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Advancing Free Trade
for Asia-Pacific **Prosperity**

APEC Economic Policy Report 2023

Structural Reform and an Enabling Environment for Inclusive, Resilient and Sustainable Businesses

APEC Policy Support Unit

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PREFACE

The role of the firm is not what it used to be. In addition to turning a profit for its owners, making payroll for its workers, and producing goods and services, firms are also increasingly called to contribute toward society's well-being. From circular economy initiatives to philanthropic activities, firms are being accountable not only to shareholders but to society at large.

This year's APEC Economic Policy Report (AEPR) discusses the complex topic of Structural Reform and an Enabling Environment for Inclusive, Resilient and Sustainable Businesses. In particular, it sheds light on the important intersection between private activity and the public interest.

The AEPR highlights the importance of ensuring a conducive business environment, one that reduces transaction costs and facilitates firm entry, operation and closure. Not only is this good for business and competitiveness, but it also gives firms the space to contribute toward inclusion, resilience and sustainability goals. It further highlights the importance of measuring and recognising firms' contributions toward the public interest, be it in eliminating greenhouse gas emissions or serving underserved communities. In the same vein, it points out that policymakers can, through structural reform policies, do more to enable businesses, especially small and medium enterprises (SMEs), to contribute toward social goals; measure progress regularly and comprehensively; and incentivise private sector investment toward inclusion, resilience and sustainability.

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As the EC's flagship report for 2023, the AEPR on Structural Reform and an Enabling Environment for Inclusive, Resilient and Sustainable Businesses undoubtedly contributes to the Enhanced APEC Agenda on Structural Reform (EAASR) and the Putrajaya Vision 2040. I look forward to EC members' initiatives to take forward the Report's recommendations.

James Ding

Chair

APEC Economic Committee

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KEY ABBREVIATIONS

AEPR	APEC Economic Policy Report
AI	artificial intelligence
ASEAN	Association of Southeast Asian Nations
BCG	bio–circular–green
CDR	consumer data right
CELP	Center for Environmental Law and Policy
CIESIN	Center for International Earth Science Information Network
CO ₂	carbon dioxide
COVID-19	Coronavirus Disease 2019
CSR	corporate social responsibility
EAASR	Enhanced APEC Agenda for Structural Reform
EME	emerging market economies
EoDB	Ease of Doing Business (index)
ERIA	Economic Research Institute for ASEAN and East Asia
ESG	environmental, social and governance
EU	European Union
FDI	foreign direct investment
G20	Group of 20
GDP	gross domestic product
GGGI	Global Green Growth Institute
GHG	greenhouse gas
GNI	gross national income
GoF47	Group of Friends of Paragraph 47
GRI	Global Reporting Initiative
GRP	good regulatory practice
GVC	global value chain
IER	individual economy report (submission by APEC members)
IMD	International Institute for Management Development
IP	intellectual property
MSME	micro, small and medium enterprise
OECD	Organisation for Economic Co-operation and Development
PSU	Policy Support Unit (APEC)
R&D	research and development
RIA	regulatory impact analysis/assessment
SASB	Sustainability Accounting Standards Board
SDG	Sustainable Development Goal
SME	small and medium enterprise
SOE	state-owned enterprise
TCFD	Task Force on Climate-related Financial Disclosures
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UNCTAD	United Nations Conference on Trade and Development
WEF	World Economic Forum
WIPO	World Intellectual Property Organization

KEY MESSAGES

- This APEC Economic Policy Report (AEPR) 2023 examines the role of structural reform in enabling the private sector, particularly small and medium enterprises (SMEs), to contribute toward sustainability, inclusion and resilience.
- Structural reforms work through the business environment that they create, which shape incentives and firms' decisions at all stages of the business life cycle, from market entry, to growth and eventual exit. Structural reforms that make markets competitive incentivise firms to be efficient and innovative in order to be profitable, and to thrive and survive.

Reforms to facilitate the business life cycle

- At the first stage of the business life cycle, stringent regulations on starting a business, red tape and the time involved in complying with bureaucratic procedures are factors that create barriers and deter new, productive firms from entering the market. Reforms to facilitate firm entry, such as one-stop shops for business registration, cutbacks in processing time and reductions in registration fees, ease the costs of starting a business and boost sectoral competition.
- At the second stage of the business life cycle, that is, operating a business, firms face various obstacles, including access to finance; customs and trade regulations; and tax administration. Across the APEC region, access to finance appears to be the biggest obstacle affecting businesses. Also, a number of APEC economies have identified digital infrastructure as an important barrier facing SMEs in particular. Reforms that address those barriers – such as supporting SMEs with access to finance, spearheading data portability initiatives and implementing trade liberalisation reforms – allow firms to improve efficiency, productivity and competitiveness. A regulatory tiering system tailoring requirements based on firm size and complexity could also be introduced to help reduce compliance and administrative costs for SMEs. Striking a balance between addressing the difficulties faced by SMEs and ensuring that SMEs meet regulatory obligations will ensure that firms of all sizes are able to grow and compete while contributing to inclusion and sustainability objectives.
- At the business closure stage, market regulations, access to credit, and insolvency frameworks shape the rate at which non-viable firms exit the market. Reforms to insolvency regimes that reduce barriers to corporate restructuring and the personal cost associated with entrepreneurial failure have the potential to reduce the share of capital sunk in firms that are unable to cover debt servicing cost, which spurs productivity-enhancing capital reallocation. Among APEC economies, data show that efficient and effective insolvency processes can improve entrepreneurship as well as productivity.

