



**Asia-Pacific
Economic Cooperation**

Advancing Free Trade
for Asia-Pacific Prosperity

STRUCTURAL REFORM AND SERVICES 2016 APEC ECONOMIC POLICY REPORT FACTSHEET

“In today’s challenging economic climate, all governments are looking to unlock new sources of growth and improve their economic performance. This report demonstrates that efficient, dynamic and competitive services sectors, and the unilateral structural reforms required to deliver them, must be at the forefront of that conversation.” - Rory McLeod, chair of the APEC Economic Committee.

Services sectors are central to the global economy. Within the APEC region alone, they account for over half of all economic activities and in most instances, significantly more. The share of services in GDP and employment is also projected to increase in the future. Developing these sectors and improving their performance are therefore critical to supporting economic growth, including inclusive growth. This fundamentally involves advancing structural reforms that are inextricably linked to services sectors.

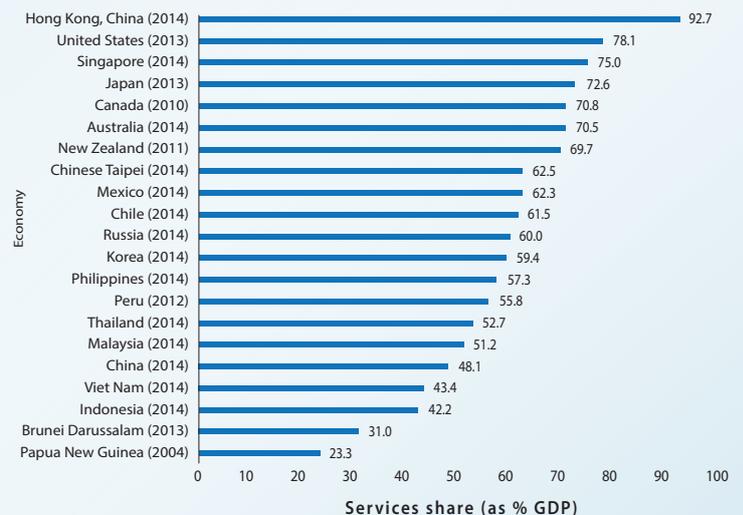
The 2016 APEC Economic Policy Report (AEPR) aims to promote greater understanding of the wide ranging benefits of service sector reforms and highlight key challenges, lessons learned, and good practices in their implementation. The report includes Individual Economy Reports (IERs) submitted by 20 APEC economies, and five case studies that provide an in depth analysis of the economic impact of specific services sector reforms:

- China: retail services
- Indonesia: air transport services
- Japan: financial services
- New Zealand: electricity retail services
- Chinese Taipei: testing and certification services

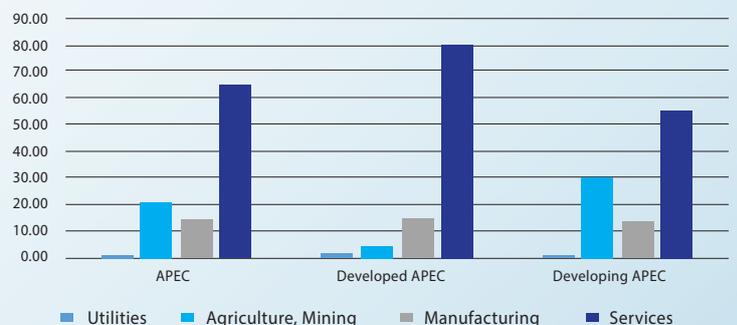
Why focus on structural reform in services sectors?

