



11 May 2021

# Hon. David Clark

Chair, APEC Structural Reform Ministerial Meeting Minister for Commerce and Consumer Affairs New Zealand

Dear Minister,

The APEC Business Advisory Council (ABAC) welcomes the opportunity to deliver our recommendations on structural reform to APEC Ministers, prior to meeting with you on 16 June 2021.

The challenges facing the APEC region have increased significantly since the last structural reform Ministerial meeting was held in 2015. Geopolitics, nationalism, rising inequality and supply chain disruption were all on the rise even before the emergence of the COVID-19 pandemic. The pandemic then laid bare shortcomings in capacity and delivery of health services across the region. Some groups have been disproportionately exposed to the virus.

There is urgent need for structural reform efforts that address the immediate challenge of recovering from the COVID-19 pandemic as well as medium-term challenges in responding to technological evolution and climate change. Significant structural reforms are required to address the impacts of these disruptive forces and ensure transformation of our economies through markets that are competitive, inclusive and sustainable.

We welcome APEC's efforts to tackle these issues and others through the Enhanced APEC Agenda for Structural Reform (EAASR). To deliver tangible results, we believe it is important for APEC to identify a set of near-term priorities that would receive coordinated action from member economies. Furthermore, we recommend that APEC support the COVID-19 economic recovery through coordinated domestic fiscal stimulus measures at the regional level, and exercise caution not to withdraw those measures too early. We note the critical importance of supporting economic recovery by promoting the free movement of goods, services and people across borders, while adhering to public health requirements.

Our recommendations below outline priority actions across three broad themes: micro-economic reform (including through EAASR and competitive neutrality provisions to create a level playing field); financial and labor market access (through sharing labor market data and eliminating barriers to gender inclusion); and infrastructure and basic services (such as e-health and digital infrastructure). It is also important for APEC economies to embrace structural reforms that ease the transition to a low-carbon economy.



Tangata, Taiao me te Taurikura People, Place and Prosperity In designing and implementing cross-cutting structural reforms we urge APEC to continue using good regulatory practices and engage with stakeholders throughout the process. We look forward to discussing these issues and our recommendations in further detail when we meet in June.

Yours sincerely,

**Rachel Taulelei** ABAC Chair 2021

## Micro-economic reform policies

## Post-2020 Structural Reform Agenda

The Renewed APEC Agenda for Structural Reform (RAASR) has made important strides, though it has had mixed success with the APEC average improving in some indicators but not in others.<sup>1</sup> Recent surveys by PECC and PwC show that the lack of structural reform and over regulation remain significant concerns in each of the last two years. ABAC welcomes the Enhanced APEC Agenda for Structural Reform (EAASR) as a mechanism to continue reform efforts.

In the short-term, APEC will need to ensure that economies are ready to resume travel and trade as the virus is subdued through vaccinations. Supply chain resiliency will be a key focus for businesses and governments going forward. Over the medium term, the proliferation of artificial intelligence (AI), automation and other digital technologies requires continuous efforts to ensure that workers receive adequate skills training and are prepared for the future of work. Structural reforms can assist with greater trade and investment integration in the region by expanding the benefits of globalization more widely and by enabling workers and capital to transition to areas of comparative advantage. It is important to ensure that groups with untapped economic potential/vulnerable groups are not unduly affected by these disruptions and are supported to grasp new opportunities. Economies will also require significant structural reforms to reduce carbon emissions in keeping with commitments made in the Paris Accord. It is important for climate policy to be considered in conjunction with monetary and fiscal policy so they all work together to drive structural change.

Recommendation: ABAC supports the EAASR and its framework approach to guide structural reform efforts over the next five years. In implementing the EAASR, APEC should identify a set of near-term priorities that would receive coordinated action from member economies. To support the COVID-19 economic recovery, APEC should coordinate domestic fiscal stimulus measures at the regional level as well as promote the free movement of goods, services and people across borders while adhering to public health requirements. Over the medium term, APEC needs to promote a holistic approach to structural reforms that promotes inclusion and sustainability whilst addressing the emerging and interrelated challenges of technological evolution and climate change.

#### Competition and competitive neutrality

The issue of state-owned enterprises (SOEs) operating in the commercial space has become a sticking point in international trade disputes and is one of the factors undermining progress on trade and investment liberalization. Some have raised concerns that SOEs can impinge on the ability of private sector participants to operate in the same market while others have raised concerns over specific measures targeted at SOEs.

