



**Asia-Pacific
Economic Cooperation**

APEC Economic Policy Report

APEC Economic Committee

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Advancing Free Trade for Asia-Pacific Prosperity

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EC's Discussion on the Post-LAISR Structural Reform Agenda — Note by the EC Chair —

(Presented at the Extraordinary Senior Officials' Meeting held in Tokyo on 20-21 April 2010)

21 April 2010

1. Background

While the next phase of the APEC-wide structural reform agenda including its relationship with the APEC Growth Strategy is being discussed at SOM, the EC, which has been the main driving force of structural reform in APEC under the current LAISR mandate, has also been discussing the next phase of structural reform agenda since last year. Although the discussion so far has largely focused on the reformulation of the existing five LAISR areas (so called “narrow definition” of structural reform agenda), attempts have been made to explore the possible new priority areas which may extend beyond the current LAISR areas. At the EC1 in 2010, a roundtable discussion on the post-LAISR agenda including its relationship with the Growth Strategy was held based on two issues papers prepared by the EC Chair¹ as well as a concept note jointly prepared by the US, Australia, New Zealand and Singapore.² Most recently, the EC Chair conducted a quick survey of the EC members on possible new priorities for structural reform, their effective implementation mechanisms, the role of the EC and so on.³

This note, which summarises the discussion mainly on the possible new priority areas at the EC1 and the results of the quick survey, has been prepared as a material for discussion at the Extraordinary SOM meeting to be held in Tokyo on 20 and 21 April.

2. Main points of the EC's discussion on the new structural reform priorities

(1) New priority areas

Structural reform has been one of the core APEC activities in recent years, and there is a strong consensus that further promotion of structural reform is necessary in achieving sustainable economic growth, as well as making the most of regional economic integration.

There is a widely shared recognition among EC members that the LAISR initiative inaugurated in 2004 and the selection of the five priority areas have been a success, although a formal stock-take of LAISR is currently being conducted by the EC which will seek to measure the progress that has been achieved since LAISR's inception.⁴ The stock-take report will be submitted to the APEC Ministerial Meeting in November. The good progress made so far does

¹ *Post-LAISR Agenda: Issues for Discussion* (2010/SOM1/EC/018) and *APEC Growth Strategy: Contribution by the Economic Committee (Provisional Draft)* (2010/SOM1/EC/019) both submitted by the EC Chair.

² *Concept Note on a Post-LAISR Structural Reform Agenda by SOMs of the United States, Australia, New Zealand, and Singapore* (2010/SOM1/EC/020).

³ See Annex 2 for the template of the quick survey, which had been proposed by the EC Chair at the EC1 in 2010 and was sent to EC members on March 9. As of April 12, twelve economies including Australia; Canada; Hong Kong, China; Japan; Korea; Malaysia; Mexico; New Zealand; Singapore; Chinese Taipei; Thailand; and the United States have responded. The full responses by these economies, which have been sent to the EC members, are not attached here.

⁴ The five areas are; regulatory reform, competition policy, corporate governance, public sector governance, and strengthening economic and legal infrastructure.

not at all imply that there is not much left to do for the existing five priority areas. On the contrary, EC members generally consider that the five priority areas need to be further strengthened with some modifications in terms of their contents and internal structure. Members also expressed their preference to keep the number of post-LAISR priority areas to a manageable level, ideally no more than five. Changes would be based on our stock-take exercise and by taking account of the Growth Strategy.

Apart from the emphasis on the continuation of the existing areas, the EC members' views on the new priority areas vary at this stage. Some EC members explicitly pointed out a need to broaden the priority areas, e.g. to areas such as education and labour, SME and vulnerable and social safety nets. There is also a broad acceptance that the next phase of structural reform agenda should be consistent with the Growth Strategy, though exactly how this would occur would depend on there being a clearer picture of what the Growth Strategy entails. While most economies did not put forward any specific suggestions on the new priority areas at the EC1 and in the quick survey, there were no objections to the illustrative areas cited in the concept note.

