



# Implementation of Structural Reforms -Challenges and Good Practices

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Structural reform is an integral part of APEC's efforts to promote higher quality growth in Asia-Pacific. The APEC New Strategy for Structural Reform (ANSSR), which was endorsed by APEC Leaders in November 2010, seeks to strengthen economic performance and improve social resilience across the APEC region, by promoting efforts towards achieving:

- More open, well-functioning, transparent and competitive markets;
- Better functioning and effectively regulated financial markets;
- Labor market opportunities, training and education;
- Sustained development of small and medium enterprises, and enhanced opportunities for women and vulnerable populations; and
- Effective and fiscally sustainable social safety net programs<sup>2</sup>.

Responding to APEC Leaders' call, APEC's 21 member economies in 2011 submitted their individual ANSSR Action Plans, which identified specific structural reform priorities that each would be implementing through 2015. As part of the ANSSR initiative, APEC has been working actively on the identification of capacity-building activities to assist member economies in implementing their Action Plans.

This policy brief is prepared to provide guidance to policymakers by explaining some of the common challenges that reformers may face, as well as highlighting a number of important factors to consider during the design and implementation stages of structural reform such as reform sequencing, good practices and coordinated involvement of public institutions.

## Challenges to Structural Reform

In general, implementing reforms is not an easy task. There is no "one-size-fits-all" approach. Measures should be tailor-made according to different realities (e.g. differences in the level of economic development), and particular circumstances (e.g. economic crises and political constraints).

Structural reform also involves many complexities and cross-cutting issues. Reforms usually require the

coordinated participation of several public institutions, as the legal responsibility and the direct effect of the measures could fall under different government agencies. For example, improving market openness, transparency and competitiveness may require the involvement of government agencies such as the Ministry of Finance (e.g. implications of tariff and tax reductions in the government budget), Customs authorities (e.g. implications in customs administration regarding duty collection and initiatives to facilitate release of goods), Ministry of Trade (e.g. implications in trade negotiations and administration of existing trade agreements), Competition Policy authorities (e.g. changes in guidelines to investigate cases on alleged market power abuse and anti-dumping), among others.

Likewise, as policy decisions may have an effect on different groups in the business community and civil society, consultations and coordination with stakeholders is therefore critical to the successful implementation of structural reforms. Proposals to implement reforms are often received with reluctance, in part because of the uncertainty involved, since it is not easy to identify the winners and losers before the measures are actually implemented.

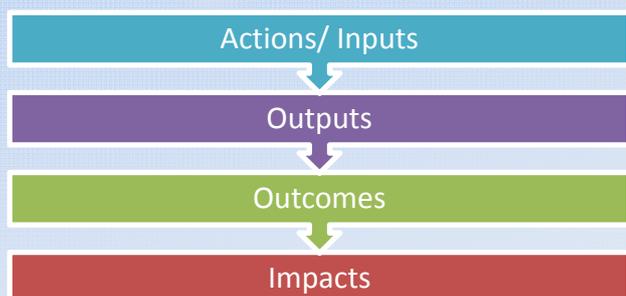
The implementation of structural reforms entails compliance costs. If the costs of changing policies from one position to another are worthwhile, then stakeholders will be more willing to accept reforms. In the same way, if these groups realize that the cost of not reforming far outweighs the cost of reforming, then it will be easier for the government to push through reforms. In some cases, opposition arises because the stakeholders do not have complete information for them to assess whether it is beneficial to change the "status quo" and embark on structural reform. Dialogue and consultations with stakeholders are thus useful policy tools to seek support for reforms, as groups opposing reforms will have the opportunity to gain access to more information for their decision-making.

Another challenge that some APEC economies may face is the lack of expertise in the public sector to understand the technical complexities associated with the implementation of structural reforms. In this aspect, learning from international organizations with

similar experiences may be a good reference point when designing practical solutions adapted to domestic realities.

## Sequencing Structural Reform Policies-Going to Basics

An effective implementation of structural reform policies entails the designing of proper pathways to achieve economic and social objectives. At the micro level, a basic pathway towards structural reform can be depicted as follows:



Policymakers should follow a sequence to implement effectively structural reform. In the above diagram, the impacts refer to the ultimate objectives, and a number of steps are required in order to achieve these objectives. For example, if the ultimate objective is to have a more educated and skilled workforce (impact), it will be necessary to find what needs to be revised (actions/inputs), what needs to be produced based on the actions (outputs), and what needs to be changed (outcomes).

In this particular case, one of the actions/inputs could be to start a review of the school curriculum and teaching methodologies. This review may lead to the development and implementation of a world-class curriculum (output), and which may then lead to an improved academic performance by the students with respect to the world average and higher student admission and graduation rates in tertiary education institutions (outcomes). These outcomes may subsequently produce an impact in terms of having a more educated and skilled workforce.