To address this issue, a number of economies, both inside and outside APEC, have adopted competitive neutrality provisions to varying degrees in their domestic competition legislation. While there are a range of views, competitive neutrality is usually taken as referring to the principle of governments creating a level playing field for all businesses, including public and private providers of goods and services. SOEs perform important public function across many APEC economies. Impartial and objective competitive neutrality provisions can ensure that market participants, regardless of their ownership, are able to compete fairly without some receiving non-commercially viable benefits. While competitive neutrality originally arose in the context of domestic market regulation, it is gradually being applied in the international context as global value chains spread. Further research and consideration by international fora may be required to determine the tools, methods and circumstances in which competitive neutrality is most applicable.

APEC is yet to formally take up this principle and promote its usage through capacity building. It was mentioned in the APEC-OECD Integrated Checklist on Regulatory Reform, created in 2005, a voluntary tool for member economies to self-assess reforms.<sup>2</sup>

In practice these principles include charging cost reflective prices, adopting corporate models, paying or making allowances for government taxes and commercial borrowing rates, and complying with the same regulations that apply to private businesses. Some governments have also established bodies to receive complaints and undertake investigations about whether government businesses are complying with competitive neutrality principles.

Recommendation: APEC should promote the adoption and usage of competitive neutrality provisions through capacity building and sharing best practice. The APEC Economic Committee could host dialogues between competition regulators and executives from public and private businesses across APEC to discuss the practicalities of implementing these provisions and develop recommendations for best practice.

## Financial and labor market access and competitiveness

## Post-COVID-19 Active Labor Market Policies

The COVID-19 pandemic and associated containment measures have severely disrupted livelihoods and business operations. In some cases, this has led to increased unemployment while other sectors have faced skills shortages. This comes on the back of structural transformation in our economies driven by digitalization and servicification which pose medium-term challenges for labor markets in responding to digital transformation.

One promising approach to address structural unemployment is by delivering timely and accurate labor market information to the sectors that need it and having a mechanism to efficiently match workers with employers. Data on skills needed by the market can inform education and training systems on areas of skills development that need more focus. Meanwhile, employment centres can serve as a mechanism that will not only deliver social protection (e.g., unemployment benefits) but also provide information on job opportunities, incentives for job search and training, and matching with prospective employers.

In recent years, the proliferation of digital platforms and networked computing has led to an explosion of data and analysis tools. Online job market platforms now have access to crucial data and insights on skills and labor market trends. APEC has only just begun to utilize these new data sources. Project DARE<sup>3</sup>, for example, uses data from LinkedIn and Burning Glass to identify digital skills shortages in ten APEC economies. Using big data analytics, the APEC Closing the Digital Skills Gap Report 2020 provides a fresh view of digital skills shortages in these APEC economies<sup>4</sup>.

<sup>&</sup>lt;sup>2</sup> APEC-OECD Integrated Checklist <u>https://www.oecd.org/regreform/34989455.pdf</u>

<sup>&</sup>lt;sup>3</sup> https://www.apec.org/Press/Features/2017/0620\_DSA

<sup>&</sup>lt;sup>4</sup> https://www.apec.org/Publications/2020/12/APEC-Closing-the-Digital-Skills-Gap-Report

Recommendation: APEC could build on previous efforts by promoting collaboration between government agencies and the job market platforms to deliver real-time data on skills demand and shortages. APEC could also collaborate with the OECD to run dialogues between officials, academia and industry to discuss the latest global trends driving structural reforms and rapid skills development required to keep pace with the future of work. APEC could then identify examples of best practice from around the world and develop a set of minimum standards for labor information systems.

## Structural reform and gender inclusion

APEC has begun to adopt structural reform measures to advance women's economic empowerment through the *La Serena Roadmap on Women and Inclusive Growth* and the Economic Committee's policy reports. These measures have taken renewed importance as the COVID-19 pandemic has disproportionately affected women. ABAC welcomes the implementation of the *La Serena Roadmap* with its key focus on empowering women through access to capital and markets, increasing labor force participation, improving access to leadership, supporting STEM training, and systematic data collection and analysis.

The onset of the COVID-19 pandemic has had a disproportionate impact on women in terms of:

- 1. Employment: Sectors such as travel and tourism, retail, and food services employ many women for front facing work; many have lost their jobs.
- 2. Domestic responsibility: Employed women will also likely perform the bulk of childcare and household tasks while working from home, affecting their productivity.
- 3. Violence: Observed increase in domestic abuse cases from confinement and financial stress, while support services, including workforce and temporary shelters have been significantly reduced, trapping victims with their abusers and tourism, retail, and food services employ many women for front facing work.