Thus, this note does not intend to present specific priority areas that should be addressed in APEC's new structural reform agenda. However, based on the EC's experience in LAISR, it is important to consider the following points before identifying any new priority areas.

First, the focus of the new priority areas should be clearly defined. Clear statement of the objective of the reform in each of the priority areas should be prepared in advance in order to enhance understanding by the economies and committees/groups which implement reforms.

Second, a high-level political commitment would be essential in defining new priority areas and implementing the initiative. A living example is the current LAISR initiative, for which APEC Leaders identified the five priority areas in 2004, followed by a more detailed work plan endorsed by the APEC Ministers in 2005.⁵ Such commitments supported an active participation of member economies in carrying out various programmes implemented by the EC.

Third, structural problems in different areas often have a common nature. It would therefore be extremely important to have cross-cutting viewpoints even when discussing sector-specific issues.

Fourth, close collaboration among various APEC fora and with other organisations is desirable as it would help avoid duplication of work while also creating synergy effects.

(2) Effective implementation mechanisms

Due consideration should be given not only to identifying and selecting priority areas, but also to implementation mechanisms which need to be acceptable to economies in order to be effective.

This has been an issue in the implementation of the LAISR programmes, and the EC has employed not only traditional modes such as experience sharing and capacity building, but also other approaches including i) checklist/guidelines, ii) stock-take and updating exercises, iii) voluntary reviews of institutional frameworks and processes, iv) ministerial meeting, and v) the EoDB approach to facilitate reforms.

⁵ See *Leaders' Agenda to Implement Structural Reform (LAISR)* (2004/AMM/020) and *APEC Work Plan on LAISR towards 2010 (LAISR 2010)* (2005/AMM/002anx11B) for more details.

Implementation mechanism would be all the more important if APEC goes further behind the border, as officials involved may not be so accustomed to international discussions. At the EC1, the EC conducted initial discussion on possible new mechanisms including i) OECD-type peer reviews, ii) peer review with economy-wise action plans, iii) issue-specific seminars and iv) tailor made approaches (see Annex A and B for iii) and iv) respectively).

Although the exact implementation mechanism can be left for decision by relevant committees and sub-fora, it would be useful to engage in a broad discussion on this matter when discussing the choice of the new priority areas given its importance. Clearly, the type of implementation mechanisms selected will need to be an appropriate fit with the nature of the new priority areas that are eventually agreed.

(3) Role of the EC

There appears to be a consensus among the EC members that the EC should not take additional roles in the new priority areas at the expense of existing LAISR priority areas. The reason would be twofold.

First, the EC members consider that the existing five areas are still relevant as a whole and need to be strengthened as explained above. The work in these five areas is far from complete, and will continue to require the full and active engagement of EC.

Second, the EC members come from various ministries rather than represent ministries responsible for specific policy areas which will likely be included in the new priority areas. Although the EC members have accumulated expertise in cross-cutting issues, many of them are not heavily engaged in coordination work either within APEC or in their capitals. Therefore, it would not be productive for EC members to oversee/coordinate policies in or send shepherds to specific areas in which they may not have much expertise. Such a situation would not likely change much if the current members are replaced by higher rank officials in the same ministry.

It would therefore be appropriate that the EC continue to focus on broadly the same areas as the existing LAISR areas while SOM coordinates the work of other APEC fora in the new areas.

However, this does not imply that the EC cannot play some role in the new areas. The majority view of the EC members is that the EC should be ready to assist structural reform initiatives by other fora by providing advice based on its past experience and expertise with horizontal viewpoints.

Some of the instruments that the EC has developed under the LAISR could also be applied to the new priority areas. For example, Voluntary Reviews of Institutional Frameworks and Processes could be a useful tool in identifying deficiencies in structural reform frameworks and processes, although the fact that we have yet to find a volunteer implies some improvements might be needed to make it more user-friendly. New mechanisms could also be introduced to improve implementation. Among the possible instruments presented in 2) above, the EC might further consider the following two approaches as they would be effective in introducing horizontal viewpoints to sector-specific issues and to utilise the EC's expertise.