Structural reform for an enabling business environment

- Structural reform can contribute to an enabling environment for firms to innovate and be resilient through its impact on market competition and business dynamism. Core areas of structural reform to improve the functioning of markets include competition policy and law, economic and legal infrastructure, ease of doing business, regulatory reform, public sector governance, and corporate law and governance.
- However, well-functioning and competitive markets alone cannot ensure that economies will be inclusive, sustainable and resilient. This is due to the well-known presence of market failures in the economy.
- Adequate, effective and acceptable pricing mechanisms coupled with an enabling environment create incentives for firms to internalise the costs of externalities and promote sustainability. Likewise, regulation can be a powerful force in driving sustainable practices among businesses, including through corporate reporting requirements and mandatory actions or prohibitions. Access to financing to help meet sustainability standards and participate in global value chains can also help promote sustainability among SMEs.
- Access to finance has been identified as a significant barrier to the establishment and growth of both female-owned and Indigenous-owned SMEs. Supporting business development as well as streamlining and enabling access to finance can promote the inclusion of Indigenous peoples and women. Inclusive growth can be promoted through the growth of SMEs; and their growth needs to be strengthened through targeted interventions with the goal of inclusion in mind.
- Policymakers have a crucial role to play in reducing business exposure to uncertainty and risk, as well as providing support for businesses to manage exogenous shocks. The suite of policy instruments that aims to support business resilience include ensuring business regulations are not a detriment to agility and flexibility, helping small businesses in establishing robust relationships to identify and help mitigate potential bottlenecks in their value chains, and strengthening financial regulation and support for businesses to engender trust and certainty in value chains.
- To promote innovation among SMEs, it is important to ensure that structural reform policies achieve coherence in areas such as competition policy and regulation to provide the framework conditions for innovation. Given the public goods nature of research, government could play a role as a partner on innovative activity. For example, public–private partnerships could be a modality to leverage the research strengths of the government and the private sector. Public support for innovation through grants, tax credits and tax relief as well as supportive procurement policies could also be considered to drive SME-led innovation.

Monitoring, assessment and corporate reporting

- Monitoring and assessment of structural reforms is crucial to understanding the impacts of reforms and to designing and implementing further structural changes. It is imperative that monitoring be expanded to the issues of sustainability, inclusion and resilience, especially at the firm level and for SMEs. Monitoring the impacts allows policymakers to develop flexible and forward-looking policy responses that account for what has happened between the implementation of change and the current state.
- There are challenges in measuring the impacts and outcomes of structural reform due to the presence of confounding factors, the varying dimensions of reforms, and most importantly, data availability and quality. The use of indicators allows for complex information to be condensed for rapid communication.
- In addition, multiple APEC economies have regulatory requirements relating to firm-level environmental, social and governance (ESG) reporting. This presents challenges for firms, particularly those that operate across jurisdictions, that need to navigate different and sometimes conflicting reporting requirements. Harmonising ESG reporting standards will not only provide consistency on underlying principles and align reporting frameworks across the region but will also reduce uncertainty and costs for firms that are willing to contribute to inclusion, sustainability and resilience objectives.

Summary of policy recommendations

- **Where markets work: Let markets work.** Competitive markets are still the most effective way to allocate scarce resources efficiently and to incentivise technological innovation. Economies could foster a business environment conducive to innovation and resilience through:
 - reducing the cost of doing business and trading
 - promoting inclusive access to finance and financial inclusion
 - calibrating effective insolvency regimes
 - utilising goodwill for inclusion and sustainability goals
- **Where markets fail: Rectify, regulate and realign.** Market failure arises when individual actions or decisions have unintended and uncounted consequences, when costs and benefits are misaligned, when there are too many unknowns, and when market power is unavoidable. In these situations, market competition alone will lead to sub-optimal progress on inclusion, sustainability, resilience and innovation. Governments may need to give the market a nudge to:
 - get prices right and bring markets to efficiency
 - regulate, incentivise and subsidise where needed
 - realign the economy toward inclusion

- **Measure, monitor and modify.** ‘What gets measured gets managed’, as the business management adage goes. Measuring results, monitoring progress and modifying policy, if needed, are at the core of evidence-based policymaking. In the context of encouraging the private sector to contribute to inclusion, sustainability and resilience, economies could consider:
 - facilitating ESG disclosure and reporting
 - gathering data on SMEs on a regular and consistent basis
 - building statistical capacity on inclusion, sustainability and resilience

- **Cooperate across borders.** Issues of inclusion, sustainability and resilience have cross-border implications affecting climate change, trade linkages, supply chains and cross-border mobility. No economy can handle these issues alone, and international trust and cooperation are imperative. In the context of this report’s findings, economies need to:
 - establish regional standards and harmonise ESG reporting
 - exchange experiences and best practices
 - leverage regional fora like APEC

1. INTRODUCTION

The APEC region continues to struggle with various economic pressures, from recovering from the COVID-19 pandemic to managing the realities of climate change. Debt levels are a significant concern post-pandemic. To preserve livelihoods during the pandemic, governments around the world had assumed debt to fund stimulus packages, leading to public debt reaching the highest level on record at USD 226 trillion in 2020 (Gaspar, Medas, and Perrelli 2021). In APEC, debt has climbed to 65 percent of overall GDP (APEC PSU 2023). Yet, many APEC economies have not restored income to pre-pandemic levels; and there is significantly more economic inequality, with many vulnerable groups experiencing low rates of economic opportunity and participation (WEF 2023).

Compounding that is the cost-of-living crisis that began in early 2022, triggered by a drastic rise in global energy and food costs. Worldwide, the United Nations Development Programme has estimated that 70 million more people fell into poverty in 2022 than would have without the economic pressures from the pandemic, energy crisis, food prices, war and climate-related shocks (UNDP 2022). Against this backdrop, APEC economies are increasingly turning to structural reform to strengthen their macroeconomic performance, sustainability and resilience for more durable and inclusive economic growth.

To help economies understand how structural reform can help them navigate the challenging economic landscape, this APEC Economic Policy Report (AEPR) takes as its theme ‘Structural Reform and an Enabling Environment for Inclusive, Resilient and Sustainable Businesses’. The report aims to showcase the region’s experiences in improving the business environment through structural reform.

Small and medium enterprises (SMEs), the engine of APEC’s economic momentum, are a particular focus of this report. SMEs account for more than 97 percent of all businesses in the APEC region, and more than half of the region’s population are employed by an SME. They are threaded through the region’s economic fabric, comprising between 40 and 60 percent of GDP in most economies (APEC 2023). Yet they often operate within an unsupportive business environment, which suggests that structural reforms could disproportionately benefit them, and given their large contribution to the APEC economy, potentially also the entire region. For example, structural reform could help SMEs by correcting market failures or distortionary realities to increase competition and investment opportunities. Structural reform could also lead to a lessening of regulatory burdens or hurdles, which encourages innovation and fosters entrepreneurship and expansion. Lastly, structural reforms can advance policy objectives such as sustainability, inclusion, health and other aims.

WHAT IS STRUCTURAL REFORM AND WHY IS IT HELPFUL?