Gender inclusion has been shown to boost economic growth and productivity which will be key to the economic recovery. APEC should continue efforts to eliminate structural barriers to women's inclusion by addressing barriers identified in the 2020 APEC Economic Policy Report (AEPR) on Structural Reform and Women's Empowerment:

- Removing discriminatory legal barriers
- Addressing unequal practices relating to employment and wages
- Expanding maternity benefits and providing parental leave
- Making available affordable childcare services
- Addressing gender-related issues to expand women's access to labor markets and credit markets

Recommendation: In responding to the COVID-19 pandemic, APEC economies should provide targeted support to distressed sectors which employ a high proportion of women; to women facing increased domestic responsibilities; and to those exposed to financial stress and domestic abuse. APEC should concurrently address the structural, legal and cultural barriers to women's inclusion identified in the La Serena Roadmap. ABAC strongly recommends that all economies prioritize the La Serena Targets to (1) have in place laws, policies and regulations that prohibit discrimination on the basis of sex in employment access, opportunities and conditions; and (2) have in place nondiscrimination laws, policies and regulations that provide equal access to capital and credit for both sexes.

## Access to infrastructure and basic services

## Digital infrastructure

The pandemic has highlighted the vulnerability of certain segments of the population to the health and economic impacts of the disease. Unequal access to digital tools and infrastructure has become a pressing issue as the pandemic required many to shift work and study online.

APEC has begun to discuss these issues through recent reports on prevailing inequalities exacerbated by COVID-19 $^5$  and the 2019 AEPR on Structural Reform and the Digital Economy.<sup>6</sup>

In 2018, the ABAC report on Structural Reforms and Digital Infrastructure provided recommendations to APEC on a range of issues including broadband infrastructure; domestic digital plans; e-government services; privacy and cyber security; regional harmonization; and smart city development. ABAC also made recommendations relating to infrastructure and digital connectivity in its 2020 COVID Response and Recovery Report.

Recommendation: APEC should support the extension of digital infrastructure to remote and rural areas and address disparities in access for groups with untapped economic potential/vulnerable groups. In the implementation plan for the Putrajaya Vision 2040, APEC should adopt structural reform and investment policy measures that promote digital infrastructure.

## E-health services

The COVID-19 pandemic has revealed shortcomings in health systems across APEC as noted by Ministers at the 10<sup>th</sup> High Level Meeting on Health and Economy. While access to digital tools and services have proved to be incredibly popular in some APEC economies and effective at delivering healthcare remotely, there is a need for digital adoption to be part of a larger structural transformation of health systems. This should be accompanied by efforts to promote cross-border delivery of health services while safeguarding privacy.

A recent report by Bain & Company suggests the following framework for health delivery<sup>7</sup>:

- 1. Provide a single touchpoint, either physical or virtual, for consumers to manage their healthcare. This would replace the often-siloed nature of health systems that limit consumer ownership of their care.
- 2. Transition care outside hospitals by shifting nonemergency services to outpatient settings or alternative models.
- 3. Invest in digital tools and platforms to meet consumer expectations for anytime, anywhere access to healthcare. As many consumers still prefer face-to-face care, stakeholders will need to develop hybrid models that blend online and offline delivery.
- 4. Support physicians to adopt new technologies like AI and machine learning.

<sup>&</sup>lt;sup>5</sup> https://www.apec.org/Press/News-Releases/2020/1116\_ARTA2

<sup>&</sup>lt;sup>6</sup> https://www.apec.org/Publications/2019/11/2019-APEC-Economic-Policy-Report

<sup>&</sup>lt;sup>7</sup> <u>https://www.bain.com/contentassets/a1d1395b809d424a8db679657f95b19d/bain\_report\_asia-pacific\_front\_line\_of\_healthcare.pdf</u>

The report cautioned that each economy would need to develop its strategies based on its unique challenges and constraints.

The COVID-19 pandemic and necessary containment measures have also created tremendous stress for people and communities. Social isolation, unemployment, limited mobility, reduced physical activity and suspension of non-critical services have left many feeling isolated and at risk. Mental health support is often not available or prioritized. The *APEC White Paper on Workplace Mental Health and Safety*, offers suggestions for workplaces to expand the notion of health and safety to include mental and physical wellbeing. This would enable organizations to retain staff, increase engagement and productivity and ensure a smoother return to work as the pandemic recedes.<sup>8</sup>

Recommendation: APEC should promote the adoption of digital tools as part of a broader structural transformation of health systems. APEC could also examine and address barriers to cross-border delivery of health services and promote mental health and safety practices in workplaces. Changes made during the pandemic to enable accelerated service delivery and fast-tracked approvals should not be reversed.

 $<sup>\</sup>label{eq:stars} {}^8\ https://mentalhealth.apec.org/hub-updates/2020/05/apec-white-paper-workplace-mental-health-and-safety-official-launch-why$