First, the EC may hold a limited number of joint seminars/workshops with relevant committees and fora, taking advantage of its cross-cutting viewpoints such as competition, regulation, corporate governance, public sector governance and economic and legal institutions (see Annex 1 for more details).

Second, the EC could look to develop a so-called tailor-made approach, which aims to enhance effectiveness of structural reform activities based on APEC's tradition of non-binding approaches (see Annex 2 for more details). This approach can be applied not only to the existing LAISR areas but also to the new priority areas, by collaborating with relevant committees and fora.

As for other approaches, the OECD-type peer review appears to be less welcomed by the EC members. Some EC members are sceptical about a collective action plan with a specific target year, partly because it may go too far from the APEC's voluntary approach that respects the diversity of economic and social developments in the region and partly because it may not necessarily be easy to find good indicators to measure progress.

(4) Time horizon of the new initiative

It would be a natural option to formulate another 5-year programme until 2015 building on the success of the current LAISR initiative, which covered the period between 2005 and 2010. Note that the time frame of the new structural reform initiative might be affected by that of the Growth Strategy.

3. The way forward

The EC Chair intends to continue its formal consultation process among EC members to reformulate the five existing LAISR areas, including arrangement of the coordinators, by modifying the Chair's preliminary ideas which were discussed at the EC1.

The EC Chair is also ready to support SOM prepare a draft post-LAISR paper, including the new priority areas and the effective implementation mechanism, based on the discussions covered in this note and guidance from SOM. Such a paper, which can be discussed at the SOM2 and other occasions, will be finalised at CSOM and submitted to the AMM and AELM to be held in November 2010 for endorsement.

Annex 1: Preliminary ideas on two possible new instruments for APEC structural reform activities

(1) Joint seminars/workshops on sector-specific structural reform

So far most EC activities have been conducted from one of the five LAISR viewpoints (namely, regulatory reform, competition policy, corporate governance, public sector governance, and strengthening economic and legal infrastructure), reflecting the composition of the FotC groups.

However, as these five areas are mutually related, it may be useful to take a more integrated approach in discussing structural reform in some specific sectors or policy areas. Indeed, two such attempts that EC has made in recent years have proved to be successful. One was a seminar on transportation and trade logistics in August 2008 and the other was a seminar on network industries (telecommunication, transportation and energy) in February 2010.

As EC members may not have sufficient expertise in every sector, it would be productive to hold joint seminars/workshops with relevant APEC fora. Then the EC's accumulated experience in the five areas can be simultaneously utilized in addressing issues in specific sectors and policy areas, while combining sector-specific experiences of relevant fora.

(2) A tailor-made approach to address specific structural problems

To help member economies tackle specific structural problems, a session/meeting which will provide a set of policy measures in a tailor-made manner can be held, e.g. in response to a request and with a view to best fit the economy-specific conditions. The aim is to make best use of APEC's strength, i.e. experiences accumulated in well-organised and specialised committees/groups and of the member economies which are in various conditions including development stages. In other words, the forum is not a place to force the economy concerned to take specific policy measures but to listen to advice and assistance and then to consider possible solutions. It is therefore up to the relevant economy to decide as to which advice/offer to take. Although the actual mechanics of a tailor-made approach will need to be further discussed, possible elements of such an approach could involve the following:

Possible Implementation process

- Submit a request

An economy in need of assistance in implementing structural reform brings up the issue to the EC explaining how the government has been tackling the problem and identifies what have been the major obstacles.

- Preparation

The EC circulates an issue paper to all EC members and invite relevant APEC fora to jointly hold a session/meeting. The relevant fora can provide experiences, suggest good outside experts, and collect initial ideas for suggestions which will be compiled as a list.

- Session/Meeting

The EC, possibly jointly with the relevant fora, holds a meeting to discuss the issue, which can be held in the margins of the EC Plenary. If collaboration with relevant fora turns out to

be difficult, the EC may hold such a meeting on its own by inviting outside experts who can provide advice.