Many services are inputs into manufactured goods or other services. As a result, the quality and cost of these primary services can impact on the overall value and pricing of final products or services. Reforms that strengthen the quality and efficiency of services help economies

Share of services in GDP in APEC economies



Sectoral shares in total employment in APEC, 2013

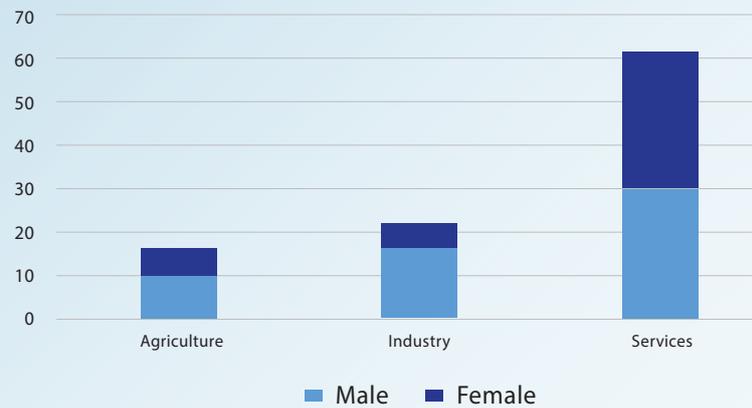


compete in markets, innovate and attract investment in order to expand, and grow. When we improve the way markets function, we can also help deliver better and broader community access to services, which makes economic development and growth more inclusive.

The importance of competition

Encouraging economies to adopt measures that promote greater competition in services sectors where competition is limited is a key structural reform challenge. However, promoting competition is vital to improving the performance, productivity levels, and growth of the services industry. As illustrated in the AEPR case studies, removing impediments to foreign participation and foreign direct investment (FDI) in services markets brings new skills and technologies, fosters innovation, lowers costs and creates more jobs. Identifying and removing market access restriction measures that inhibit new entry, including by start-ups and foreign-owned companies should be basic elements of services sector reform.

Employment shares by sector and gender in APEC (2014)



Good practices in implementing services structural reforms

The case studies and IERs highlight a number of good practices that APEC economies can adopt in implementing services sector reforms:

- **Structural reforms** should be **pursued unilaterally**, however, they can – and should – be informed by international experience to determine good practices, an area in which APEC has a long-standing track record.
- Reforms should **focus on productivity**, aiming to improve the economic performance of services sectors. Enhanced efficiency will generate inclusive economic growth through lower prices/costs, better access, and improved quality, variety and choice for consumers.
- Establishing or strengthening **frameworks that permit and promote new entry** to markets should be a core element of structural reform initiatives in services sectors. Most services activities can be provided through the market and improving **market-based competition** is a key mechanism to deliver productivity gains and ensure efficient supply, leading to consumer gains through lower prices, greater choice and better access.
- The **positive spillover effects** of services reforms are significant and should be part of the story to ‘sell’ reform. Services reforms are often the key driver of ancillary or unanticipated benefits such as innovation and connectivity that can greatly enhance inclusion (e.g. the potential benefits of smartphones on productivity and access to goods and services). To build public support and demonstrate benefits, reforms should be defined broadly and motivated by these positive spillover effects.
- Taking a **value chain approach to reform** helps identify complementarities and linkages between and across sectors. In many cases, reform programs will need to include measures in complementary sectors (either concurrently or in the future) to ensure the benefits can be fully realised.
- Adopting a **whole of government, coordinated, and cross-cutting approach** to reform will help identify ‘silo problems’ in policy-making. Bringing governments, stakeholders and regulators together is crucial to identify priorities, monitor progress in implementation, and build broad support to achieve and sustain reform.
- While the extent of **adjustment costs** is likely to be smaller and less salient for many services, reform programs should consider whether compensation mechanisms are required to address adjustment costs.
- Structural reform is not a one-off event. **Reforms should be designed to be flexible and dynamic** to adjust to changing circumstances and take lessons learned into account. Over time, regulations may end up having unintended outcomes. Reforms should include mechanisms to monitor progress and consult with stakeholders to identify when and where adjustments are needed.
- APEC offers a solid platform for **international collaboration and cooperation**, providing an avenue for learning and knowledge exchange in implementing reforms. APEC has a comparative advantage in bringing stakeholders and regulators together to discuss ‘new’ and cross-cutting issues of common interest.
- **Measuring progress** and the impacts of structural reform is vital to success. Data on services policies and performance (productivity, employment, trade, investment etc.) lags far behind that for goods. Better data at the economy and APEC-wide levels should be prioritized to assess the impact of reforms and the extent of positive spillover effects. This may be costly, but has significant potential payoffs by helping economies understand the benefits of structural reform efforts.