In the most reductive form, structural reform refers to changing the way the economy works and the environment in which businesses operate. Structural reforms – which are often initiated and implemented by governments – can help economies overcome pressing macroeconomic issues through changes in domestic policies, rules and institutions. For instance, structural reforms can address market failures, dynamic inconsistencies, bounded rationality or inefficiency. They can also shape an economy toward inclusion, resiliency and sustainability, which leads to more durable economic strength. This is particularly true when governments

can utilise structural reform to thwart unintended negative consequences (such as the economic exclusion of vulnerable populations; exacerbation of climate change; and introduction of destabilising economic forces) and/or to protect the quality of public goods like infrastructure. In essence, structural reform provides economies an important set of tools to power economic growth. This is important for the APEC region as economies look to rebound and grow beyond pre-pandemic levels. Structural reform is an essential component of the region's policy response to achieve optimal economic outcomes.

There are many policy conditions and economic consequences that create the need for structural reform. For example, inefficient public sector governance can cause significant economic dilemmas. When governments are not transparent about their decision-making or policymaking processes, their populations cannot hold them accountable for their actions (or inaction). This damages trust between the government and its people, leading to reduced economic engagement and performance. Similarly, a lack of transparency promotes perverse incentives for corruption, graft and economic inefficiency. This poses a significant cost to economies' potential for growth. For example, the World Bank and International Monetary Fund estimate that the 'cross-border flow of proceeds from corruption, criminal activities, and tax evasion accounts for about 3–5 percent of the world's GDP, as much as USD 3.61 trillion every year' (APEC 2009).

Beyond inefficient public governance and corruption, there are other circumstances that warrant structural reform efforts, such as low productivity, stymied innovation and growth, and a lack of investment. These barriers can result in inefficient resource allocation and use, and lead to or exacerbate negative economic outcomes. For example, burdensome licensing processes, opaque permitting requirements and inflexible labour markets can present significant barriers for governments in driving economic prosperity. This is especially relevant for SMEs, which may not have the time or capital to overcome these issues and fail as a result.

Structural reform can also be necessary when governments face poor infrastructure quality and low investment in social goods and services. An increasing number of studies cite infrastructure quality as an enabler of economic growth because of its role in supporting nearly all economic activity (Bailliu and Hajzler 2016). While there is no universal measure of infrastructure quality, standards of efficiency, predictability and safety need to be met. In many ways, poor infrastructure quality is worse than no infrastructure. After all, businesses and consumers can work to overcome a lack of infrastructure because it is predictable and known. Poor quality, however, is not predictable by nature, which makes it difficult for businesses and consumers to operate efficiently and reliably. Structural reform can help address poor infrastructure quality, to encourage safety and efficiency and support economic activity. The same rationale applies to low investment in social goods and services. Social goods and services are often critical in ensuring economic engagement and harnessing the potential of the population. Without structures to ensure public funds are benefiting the population, economic potential is hindered.

There are also many examples around the region of how structural reform can improve the enabling environment for businesses and benefit economies. For example, during the COVID-19 pandemic, the government of Korea provided relief funds to SMEs to support resiliency amid the pandemic-induced market friction. The programme offset the fall in business due to reduced foot traffic and lower product sales and the rise in cost of supplies to comply with disinfection policies. Given the large number of SMEs needing support, the government developed an efficient digital system and was praised by SMEs for its prompt funds

distribution. Not only did the policy help counter a market failure caused by the COVID-19 pandemic, it also provided quality learning to the government on how to swiftly and systematically support businesses during unforeseen disasters (Korea IER 2023).¹

Similarly, in Papua New Guinea, the government introduced the SME Policy and Master Plan (2016–2030) with the goal of expanding economic growth through creating and growing SMEs. The plan is to coordinate the agencies supporting the economy’s 49,500 SMEs with the aim to increase the number to 500,000, adding 2 million jobs. The policy also creates many other interventions to support SMEs, such as the Credit Guarantee Corporation to increase their access to finance and capital. Inclusion is fostered through integrating businesses in the informal sector, which Papua New Guinea estimates at 85 percent of businesses, into the formal economy (PNG 2016). In the SME Policy and Master Plan, the government commits to transitioning informal businesses through business education and financial programmes and incentive and support programmes. Together, these efforts aim to offset the costs or difficulties SMEs experience when migrating to the formal sector, such as lack of information and networks, poor understanding of regulatory requirements and lack of capital to satisfy registration and taxation requirements.²

In the Philippines, the Green Economic Development Programme seeks to increase SME competitiveness by guiding SMEs to implement ‘environment-friendly, climate-smart, and inclusive strategies and measures to produce green products and services, reduce production costs and greenhouse gas emissions, and adapt to the impacts of climate change’.³ SMEs are provided with information and training on topics such as climate change and mitigating climate change in SME operations and advancing competitiveness through adopting green strategies. The programme also conducts business promotion and matchmaking between SMEs and green business service to help SMEs implement green measures. These efforts help close the information and resource gap facing many SMEs in understanding and implementing sustainable solutions in their operations.

ELEMENTS OF STRUCTURAL REFORM

Several elements of structural reform are key, including reforms to support and advance public sector governance, macroeconomic policy, the investment environment and an enabling environment for businesses.

- **Good governance.** Public sector governance reforms are necessary to promote transparency and accountability. Structural reform could include strengthening the economic and legal infrastructure to support the reform agenda and increase economic durability. Governments could also leverage regulatory reform and good regulatory practices (GRPs) to ensure good governance. Together, these reforms strengthen public trust in government and facilitate economic participation. Giving effect to GRP principles can help improve the quality and sustainability of business environments, while promoting competition, innovation and entrepreneurship, particularly for SMEs.

¹ Korea individual economy report (IER) 2023.

² Papua New Guinea IER 2023.

³ The Philippines IER 2023.

- **Sound macroeconomic policy.** When structural reform agendas are set forth, it is essential that the policies and regulations contained are evidence-based. Given that macroeconomic policy without a sound basis can have damaging consequences to livelihoods, it is incredibly important that governments ensure their structural reforms are well supported and clearly articulated. This is particularly true for fiscal transparency, where comprehensiveness, clarity, reliability and timeliness of reporting on the status of public finances to the general public is vital to economic productivity.
- **Inclusive, non-discriminatory investment environment.** APEC economies will only be able to realise their full economic potential once all in the economy are empowered to participate and flourish. Structural reforms must be cognisant of the needs of all groups with untapped economic potential, such as women and Indigenous peoples, and provide pathways for inclusive opportunities. Additionally, structural reform should encourage competitive markets that allow new businesses to enter the market, enable efficient firms to prosper and guide inefficient businesses to exit the market.
- **Effective business enabling environment.** Structural reform can involve governments creating and fostering an environment that makes it easier for firms to conduct business. Governments could cut red tape, for example, with the caveat that a balance would need to be struck between implementing regulations that solve policy problems and ensuring that those regulations do not hamper innovation. SMEs, which may be more constrained in terms of time, resources and networks, would disproportionately benefit from such removal of unnecessary steps and streamlining of burdensome processes. Structural reforms could also be implemented to liberalise trade, the financial sector, labour, and product and service markets. By doing so, economies can open pathways to encourage economic activity through a variety of modes and models.