- Outcome

If the economy wishes to apply for APEC funded projects to tackle the problem, the EC helps them in developing a proposal or by coordinating with relevant fora. The economy may prepare a progress report on how they have tackled the problem at a later stage and reports back to the EC.

Annex 2: Template of the quick survey to EC members

A quick survey to the EC members on the Post-LAISR Agenda etc.

9 March 2010

Background

Colleagues will recall that at the EC1, the EC Chair had proposed to carry out a quick survey of the EC members on possible new priorities for structural reform, their effective implementation mechanisms and the role of the EC, which are also major points discussed in the Concept Note (2010/SOM1/EC/020) submitted by United States, Australia, New Zealand and Singapore.

Each EC member is asked to submit answers to question 1 through 4. Based on the survey results, the EC Chair plans to prepare a report which will be submitted to the SOM Chairs (possibly with the revised issues paper on the post-LAISR agenda) by mid April. A draft report with the survey results will be circulated to EC members for comments before submission to the SOM Chairs.

In addition, as we did not have sufficient time at EC1 to discuss the extension of the current LAISR ("narrow definition" of the post-LAISR Agenda) and the EC's role in the Growth Strategy, Questions 5 and 6 below enable EC members an opportunity to provide their further views if they wish to do so.

Completed survey responses are to be sent to EC Chair's office (tadashi.yokoyama@cao.go.jp and akane.nagahisa@cao.go.jp), copying in sw@apec.org by 31 March 2010.

Questions

Q1. What should/can be the new APEC priority areas for structural reform beyond 2011?

Q2. What would be the ways to make structural reform activities in APEC, especially in the new areas, more effective? The Attachment A (reproduced below) of "Updates on the Structural Reform Agenda and the APEC Growth Strategy" (2010/SOM1/EC/044) may be helpful as it provides a list of current and possible new tools. Ideas on new possible tools or modifications of current tools will be welcome.

Q3. What should/can the EC's role be in the new areas? Please tick the boxes below (multiple answers allowed).

- a) no role to play
- b) simply put together the reports by related fora
- c) monitor and report overall progress
- d) some kind of coordinating role
- e) provide advice with respect to methodology etc.
- f) area-specific joint seminars/dialogues
- g) research and analyses (e.g. economic impacts of structural reform, including commenting on a draft prepared by the PSU)
- h) shopkeeper of a tailor for tailor-made approach (independently or jointly with other fora)
- i) others (please specify: _____)

What are the possible merits and difficulties/concerns if the EC is to play some role in the new areas?

Q4. What should be the relationship between Structural Reform and Growth Strategy? What is your view on the EC Chair's hypothesis regarding their relationship presented in "Updates on the Structural Reform Agenda and the APEC Growth Strategy" (2010/SOM1/EC/044)? (see below)

Hypothesis: We should discuss both in a parallel way at least for the time being bearing the close relationship in mind, rather than waiting the SOM's discussion on the Growth Strategy. Structural Reform is too important to be entirely replaced by Growth Strategy. The exact relationship can be discussed after we have clearer ideas on both.

Note that, following the discussions at the SOM1, SOM decided to continue to develop the Outline of the APEC Growth Strategy as well as to work on post-LAISR/structural reform in close cooperation with EC and SFOM.

< On the narrow definition of the Post-LAISR Agenda >

Q5. ECI had a one round discussion on the "narrow definition of post-LAISR" based on the tentative assumption that the five LAISR areas would more or less remain unchanged, with possible rearrangements. However, the time for discussion was rather limited. If you would like to add to the discussions at the ECI, please write below.

< On the EC's role in the Growth Strategy >

Q6. What is your view on the EC Chair's preliminary ideas on the three categories of contribution to the Growth Strategy presented in "APEC Growth Strategy: Contribution by the Economic Committee (Provisional Draft)" (2010/SOM1/EC/019), in particular "Category B: Additional contribution to the formulation of the Strategy by the EC"?