

Chair's Report of the APEC High Level Conference on Structural Reform
Tokyo, Japan
8-9 September 2004

The APEC High Level Conference on Structural Reform was held on 8-9 September 2004 in Tokyo, Japan. Responding to Leaders' commitments on promoting structural reform at the APEC Economic Leaders' Meeting in Bangkok in 2003, the objectives of the Conference were to exchange and share views and information on policy measures and to discuss measures and activities to underpin future APEC initiatives on important structural reform related issues. Mindful of the broad and wide ranging coverage that structural reform encompasses, in order to produce a concrete outcome contributable to the APEC process, the Conference focused its discussions on the following areas: regulatory reform, corporate restructuring, corporate governance, banking reform, structural adjustment and strengthening economic and legal infrastructure. The Conference brought together a range of APEC stakeholders and beyond, including ministers, senior government officials, top corporate executives and distinguished scholars. The following issues were discussed over the two-day conference.

- 1 A key objective of structural reform is to improve the functioning of market so as to sustainably enhance living standards. The outcomes of structural reform have contributed not only to sound and sustainable economic development in each economy which undertook the reform, but also to that in the APEC region as a whole.
- 2 Within the APEC region, there is a divergence between those economies which have steadily implemented structural reform and those who have yet to do so.
- 3 While APEC does not have a clear definition of what structural reform entails, there is widespread recognition that "behind the border" structural reform assists APEC economies in realizing the benefits of trade and investment liberalization and facilitation "at the border." Thus, aiming to achieve the Bogor Goals of free and open trade and investment, structural reform initiatives in each economy should be mutually supportive among APEC members.
- 4 APEC economies still have ample scope for the implementation of structural reform. APEC economies can be the driving force for continued growth in the world economy by continuing to make appropriate structural reform which adapts to emerging challenges resulting from rapid economic change.
- 5 The important role that international trade liberalization through multilateral agreements and FTAs can play in creating the environment for and facilitating domestic structural reform was identified.

- 6 The effectiveness of a tailor-made approach to regulatory reform reflecting diverse social and cultural backgrounds of APEC economies was emphasized. Notably, Japan's Special Zones, where a local community or the private sector takes the initiative focusing on competitive advantages of the area, are identified as a potentially effective tool to ultimately speed up nation-wide regulatory reform.
- 7 With regard to corporate governance and banking sector reform, it is important to institute real corporate restructuring measures, not just "cosmetic" measures. Effective corporate governance comes not from government regulations alone but also from the exercise of shareholder voting rights and control.
- 8 APEC economies need to focus on the importance of corporate disclosure and transparency to ensure the efficient functioning of the financial system in market-oriented economies. It is a critical aspect of an efficient system of corporate governance, especially with the increasing importance of cross-border financial flows in the financing of capital investment in economies.
- 9 For disclosure laws and regulations to be credible, they need to be efficiently enforced through a combination of civil and criminal sanctions, reinforced by support from market participants and the press.
- 10 In economies where rent-seeking and corruption are prevalent, there is likely to be resistance to increased transparency, and increased disclosure requirements may not receive sufficient regulatory agency support. It is important in such circumstances to work on reversing those actions that perpetuate rent-seeking and corruption.
- 11 The banking crises in 1997 cost some APEC economies a large share of their GDPs. This makes it essential to reform the banking system, including measures for corporate restructuring, to promote economic growth.
- 12 The importance of clearly defining and conveying the benefits of structural reform and raising consciousness of the drivers of the reform process were acknowledged. In doing so, policy makers are assisted in building a domestic constituency for reform.
- 13 It may be appropriate to facilitate the structural adjustment process. This may involve the phasing or sequencing of reform measures, social safety nets, compensation payments, employment assistance, skills retraining, relocation assistance and other such measures.
- 14 Progress in structural reform through promoting fair, efficient and transparent legal infrastructure for both domestic and foreign businesses, especially those measures to strengthen investors' confidence, will contribute to sustainable and high quality economic growth in the APEC region.

- 15 Structural reform in APEC is handled by a multitude of actors in an uncoordinated manner. While APEC does already produce good work in a wide range of structural reform areas, including financial sector reform, competition policy and regulatory reform, there is ample scope to better focus and coordinate the organization's work on structural reform to make it more results-oriented.
- 16 As additional issues/areas to be included in APEC's activities on structural reform, competition policy, social safety nets, labour market reform and human resources development, privatization, investment policy, anti-corruption policy, public sector reform, and sector-specific reform are indicated.