By advancing structural reforms encompassing the above elements, economies can expect optimal economic outcomes, including, but not limited to:

- resiliency to economic shocks
- macroeconomic stability
- increased productivity
- increased standards of living
- increased market inclusivity
- greater economic durability

STRUCTURAL REFORM TO ADVANCE BROADER SOCIETAL GOALS

Structural reform can serve as a tool for governments to advance broader societal goals in the face of systemic climate challenges and the new realities brought about by technological and demographic shifts. For instance, climate resilience could be boosted and the transition to a low-emission economy facilitated through policies aimed at encouraging the use of renewable energy. Economies could also leverage policy solutions to smooth technological change, which is inherently disruptive and difficult; minimise the impact of demographic shifts on their workforce and tax base; and increase access to infrastructure in remote and rural areas so as to broaden economic participation.

In addition to providing ways to address emerging issues, structural reform can also rectify the legal and regulatory barriers experienced by groups with untapped economic potential, such as SMEs, women and Indigenous peoples. For example, GRP can help governments to address regulatory difficulties faced by SMEs, such as through transparent public consultation that enables interested SMEs to provide comment on proposed regulatory measures that may affect them. Many economies retain laws that allow creditors to discriminate against potential borrowers based solely on their sex (Perselay, Rubin, and Sahai 2022). This means that a woman entrepreneur looking to open a line of credit for her business can walk into a financial institution and be denied based solely on the fact that she is a woman. This practice – which is explicitly illegal in only nine APEC economies – not only damages her ability to grow her business, but also means that the economy is not able to benefit from her expanded economic contributions (Perselay, Rubin, and Sahai 2022). The structural reform process provides an opportunity to analyse where these economic bottlenecks and stymying forces exist and create counteracting policy solutions. This can take the form of eliminating legal restrictions, removing biases against women in existing laws, and reforming laws that appear sex-neutral, but are not.

Finally, structural reforms can promote resilience and sustainability. Many firms may consider efforts to counter environmental challenges too expensive to implement. For instance, firms may calculate that the cost of transitioning to clean and low-carbon energy is not worthwhile. These firms would need to be encouraged with incentive programmes designed to, for example, offset the short-term costs and help them adjust their operating procedures. Without such programmes, economies will continue to battle environmental degradation and disasters.

In short, structural reform, by bringing about the structural environment for all to participate, allows individuals and firms to equally contribute to inclusive, resilient and sustainable economic growth.

APEC'S STRUCTURAL REFORM EFFORTS

This AEPR builds on previous AEPRs and APEC's continuous work to leverage core structural reforms (competition policy and law; strengthening economic and legal infrastructure; ease of doing business; regulatory reform; public sector governance; corporate law and governance) and complementary policies to improve market functioning and transparency and contribute to broad-based resilient and inclusive economic growth for all. More specifically, this report is based on the economic drivers outlined in the APEC Putrajaya Vision 2040, namely, trade and investment, innovation and digitalisation, and strong, balanced, secure, sustainable and inclusive economic growth. The approach in this report aligns with the aim of the Vision to 'pursue structural reforms and sound economic policies to promote innovation as well as improve productivity and dynamism'.

The theme of this report also supports the Aotearoa Plan of Action, which outlines collective action to share information and best practices to 'promote macro-economic policies, including sound fiscal and monetary policies that are calibrated to combat the negative macro-economic impact of global pandemics such as COVID-19, support recovery, and contribute to future growth'.

Further, this report advances the goals outlined in the four pillars of the APEC Economic Committee's Enhanced APEC Agenda for Structural Reform (EAASR), which are:

- creating an enabling environment for open, transparent, and competitive markets
- boosting business recovery and resilience against future shocks
- ensuring equal access to opportunities for all groups in society for more inclusive and sustainable growth, and well-being
- harnessing innovation and new technology, and investing in skills to boost productivity and digitalisation

All four pillars of the EAASR are broadly related to this AEPR topic, as the AEPR covers insights on how governments and other stakeholders can make it easier for businesses, particularly SMEs, to adopt and maintain inclusive, resilient and sustainable business practices to recover after COVID-19 and become resilient against future shocks. This AEPR addresses how structural reforms can address barriers to these goals through specific policies and practices. In addition, innovative approaches using new technologies can be explored to improve doing sustainable business to further ensure inclusive and sustainable economic growth. The information about the structural reforms will enable APEC members to effectively create an enabling environment in which sustainable businesses can innovate, increase their productivity and contribute to the pursuit of sustainable economic development, accelerated economic recovery, and climate change adaptation and mitigation.

OUTLINE OF THE REPORT

This report begins by outlining in this chapter the connection between structural reform and sustainable, resilient and inclusive growth. It discusses how governments can leverage structural reform to improve economic outcomes.

Chapter 2 highlights GRPs in the context of structural reform. This chapter will define GRPs, describe the characteristics and principles of GRPs, and discuss their role in promoting growth, particularly for SMEs.

Chapter 3 demonstrates how structural reform can facilitate growth, with the discussion framed by the life cycle of a business, from motivation and preparation for market entry, to operating a business and business closure.

Chapter 4 examines the cross-cutting factors that influence the life cycle of a business and must be considered in structural reform efforts. These factors include innovation, climate change and the inclusion of groups with untapped economic potential, such as women and Indigenous peoples.

Chapter 5 focuses on assessing sustainability performance, including how economies are tracking, monitoring and evaluating businesses through metrics and reporting systems, along with lessons learned and best practices.

Chapter 6 features this report's key findings and the associated policy recommendations. It discusses how structural reform can facilitate the creation of an enabling environment for inclusive, resilient and sustainable business.

