. The extent of contestation in recent years of the impacts of trade agreements illustrates the importance of compiling evidence on the results of reforms across a broad array of dimensions, including effects on inclusion through connectivity and innovation. The case studies show that a variety of positive spillovers may be generated by services policy reforms and that this may result in 'underselling' of the benefits of undertaking structural reforms. In New Zealand for example, reforms were presented as aiming at lower electricity prices, neglecting the greater choice and quality for households that the reforms generated.

6. **Apply value chain perspectives to leverage services reforms.** At the economy level the effects of structural reforms in services will be determined in part by the linkages that connect sectors. The design of reforms should be sensitive to and consider such linkages, and allow for adjustments over time to ensure that related policy areas are not (do not become) a binding constraint. Explicit consideration of forward and backward linkages can be achieved by adopting value-chain informed approaches to identifying the set of policy areas that impact on service sector performance. In many cases a sector specific focus may need to include measures pertaining to other complementary sectors, either concurrently or in the future. This goes beyond traditional "GVC" – it is about linkages and complementarities across activities and technologies – e.g., internet platforms and portals; e-commerce; logistics and express carriers.
7. **Adopt a whole of government outlook to anticipate potential silo problems.** A corollary of the 'value chain' dimensions that should be considered in the design and implementation of structural reforms for services is to engage the different regulatory agencies and government entities that impact on the various sectors that are implicated. Likewise, reforms have to bring in local governments which, especially in specific services sector such as environmental services, play a major role in regulations. A high level of commitment to reforms is needed for sustaining a whole of government approach, and is likely to bolster the perceived credibility of a reform program.
8. **Consider need to address adjustment costs.** Structural reform may give rise to adjustment costs. Incumbent firms that have benefitted from the rents created by entry restrictions will see that source of profit eroded by reforms and workers in inefficient firms may be forced to search for new employment opportunities and require retraining. As noted in this report, the extent and distribution of adjustment costs is likely to differ for services as compared to manufacturing, with smaller negative impacts on employment. The erosion of rents for incumbent firms associated with facilitating entry of new companies in a sector is a key goal of reform and an important source of welfare gains that accrue to society at large. However, a specific feature of policy in some service markets is that that negatively impacted firms may have had to undertake significant investments in order to comply with the regulatory requirements that are being changed in a reform– the investment associated with purchasing a taxi operating license being a classic example. In such cases compensation mechanisms need to be part of the reform design. The same is true for adversely affected consumers – e.g., households that lose access to services that are no longer profitable to supply by operators in a more competitive environment. Such possibilities need to be addressed in the design and implementation of reforms. Market-based allocation mechanisms may be used to address such market failures (e.g., auctioning subsidies to cover the cost of universal service). Of particular importance is to consider complementary investments in skill development and training of workers as well as active labour market policies to support the job search process.
9. **Design reform programs to be flexible to reflect learning by doing.** Reforms are a dynamic process. Circumstances can evolve over time. The specifics of the design of reforms may prove to be inappropriate in some dimensions or unexpected spillover effects may

emerge. Adjustments may be needed as a result of unintended consequences. This calls for mechanisms to be put in place to generate the information and feedback needed to identify when and where adjustments are needed. Building knowledge partnerships at the economy level that include industry, consumer groups and specific stakeholders to interact with the relevant regulators and government representatives can ensure that such information is generated on a timely basis. Such partnerships can become platforms for monitoring progress and provision of inputs needed for evaluation of structural reforms. Evidence-based research and analysis of reform impacts complement the process and prevent it from being a mere mechanism for policy capture. This implies putting in place mechanisms to generate needed data (see point 11 below).

10. **At the APEC level, pursue cross-fora collaboration and joint work programs.** The regulatory issues that are the focus of deliberations in the Economic Committee as part of the broader structural reform agenda must be informed by and involve the relevant sectoral regulators and related working groups, and vice versa. Regulators will not have an economy-wide focus, while economic policy efforts aiming at inclusive growth are in large part conditional on regulatory reforms at sector level. Likewise, deliberations on services trade and investment policy reforms, a subset of the broader structural reform agenda and economic policy, must include sectoral regulators as well as line ministries that are responsible for policies that directly impact on the ability of firms to engage in international trade – be it through investment, data flows or cross-border movement of personnel. Multi-stakeholder fora such as the regular policy dialogues that occur in the margins of APEC meetings can be mobilized as well to act as a venue for learning and exchange of experience in implementing structural reforms.
11. **Implement measures to measure progress and impacts of structural reforms.** Data on services policies and services performance – productivity, employment, trade, investment – lags far behind that compiled for goods. Addressing these gaps should be a priority. Better data will support the structural reform agenda. It is needed to identify priority areas to focus on, to establish baseline performance measures/metrics for the services concerned, and to measure progress (trends) over time in indicators of performance. Monitoring and evaluation to assess impacts of reforms is needed to allow for adjustments in reform initiatives over time and to build on them with complementary actions. It is also important in assessing the extent of potential spillover effects of reforms. Such efforts should involve the private sector, including users of the services concerned. Of particular importance is firm- and household-level data that permits monitoring and evaluation of the impacts of policy reforms. A weakness of many current firm- and household surveys is that these do not collect much information on the use of and access to services of different types. Expanding existing survey instruments and censuses to do so is a necessary condition for effective monitoring and evaluation of the effects of structural reforms in services sectors. This will involve collecting data on services sector performance, market structure (e.g., number of new entrants and survival rates). This same applies to trade data, including foreign ownership and sales by foreign companies. From an APEC perspective collecting statistics on intra-APEC trade in services may be of interest – but more generally there is a dearth of bilateral trade and investment flow data that impedes analysis.