It is important to note in this example that the review of the school curriculum will not by itself cause an immediate impact in increasing the education and skills level of the workforce. It will first be necessary to develop and implement a world-class curriculum and modern teaching methods in the schools. It will then take some time for these changes to lead to an improved academic performance by the students.

At the macro level, the debate in sequencing structural reform focuses in adopting a radical reform (“big-bang”) or a gradual approach<sup>3</sup>. There is no single prescription on this matter since no situation is exactly the same. Governments face different

problems and stakeholders react in distinct ways. At first glance, gradualism may seem to be the best option, as it will be easier for stakeholders to adjust and allow governments to reap the benefits of “low-hanging fruits” and gain momentum in the reform process. However, if adopting a gradual approach allows the opponents to reform to have more time to consolidate/strengthen their positions, and/or winners in initial reform stages to oppose deeper reforms for fear of having their sudden benefits wiped out, then a “big-bang” reform approach seems to be more suitable to reduce these political constraints.

Notwithstanding, “big-bang” reforms will need to be carefully planned since such reforms will involve having both winners and losers. Radical reforms tend to weaken the opponents to reform. However, it is still possible for some groups to threaten the sustainability of reforms. In this regard, the ability of governments to engage in sustainable social pacts (e.g. negotiations with the business sectors and civil society, coalitions with other political groups, among others) and implement appropriate safety nets during the adjustment period is an important key factor for success. Since governments have limited resources and rent-seeking groups may exert pressure on the governments in order to benefit from safety nets, it is essential for the authorities to convey the right message and make clear that safety nets are temporary and target only the disadvantaged or vulnerable groups (as a result of these reforms). In addition, since safety nets may add to existing fiscal pressures, preserving or working towards macroeconomic stability is a fundamental step to facilitate the implementation of further reforms.

## Good Practices to Undertake Reforms

As mentioned previously, structural reform does not follow a “one-size-fits-all” approach. Furthermore, depending on the priorities of each APEC member economy, the efforts to implement ANSSR Action Plans could be sector-specific, issue-specific or economy-specific. Nevertheless, despite these characteristics, it is still possible to identify specific criteria that should be taken into account during the reform process.

A forthcoming study prepared for the APEC Policy Support Unit classifies, into two groups, a set of criteria that the APEC Economic Committee has identified as good regulatory practices when undertaking regulatory reforms, namely<sup>4</sup>:

1. Economic efficiency and effectiveness: cost-benefit analysis (CBA); promotion; flexibility; and scientific integrity, evidence-based approach.
2. Administrative and political viability: transparency and alignment among

authorities.

Regulatory reform, which aims to improve the quality of regulation, is an important subset of structural reform, which seeks to improve institutional frameworks, regulations and government policies to strengthen economic performance. Therefore, the aforementioned criteria are also relevant to the design and implementation of structural reform.

In terms of the criteria associated with economic efficiency and effectiveness, the use of *ex-ante* CBA is important to appraise policy options and assist authorities in making decisions, especially with regard to major reforms. Promoting the findings of CBA in layman's terms is a good way to unblock resistance from groups who are opposed to reforms.

In the same way, *ex-post* CBA is important to evaluate policies and determine which objectives have been met, as well as which specific measures are working and which ones are not. Conducting reforms is a learning process and some initial measures may not necessarily produce the expected outcome. In this regard, it is important for policymakers to be flexible in the reform process. Policy monitoring and evaluation is also a key element in fine-tuning reforms and making them fit-for-purpose.

In addition, scientific facts or evidence from other economies' experiences are good supporting tools for policymakers to push for reforms, as they may be useful to garner supporters and thereby facilitate the implementation of the proposed measures. For example, the implementation of Regulatory Impact Assessments to conduct *ex-ante* evaluations of proposed reforms has been increasingly adopted by several governments based on past experiences of OECD members.

As for the criteria related to administrative and political viability, transparency is relevant in any reform process. On the one hand, transparency can be seen as an inclusive approach towards policymaking, as it offers stakeholders the chance to express their views during the development and revision of regulations. A more extensive inclusion allows rent dissipation within the society and prevents the imposition of policies at a higher social cost<sup>5</sup>. It will be up to the policymakers to reflect the positions of the interested parties in a balanced and objective manner. On the other hand, transparency allows for the dissemination of relevant information, and this may increase the support for reforms as well as facilitating decision-making among stakeholders to adjust to new scenarios.

Ensuring alignment among authorities is also important to implementing effective reforms. As

mentioned previously, structural reform is a cross-cutting issue and requires the participation of several government agencies. The smooth implementation of reforms depends to some extent on whether the government has taken steps to harmonize, simplify and coordinate policies across its different agencies. In this sense, it is important that the responsibilities among all relevant agencies are clearly defined and that agencies see themselves as team players who are working towards a common objective (and goal) and not as competitors.