The report is supplemented by individual economy reports (IERs) and case studies from APEC member economies.⁴

⁴ The submissions can be found in the Annex to this report at: https://apec.org/docs/default-source/publications/2023/11/223_ec_aepr_annex-a.pdf and https://apec.sitefinity.cloud/docs/default-source/publications/2023/11/223_ec_aepr_annex-b.pdf

2. STRUCTURAL REFORM AND GOOD REGULATORY PRACTICE (GRP)

Regulatory reform to improve regulatory quality, management and delivery is a critical component of structural reform, as effective regulation is one of the principal levers of government policymaking and integral to a well-functioning economy. Well-designed regulatory measures are necessary to improve public welfare by correcting for the failure of the market to provide public goods like health and safety, environmental protection, and the rights of consumers. Regulation is also often needed to address the negative externalities of private economic activity and include regulatory measures to enhance opportunities for small and medium enterprises (SMEs), women, and groups with untapped economic potential, such as Indigenous Peoples, people with disabilities, and those from remote and rural communities, as well as more sustainable and inclusive business practices. Modern economies and societies need effective regulatory measures to support growth, investment, innovation and market openness and to uphold the rule of law.

However, poorly designed regulatory measures can impose unnecessary costs or alter behaviour in unintended ways, leading to higher prices for consumers, misallocation of resources, lack of product innovation and inadequate service quality. Opaque and inconsistent regulatory environments can undermine business competitiveness and citizens' trust in government, encourage corruption in public governance and drive trading partners elsewhere.

The challenge of any well-functioning regulatory system is to develop the right incentives, principles, procedures and institutions of government to ensure that regulatory measures are appropriate and necessary, cost effective and serve the best interest of society. When regulated entities of all sizes (including SMEs) can easily understand how policy decisions are made and have opportunities to provide input into the policy process, the likelihood that costly regulatory decisions will be made arbitrarily diminishes substantially. Regulatory systems with these characteristics more effectively incentivise private investment and competition, mitigate rent-seeking behaviour and reduce market uncertainty. These dynamics send positive signals to the international community, inviting foreign investment and expanding trade opportunities.

Although there is no one-size-fits-all model of regulatory policy, there is growing consensus in the international community regarding key policies and practices that form a common foundation for effective regulatory governance. These best practices help policymakers make informed decisions about what to regulate, whom to regulate and how to regulate. Known collectively as good regulatory practices (GRPs), these foundational administrative procedures include internal coordination of rulemaking activity, public consultation in the policy development process and evidence-based decision making. If implemented consistently and effectively, GRPs help governments achieve a more coherent regulatory system that produces regulatory measures that are more efficient, effective, transparent and equitable.

This chapter will outline the key principles that underpin GRPs, the benefits of GRPs to policymakers, stakeholders and the regulated community, and the main policy instruments that operationalise them. Additionally, this chapter will detail how GRPs improve the quality and sustainability of business environments, while promoting competition, innovation and entrepreneurship, particularly for SMEs.

WHAT ARE GRPs?

GRPs are internationally recognised processes, systems, tools and methods used to improve the quality of regulation and ensure that regulatory outcomes are efficient, effective, transparent, inclusive and sustained. The implementation of GRPs helps produce regulatory measures that are fit for purpose, while maximising societal benefits and minimising burden on regulated entities. GRPs provide a powerful set of regulatory management tools that help economies direct public policy toward the promotion of important social goals such as sustainability; economic, social and environmental resilience; and social equity and inclusion.

The most salient and impactful GRPs include internal coordination of rulemaking activity, public consultation in the policy development process and evidence-based decision making. In the international community there is growing consensus regarding key policies and practices that form a common foundation for effective regulatory governance. These best practices help policymakers come to informed decisions about what, for whom and how to regulate. They help ensure that regulatory measures are fit for purpose while also preventing regulatory capture and enhancing the legitimacy of policy decisions. These regulatory best practices will be briefly introduced before being described in greater operational detail later in the chapter.

Internal coordination of rulemaking activity is essential to ensuring that policymakers follow consistent procedures for issuing regulatory measures and that regulatory measures issued across the government achieve their objectives efficiently and effectively. Achieving a whole-of-government approach to regulation is the goal. Consistent policies covering the role and functions of regulatory agencies provide greater confidence that regulatory decisions are made on an objective, impartial and consistent basis, without conflict of interest, bias or improper influence.

Institutionalising regulatory policies, practices and procedures helps to promote a coherent regulatory system that provides certainty for policymakers, stakeholders and consumers. Coordination of regulatory policy is typically achieved via designated oversight bodies functioning as a centralised clearinghouse or gatekeeper to control the quality of regulatory measures government-wide. These oversight bodies are commonly provided with the authority to approve regulatory proposals, or to reject them if regulatory agencies had not followed specified procedures of the rulemaking process. Two principal rulemaking procedures have the greatest impact on regulatory quality: regulatory impact analysis (RIA) and public consultation. As a result, regulatory oversight bodies focus their efforts on the implementation of these practices, providing guidance to policymakers to ensure quality and consistency.

The use of analytical tools informed by the best available science and data allows policymakers to employ evidence-based decision making to inform optimal regulatory outcomes. Optimal regulatory outcomes maximise net benefits to society, meaning they achieve the intended policy objective that maximises societal benefits while minimising costs and burden on regulated entities and while considering distributional impacts.

RIA is one of the most important tools available to policymakers to ensure that regulatory decisions are evidence-based, transparent and cost effective. Also known as regulatory cost-benefit analysis, RIA is an analytical framework that allows decision makers to evaluate the costs and benefits of various regulatory options, providing an objective basis for the regulatory choice that maximises social benefits. At its core, RIA is a decision-making tool that allows

policymakers to ‘show their work’ regarding how policy decisions are made, which makes it possible for stakeholders to clearly understand the trade-offs considered in those decisions.

Importantly, RIA disciplines policymakers to identify the most efficient and effective policy options *before* making a regulatory decision. When RIAs are published concurrently with regulatory proposals, interested parties are able to scrutinise the regulatory options and provide feedback on the cost–benefit estimates and the full rationale for the proposed decision. This stakeholder input helps policymakers address data gaps, test assumptions and avoid unintended consequences. By providing the opportunity for public comment on RIAs, policymakers can course-correct before finalising new regulatory requirements.