Suggestions

The following presents the suggestions for an APEC agenda on structural reform. This agenda is a short list of priority items which, through extensive presentation and discussions, the participants in the conference identified as what APEC should undertake to advance structural reform initiatives. We are hopeful that the APEC Senior Officials will develop a course of actions and measures which will be proposed to the APEC Leaders for their commitment in Santiago this November, based on the following suggestions.

(i) General policy suggestions

- 17 To reaffirm the APEC Leaders' sustained political commitment to continued structural reform to enrich the economic and social potential of the APEC region, and to ensure sustainable economic growth and development in the Asia Pacific Region by raising our economic efficiency and increasing the competitiveness of our economies.
- 18 To acknowledge that addressing APEC's wide-ranging economic issues in the context of structural reform provides us a crosscutting perspective, which provides more synergy among APEC's traditional sector-wise issues.
- 19 To accelerate domestic efforts, share good practices, promote further capacity building, and enhance communication with businesses on priority areas to be identified by each member economy.
- 20 To emphasize the need for economies' internal policies to be applied consistently and predictably so that investors' confidence can be underpinned.
- 21 To strengthen cooperation and collaboration with relevant international fora, notably the OECD, to deepen and expand structural reform related activities and measures.
- 22 To introduce reforms in a phased and planned manner, where appropriate, to ensure that the adjustment costs can be more readily absorbed with the understanding that a failure to

take adjustment costs properly into account would derail the reform process. Well targeted adjustment assistance can help facilitate change, provided that it is appropriately phased out.

- 23 To recognize that addressing structural reform requires a long-term approach. As a part of APEC's major agenda, consideration should be given to measures which will strengthen structural reform related activities in APEC fora in a more effective, efficient and integrated manner.
- 24 To foster the understanding of the benefits of structural reform among APEC economies through better benchmarking and reporting process. It is important to obtain the views and involvement of all member economies on our on-going work and policy discussion.
- 25 To consider holding a Second APEC High Level Conference on Structural Reform with a view to further development of the APEC Structural Reform Action Plan and its steady review and implementation.

(ii) Specific policy options

- 26 Conference participants discussed a number of specific actions/measures that APEC or APEC member economies could/should undertake to make progress in the areas discussed at the conference: regulatory reform competition policy, corporate restructuring, corporate governance, banking reform and strengthening legal infrastructure, as well as the timing, sequencing and breath of structural adjustment. Participants also discussed how APEC as a whole could better organize itself to make progress on structural reform.

(Regulatory reform)

- 27 To further develop pioneering policies/measures with a view to encouraging the initiation of reforms and promoting nation-wide regulatory reform.
- 28 To pursue the APEC-OECD Co-operative Initiative on Regulatory Reform, with the objective of agreeing on a final checklist in time for the APEC MRT in 2005.
- 29 To consider the need to foster and promote competition when undertaking regulatory reform.

(Corporate restructuring and corporate governance)

- 30 To reduce overcapacity of production and promote efficient allocation of resources through corporate restructuring.
- 31 To promote disclosure and transparency as well as oversight by truly independent directors and institutional shareholders that follow proxy-voting guidelines.
- 32 To enforce disclosure laws and regulations through a combination of civil and criminal

sanctions, reinforced by support from market practices and the press.

- 33 To work to reverse those actions that perpetuate rent-seeking and corruption.

(Banking reform)

- 34 To move forward in strengthening banking systems through steps that allow banks to operate on a commercial basis, and to be free from political influence. To establish sound prudential regulations and independent supervision, to institute well defined and speedy bankruptcy laws, and to encourage foreign investment in the banking system.

- 35 To combine bank reform with corporate restructuring.

(Strengthening legal infrastructure)

- 36 To enhance transparency and fairness on business-related legislative systems, such as insolvency and creditors' rights laws, as well as their implementation, for both domestic and foreign business.

(Actions and measures for APEC process)

- 37 To agree to focus APEC's work on a short list of key areas, taking into account its ability to add value and build on its existing work. A suggested short list could include: regulatory reform; strengthening economic legal infrastructure; competition policy; investment policy; corporate and financial sector governance; and managing the overall reform process.
- 38 To develop an implementation plan that would list a number of specific objectives, activities, and desired results under each of these areas. These could include: capacity building activities; APEC best practices (where possible, using guidelines developed by other international organizations); information exchange; peer review exercises, where possible; and interaction with other international organizations.
- 39 To establish a steering group composed of representatives for the APEC Committee on Trade and Investment, the Economic Committee and the Finance Ministers' Process, to develop and oversee this implementation plan.
- 40 To call on APEC economies to continue to cooperate in implementing the actions outlined above and encourage each APEC economy to continue to report progress and plans to strengthen structural reform in its IAP.
