



**Asia-Pacific
Economic Cooperation**

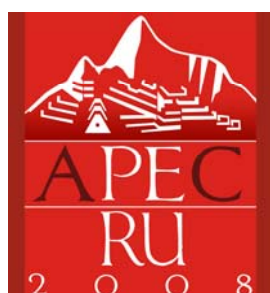
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Agenda Item: 3

Designing Regulatory Reform Policy

Purpose: Information

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Designing Regulatory Reform Policy

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Regulatory reform as a factor in structural reform

- Structural change may be blocked by regulatory regimes
 - Entrenched monopolistic interests and limited entry
 - Bureaucracies lacking a service attitude, defending status quo
 - No voice for stakeholders; regulatory capture

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Regulatory reform as a factor in structural reform: 2

- Barriers to reform include:
 - Heavy volume of outdated and obsolete regulations
 - Low capacity at regional and local level
 - High levels of non-compliance
 - Ineffective appeals process
 - Ignorance about regulatory practices in competing jurisdictions

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Gains from reform: 1998 to 2003

- Greater homogeneity across OECD countries for « good » regulation:
 - Quality regulation, not just de-regulation
 - Incentive-based regulation in place of command-and-control
- Setting priorities on sectors where change will do the most good
- The countries that have made the most progress had been the most restrictive
 - Reducing high degree of state control (price controls, legal restrictions)
 - Using multilateral agreements to open trade, investment
 - Removing barriers to entrepreneurship

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OECD Regulatory Policy Concept

Regulatory quality is the driving principle behind reform today

- Deregulation where markets work better than governments
- Re-regulation and new regulatory institutions where markets cannot work without governments
- More efficient government and social regulations to achieve high standards of health, safety and environmental protection at lower economic cost

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2005 OECD Recommendations for Regulatory Quality

- Less focus on regulatory reform
- Promote concept of dynamic, long-term, proactive effort
- Economic and social objectives are mutually supportive
- Regulatory quality, competition and market openness are mutually supporting

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Lessons of experience

- Leadership as most important ingredient for success
- Crises as catalyst for change
- Harmful effects of a short-term perspective
- Role of central regulatory bodies to change administrative culture
- Need for communication strategy to build constituency for reform
- Getting the level of intervention right

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Towards the future: interface between the public and private sectors

- Management of complexity of policy objectives, with often unexpected outcomes
- Greater use of alternatives to regulation
- Evaluation of regulations and of their social and economic impacts
- Risk awareness
- Extending coverage to public services such as education, health, environment

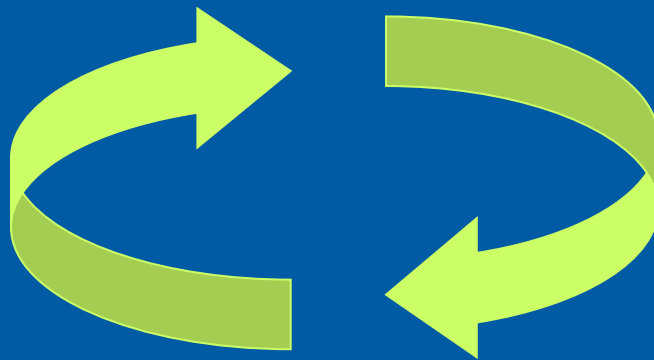
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Towards the future: institutional frameworks

- Greater coherence across levels of government; bottom-up innovation
- Accountability by regulators
- Integration of competition and market openness principles in regulatory policy
- Stakeholder consultation, commitment to transparency

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**Good regulatory policies enhance
market openness**



**Market openness reinforces
domestic economic
performance**

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A positive interrelation between market openness and good regulatory practice

- International commitments anchor deregulation
 - ✓ providing momentum and direction to domestic reform
 - ✓ shielding from pressures to backtrack

- An improved regulatory framework
 - ✓ contributes to market efficiency and resilience
 - ✓ reinforces foreign investment attractiveness
 - ✓ provides optimal conditions for developing export capacity
 - ✓ reduces costs of adjustment following trade liberalisation

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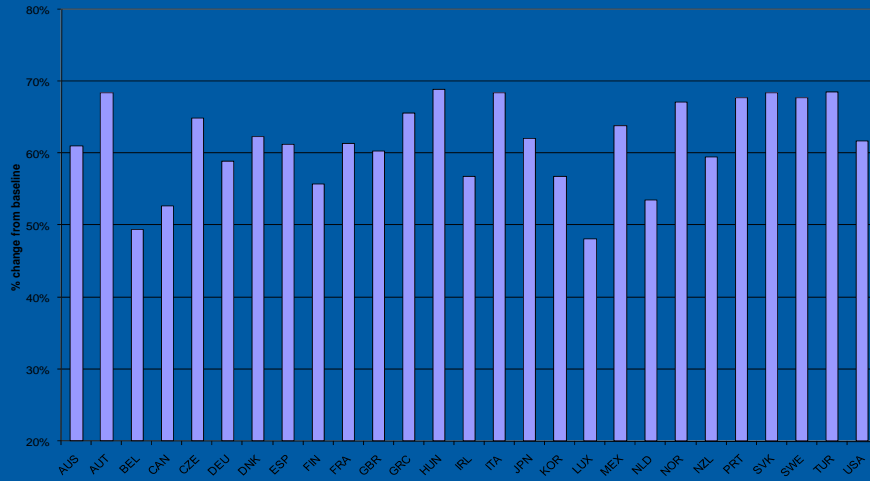
Liberalisation gains in regulated areas

- The greatest gains from liberalisation arise where there is more room for regulatory improvement
 - ✓ Services
 - ✓ Trade facilitation

- Liberalising one's own domestic market generates more gains than seeking better access to foreign markets

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Estimated change in exports of services following full harmonisation on product market regulation



Scenario results on income effects of trade facilitation (million USD and per cent of total)

	Country, sector & trader diversity	OECD-only
World-wide income gains	43259	14053
- due to direct cost reduction	8250	2650
- due to indirect cost reduction	35009	11402
OECD	35%	103%
OECD Asia-Pacific	7%	22%
OECD Europe	17%	45%
OECD North America	11%	36%
Non-OECD	65%	-3%
Former Soviet Union	7%	-1%
Middle East & North Africa	11%	0%
Latin America & Caribbean	13%	-1%
Non-OECD Asia-Pacific	24%	-1%
Sub-saharan Africa	7%	0%
Rest of World	1%	0%

Source: OECD Secretariat.

... with a few caveats

- The elimination of tariffs may create incentives to use regulation as trade barrier
 - how to avoid capture by protectionist interests?
- The complexity of regulatory issues and the divergence of regulatory approaches may lead to disputes
 - how to overcome the cost of divergence ?
- Market openness commitments need to appropriately reflect domestic realities
 - how to ensure proper achievement of public policy objectives ?

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How to deal with public concerns

- Show open markets are part of the answer
 - Through growth , diversification and economies of scale
 - Through innovation and technology transfer
- Promote complementary policies
 - Sound macroeconomic environment
 - Institution building
 - Competition culture
 - Labour market reform
- Help those who lose

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Thank you

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