Public consultation in the rulemaking process allows policymakers to incorporate the expertise, perspectives and ideas for policy alternatives of those directly affected by their decisions. After all, stakeholders are often more informed than governments about the potential impacts of regulatory proposals. By increasing the transparency of the regulatory policy process, public consultation can help foster public confidence in government, while insulating policymakers from arbitrary decisions from among controversial options. To be effective, the consultation should be as open as possible to all interested parties, be conducted as early in the policy development process as possible and provide multiple opportunities for input before a final decision is made. Although a wide range of policies can be used to facilitate public consultation, the most common and fundamental is the publication of regulatory proposals in official public registries, with a public comment period of sufficient duration for all interested parties to provide meaningful input. In economies with less mature regulatory systems, implementation of public consultation is often inconsistent, ad hoc and discretionary. Therefore, a strong legal basis or policy commitment is needed to achieve consistent, effective implementation.

SMEs are often disproportionately impacted by regulatory measures due to the outsized cost of compliance and lack of resources and access for influencing decision makers. Despite their importance for economic growth, SMEs face greater barriers to entry and are less able to absorb costly new regulatory requirements relative to larger firms. GRPs help level the playing field for SMEs by allowing all interested parties to have access to the same information and analyses that inform regulatory decisions and by providing equal opportunity for input during public comment processes. The use of information and communications technology (ICT) to publicly convey information about regulatory developments, compliance and enforcement guidance, disposition of permit applications and stakeholder comments on regulatory proposals can further make for more equitable participation in the regulatory policy process. Finally, the implementation of GRPs can also provide for special consideration of the impact of regulatory measures on SMEs by specifically targeting to SMEs administrative burden reduction initiatives, consultation procedures and compliance alternatives. Several of these SME-specific regulatory policies will be discussed later in this report with economy-level examples.

When economies implement GRPs through a whole-of-government approach, they can more effectively direct regulatory measures to advance important social and environmental public policy objectives. For example, inclusive public consultation procedures provide stakeholders with valuable opportunities to provide evidence of the social benefits of regulatory alternatives, and advance sustainability and environmental resilience considerations. RIA can be utilised by policymakers to explicitly consider and analyse social and environmental goals when considering regulatory alternatives. Effective policy coordination from regulatory oversight bodies can help to emphasise social and environmental policy goals government-wide and to

utilise regulatory management tools like public consultation and RIA to marshal data and evidence to support those goals for individual regulatory measures.

FOUNDATIONAL PRINCIPLES OF GRPs

GRPs are underpinned by several principles that provide the theoretical context for their practical implementation. These principles apply to the three regulatory management tools discussed in the next section and are embodied in the process of the implementation of GRPs and the outcomes they produce. The principles are discussed below.

Transparency. The principle of transparency applies to the implementation of GRPs throughout the entire life cycle of the regulatory policy process. A rulemaking process governed by transparent policies and procedures increases the accountability of institutions and civil servants, while building trust among stakeholders in the regulatory policy development process and their ability to participate in it. Transparency gives legitimacy to actions taken by governments and strengthens the acceptance of those actions by an economy's citizens, trading partners, investors and other affected groups.

Coherence. When GRPs are applied consistently and government-wide through a whole-of-government approach to implementation, the regulatory policy process becomes more coordinated and coherent. This makes the policy process more consistent for stakeholders seeking to participate in it and provide their views on draft regulations. A coherent, whole-of-government approach to GRP implementation provides increased certainty that regulatory decisions will not be made arbitrarily or inconsistently across policymakers, while sending positive signals to investors and potential trading partners that the economy is committed to regulatory improvement.

Predictability. A regulatory policymaking process defined by consistent procedures provides predictability on the rights and privileges of stakeholders, which enhances their ability to participate in it. When economies have clearly established policies and procedures governing how regulatory measures are developed and implemented, it makes it easier for affected parties to anticipate opportunities to provide their views on pending regulatory measures and to understand how regulatory decisions are made. Predictable and transparent rules and procedures about the rulemaking process also increases trust among stakeholders about the legitimacy of government decisions.

Openness. Opportunities for stakeholders to participate in the regulatory policy process should be as open as possible to allow all interested parties to provide their views on pending regulatory measures. Additionally, stakeholders should be provided with access to all pertinent information and analyses used to inform a proposed measure, to enable them to influence decision making on the regulatory policy by providing further relevant information. When the regulatory policymaking process is open and transparent, it creates a virtuous cycle whereby stakeholders have increased trust in the process and provide higher quality information that improves regulatory outcomes.

Proportionality. Regulatory measures should be fit for purpose, meaning that they should achieve their intended objectives by imposing the least amount of burden on the regulated community while maximising benefits to the public. GRPs help ensure that the design and complexity of regulatory interventions are proportional to the problems that they intend to address.

Accountability. When the rulemaking process is open, transparent, predictable and coherent, policymakers are more accountable to the public for the decisions they make and the system and process for making regulatory decisions are trusted as legitimate. This increases participation of stakeholders in the process and helps policymakers avoid unintended consequences by having access to the best available information about the expected impacts of their decisions.

KEY REGULATORY MANAGEMENT TOOLS

This section examines three regulatory management tools that promote GRP: regulatory impact analysis (RIA) for evidence-based decision making; public consultation; and internal coordination of rulemaking activity. Specifically, this section describes how each of them contributes to improving regulatory quality while also underscoring that the three policy tools are designed to work in concert, with each tool supporting and reinforcing the implementation of the other.

Regulatory impact analysis (RIA)

RIA is one of the most important tools available to policymakers to improve the quality of regulation. It is both a decision-making tool and an integral part of a broader system for informing political decision makers on whether and how to regulate to achieve public policy goals (OECD 2020g). Its power as a decision-making tool is derived from its use early in the policy development cycle, and the framework it provides to systematically analyse evidence to support optimal policy choices.

As noted earlier, the RIA framework requires policymakers to demonstrate how they arrived at certain policy decisions. By strengthening the transparency of regulatory decisions and their rational justification, RIA enhances the credibility of regulatory measures and increases public trust in regulatory institutions and policymakers. RIA, when integrated with internal coordination of rulemaking activity and public consultation, forms a vital cornerstone of government-wide systems of regulatory governance that produce better outcomes for citizens.

Core elements of the RIA process

The first – and perhaps most important – step of conducting an RIA for proposed regulatory changes is to clearly define the problem that the regulation intends to address, along with the policy objectives. If policymakers cannot define these precisely, they should not proceed to regulate.

The second step is to provide a clear description of the regulatory proposal, which should detail the existing regulatory framework, how the new regulatory proposal will modify those requirements and why the changes are needed. The regulatory agency or agencies responsible for implementing and enforcing the proposal should be identified at this juncture. The enforcement regime and proposed strategy for ensuring compliance should also be outlined.