### **Involving Public Institutions in the Reform Process**

Due to the complexity of reforms, which involves the participation of several actors, leadership from the top is one of the essential components for the successful implementation of structural reform programs. For policymakers, when the proposed reforms are very sensitive and complex, getting a decision from the highest level of government such as the Presidential Office, Ministerial Council or Parliament to support the implementation of structural reforms is critical to align public institutions and push them to work together towards the same objective. Without firm leadership, reforms could not go anywhere and may even worsen existing conditions.

Another important component to encourage public institutions to pursue structural reforms is to obtain the support from strategic stakeholders. In this regard, it is important to find proper communication channels in which both the public and private sectors can share their views and engage in constructive debates. Constant dialogue is important for policymakers to explain the advantages of the intended reforms and to get the support of stakeholders in the process. This will make it easier when it comes to implementing the reforms. For instance, it is known that business associations have been crucial in promoting market-economy reforms in many APEC member economies.

A solid institutional framework to allow the creation of working groups (comprising relevant institutions and departments) is also crucial in the implementation of structural reforms. Working groups allocate responsibilities among the institutions, establish timelines, provide the right atmosphere to exchange ideas and prevent overlaps in the application of measures. In this way, each institution will assume a certain degree of "ownership" when carrying out structural reforms.

### **Concluding Remarks: The Importance of Capacity-Building within APEC**

All APEC member economies share the spirit of strengthening the Asia-Pacific community. To

preserve this impetus, it is important that APEC economies find sustainable sources of growth and build economic and social resilience to respond appropriately to emerging challenges. Structural reform provides the opportunity to improve economic performance with those characteristics and narrow the development gap across the region<sup>6</sup>.

Within APEC, members at different development stages interact in a collaborative manner with one another, and its non-binding approach makes it easier for them to exploit synergies to achieve their individual and collective objectives. The ANSSR initiative is a clear example that recognizes the necessity to incorporate capacity-building activities to facilitate the implementation of structural reform across APEC. Member economies, in many occasions, do not need to reinvent the wheel since they can benefit from those who have the experiences and expertise in particular areas of structural reform.

The ANSSR Residential Training Workshops offer an opportunity for public officials to get a closer exposure to topics related to structural reform. These workshops are expected to assist public officials in identifying reform priorities, defining the problems that need to be solved and outlining implementation strategies. These workshops can also provide valuable ideas to policymakers on how to overcome the challenges to reform and how to implement an effective structural reform program. Further capacity-building activities targeting specific areas or purposes to execute structural reforms, as well as supporting APEC economies in their efforts to measure the effects of the reforms through policy evaluations represent the logical next steps in this ANSSR initiative.

#### Notes:

1. The Author would like to thank Denis Hew and Aveline Low Bee Hui for their valuable comments and suggestions. The views expressed in this Policy Brief are those of the author and do not represent the views of the APEC Secretariat or APEC member economies.
2. For more information on ANSSR and other Structural Reform initiatives in APEC, please see APEC Secretariat, "APEC New Strategy for Structural Reform: Economy Priorities and Progress Assessment Measures". November 2011. Available at: [http://publications.apec.org/publication-detail.php?pub\\_id=1206](http://publications.apec.org/publication-detail.php?pub_id=1206)
3. The debate between radical reforms and gradualism has been broadly discussed in the 1990s, particularly in

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the economic literature analyzing reforms in Eastern Europe (after the end of the Cold War) and Latin America (after the economic crises in the 1980s and early 1990s). For more information, please see Rodrik, Dani, "Understanding Economic Policy Reform". *Journal of Economic Literature*, Vol. 34, Issue. 1, March 2006, pp. 9 – 41; Hellman, Joel, "Winners Take All: The Politics of Partial Reform in Postcommunist Transitions". *World Politics*, Vol 50, Issue 2, January 1998, pp. 203-234; Tornell, Aaron, "Are Economic Crises Necessary for Trade Liberalization and Fiscal Reform?". Rudi Dornbusch y Sebastian Edwards (eds.), *Reform, Recovery and Growth*, 1995, University of Chicago Press, pp. 53-76; Cardozo, Eliana and Ann Helwage, "Latin America's Economy: Diversity, Trends and Conflicts". Cambridge: MIT Press, 1992; Fernandez, Raquel and Dani Rodrik, "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty". *American Economic Review*, Vol. 81, Issue. 5, December 1991, pp. 1146-1155; Martinelli, Cesar and Mariano Tommasi, "Sequencing of Economic Reforms in the Presence of Political Constraints". *Economics and Politics*, Vol. 9, Issue 2, July 1997, pp. 115-131.

4. APEC Policy Support Unit, "Regulatory Reform – Case Studies on Green Investments". Prepared by Tilak K. Doshi, et. al., 2012 (forthcoming).
5. Hellman, Joel, p. 232.
6. Kuriyama, Carlos, "Mapping Structural Reform in APEC". Policy Brief No. 1, APEC Policy Support Unit, August 2011. Available at <http://www.apec.org/About-Us/Policy-Support-Unit/~media/0AA991EF198E44AA9CD33A6EE3D805F7.ashx>

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