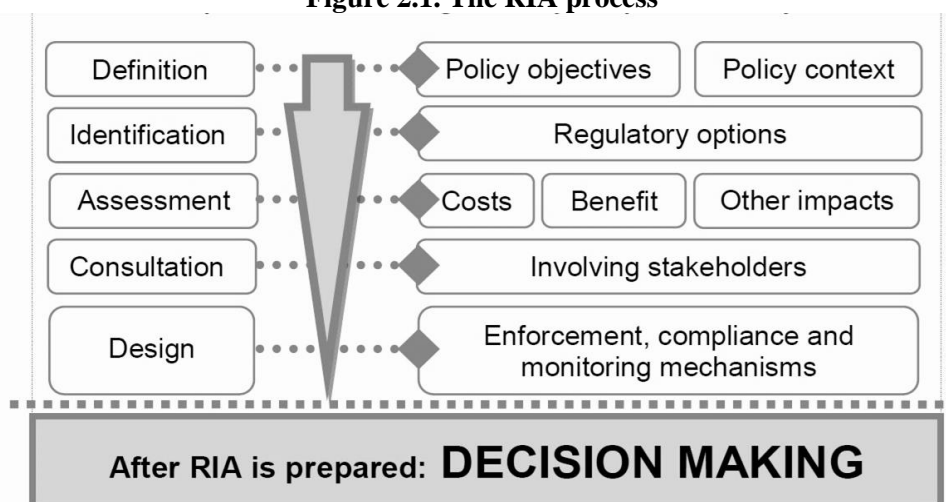
Third, policy options to address the problem identified in the first step should be identified. At this stage, policymakers need to carefully consider whether regulatory measures are necessarily the answer, or whether there are alternatives that would solve the problem more efficiently, or indeed whether no intervention would do less harm than regulatory measures. For example, it may be that the stated policy objectives could be achieved through measures such as publishing

studies that educate the public, relying on market-based incentives or adopting voluntary standards, and that such initiatives more effectively alter public behaviour than direct controls (US Office of Information and Regulatory Affairs 2011). Only after systematically analysing the costs and benefits of each policy option can the preferred solution be identified. The preferred solution should be the option that maximises net benefits to society.

Once the preferred solution is identified, the RIA should outline how and in what ways it is superior to the alternatives that were considered. In addition, the RIA document should describe the monitoring and evaluation framework that would be used to determine how the regulatory measures compare to the original objectives, including specifying the data that would be required to demonstrate effectiveness.

After the RIA document has been completed, it should undergo public consultation concurrently with the regulatory proposal so stakeholders would have sufficient information to provide input concerning the costs and benefits of the proposed policy changes and to help identify and address data gaps in the analysis.

Figure 2.1. The RIA process



RIA=regulatory impact analysis

Source: OECD (2008).

RIA and SMEs

RIA should be utilised by policymakers to systematically evaluate the economic impacts of policy proposals on SMEs. Regulations disproportionately impact SMEs, and there is often minimal official economic data about SMEs in developing economies. As a result, policymakers often unintentionally fail to consider more flexible or less burdensome compliance options for SMEs when developing regulatory proposals.

Conducting RIAs for regulatory proposals can help policymakers gain valuable information to inform potential alternative compliance options; and policy or legal mandates to conduct RIA should include explicit provisions requiring analysis of the impacts on SMEs, including guidance on how to target SMEs for consultation on these impacts. For example, the US Regulatory Flexibility Act requires federal agencies, when proposing regulations, to identify

any ‘significant economic impact on a substantial number of small entities’.⁵ Importantly, section 603(c) of the Act requires that each regulatory flexibility analysis provide alternatives that would accomplish the statutory objectives while minimising impacts on small entities.

Box 2.1. RIA and the impact on SMEs in Chile

Chile has made concrete efforts to systematically consider the impact of regulations and public policies on small and medium enterprises (SMEs).

In Chile, regulatory impact assessment (RIA) has been mandatory for new legislative and regulatory proposals since 2019. Modifications to the RIA process were made in 2022 to include specific requirements to evaluate the impacts of regulations on SMEs, in recognition of the importance of the sector for economic growth and innovation.

Law 20.416 established a new regulatory framework for small businesses. The law also promoted coordinated action among different ministries and public services through a standard procedure to assess the impact of new regulations on SMEs. This legislation set a precedent by considering the concept of cost-effectiveness in developing regulations.

Source: Chile individual economy report (IER).

RIA implementation considerations

While the benefits of integrating RIA in the policy decision-making process are evident, implementing the framework could run into several difficulties. Introducing RIA into existing government frameworks is challenging because it involves both administrative cultural change in how governments regulate and significant technical expertise and bureaucratic buy-in to implement effectively. The use of RIA in developing economies is more widespread than might be expected, but the methods are generally incomplete and rarely applied systematically across policy areas. RIA is often perceived as an expensive tool that might not produce the expected outcomes in the short term. Bureaucratic inertia, political need for speed and an appetite to adopt certain politically sensitive proposals without much scrutiny may be other mitigating factors against systematic adoption of RIA.

Box 2.2. Whole-of-government RIA implementation in Peru

Peru has launched a whole-of-government initiative to implement regulatory impact analysis (RIA) for future regulatory actions, recognising that meaningful stakeholder consultations are a necessary element of a sound RIA process.

As of 3 April 2023, 55 Peruvian regulatory agencies are required to conduct RIA and public consultation for new draft regulations as mandated by [Supreme Decree No. 063-2021-PCM](#) and recently [Supreme Decree No. 1565](#).

⁵ *Regulatory Flexibility Act*, US Code 5 (1980), Section 602(a), https://www.govregs.com/uscode/expand/title5_partI_chapter6_section601

This work is part of a broader series of reforms aimed at improving regulatory quality in Peru, and is coordinated by the Presidential Council of Ministers, which serves as the economy's regulatory oversight body.

Source: Peru IER.

A consistent and well-thought-out roadmap for RIA implementation can help to resolve those challenges. Institutions matter, and before embarking on designing and implementing an RIA process, policymakers involved in regulatory management need to consider whether some basic preconditions are in place and to what extent existing institutions can provide a good framework for implementation. These preconditions include strong political commitment; the integration of RIA at the beginning of decision-making processes and with other regulatory management tools; and a commitment to capacity building and continuous improvement. With these conditions in place, governments can focus on the mechanics and methodologies of RIA, tailoring them to their unique conditions, and work toward a whole-of-government approach to implementation.

Public consultation

Public consultation has profound benefits for improving the quality of regulation. When stakeholders have meaningful opportunities to provide inputs on regulatory policy proposals, they can provide valuable information to policymakers regarding the potential impacts of regulatory options, alternative policy approaches and important trade-offs. This helps policymakers avoid unintended consequences and enables them to make decisions informed by the costs and benefits of various policy options. Public consultation also adds transparency and legitimacy to the regulatory policy process, which helps affirm public trust in government.

For public consultation processes to be effective, the design matters, and the following are critical:

- Consultation should take place as early as possible in the policy development process. This allows policymakers to scope regulatory options more effectively.
- To the extent feasible, consultation should take place multiple times throughout the policymaking cycle to help ensure that interested parties can provide input on impactful incremental changes before the final outcome.
- The duration of the consultation period should be sufficient for interested parties to understand the regulation and its impacts, and to provide substantive, actionable input. To provide an even playing field and avoid public perceptions of rent-seeking behaviour, the consultation should be as open as possible to all interested parties.
- The results of the consultation, including the policymakers' responses to stakeholder input and the rationale for their consideration, should be made public (preferably online). Completing the cycle in this manner enhances legitimacy and public trust in the entire process and helps policymakers make better-informed decisions by fully thinking them through.

Governments should take a whole-of-government approach to public consultation, wherein the policies and procedures governing the process are uniformly applied government-wide. This is important not only for improved policy coherence, but also because predictable, easy-to-

understand consultation processes have higher participation rates, and because public consultation works best when diverse views are heard.

Public consultation also requires strong policy commitment from the highest levels of government, or a legal basis, without which it may be difficult to consistently implement. Such commitment helps maintain the integrity of the process, increasing the likelihood of public consultation processes becoming a durable fixture of regulatory policy.

Also important is an online public registry of all existing and pending regulatory measures; and one should be in place even before establishing a public consultation policy. This is because for stakeholders to meaningfully participate in the public consultation, they would need to first have access to the regulatory policies in question, in order to understand the changes being proposed. To further help stakeholders understand the proposals, the registry should also concurrently publish relevant documents such as RIAs and other analyses.

The same online registry could be designed to provide public notice of pending regulatory measures, with the opportunity to comment on them and their supporting analyses on the platform itself. The registry could also include the responses provided by policymakers to the comments and the rationale for how the comments were considered. Locating notices, comments and responses in one place gives all stakeholders the same access to participate in the regulatory policy process. This could encourage the participation of those most impacted by a regulatory proposal, important because often they are also the ones best placed to provide useful information to policymakers.

Public comments are most useful to policymakers when they provide actionable recommendations based on objective data and analysis. Regulatory proposals and their supporting documents should therefore be accompanied by specific calls to action asking for information and suggestions about particular aspects of the regulatory measures that policymakers lack data on. Policymakers can even design targeted questions and embed them in the text of the proposed regulation to elicit specific responses and information. The publication of RIAs is particularly valuable as public comments on RIAs, particularly from those most directly affected by the proposed regulatory measure, could enrich the deliberations of policymakers about the trade-offs of policy options and their costs and benefits. This helps inform evidence-based regulatory measures that maximise social benefits while minimising the costs and burden to industry.

Internal coordination of rulemaking activity

Centralised, government-wide coordination of the policies, practices and procedures governing the rulemaking process is essential to achieving a coherent regulatory system. A whole-of-government approach to regulatory policy ensures that the process by which regulatory measures are made is consistent, transparent and predictable.

This is important for several reasons. First, without a predictable and transparent regulatory environment, businesses (small and large) face operational uncertainty, making long-term investment in the economy unattractive. Second, policymakers need policy guidance and direction to regulate efficiently and effectively and to ensure appropriate arms-length interactions with the regulated community. Finally, the public places greater confidence in government when policymaking processes are coherent, transparent and free from perceptions of impropriety. A whole-of-government approach to regulatory policy through centralised,

internal coordination of rulemaking activity creates the structural conditions that make these goals possible.

Box 2.3. Internal coordination and impact assessment in Australia

The Australian government requires regulatory impact assessment (RIA) to be included for all major proposals that would have a significant impact on individuals, businesses or the community. This RIA framework requires policymakers to consider a wide variety of likely impacts, ranging from qualitative to quantitative and how these are distributed through to Australians. The level of detail in a policy's RIA is commensurate to the level of impacts expected. Where policies have been assessed as having a more than minor impact, the Office of Impact Analysis (OIA) works closely with the policy team to assist them complete a detailed RIA.

The OIA assessed Australia's accession to the Nairobi Wreck Convention (Nairobi Convention) as having significant impacts on users of Australia's exclusive economic zone (EEZ), therefore requiring a detailed RIA. The Nairobi Convention is an internationally agreed liability framework that provides a legal basis for parties to remove wrecks in the EEZ. The RIA process supported Australia's decision makers through providing the costs and benefits of ratifying the Nairobi Convention and the impacts on ship owners of adopting a liability insurance framework for sea wrecks.

The OIA conducted various workshops with the policy team and reviewed drafts to ensure decision makers would be provided with genuine and viable options along with the commensurate level of evidence to take a decision. The RIA for the Nairobi Convention received the highest quality rating of 'exemplary' under the Australian Government's RIA framework. This RIA is [publicly available](#) on OIA's website and can be used to inform Australia's future decisions toward implementing the Nairobi Convention.

Source: Australia IER.

Regulatory oversight bodies

Regulatory oversight bodies play a vital role in facilitating the internal coordination of rulemaking activity necessary to achieve a homogenous, government-wide approach to regulatory policy. They perform a variety of core functions to facilitate this.

First, regulatory oversight bodies play a quality control or gatekeeper role. They monitor adequate compliance with the guidelines and processes for developing regulatory measures. This involves scrutinising the application of regulatory management tools such as RIA and public consultation and assessing the legal quality of regulatory measures. Regulatory oversight bodies typically provide guidance and support to policymakers to facilitate compliance with these management tools and may also have the authority to challenge and reject regulatory proposals if quality standards are not met.

Second, regulatory oversight bodies perform an important coordinating role, serving as a liaison across regulatory agencies to facilitate interagency policy coordination, regulatory planning activities and the homogenous application of management tools and directives. This coordinating function may also involve monitoring and reporting of regulatory agency performance and/or the status of regulatory governance reform efforts to the legislature or other authorities.

Finally, regulatory oversight bodies may support compliance with international trade and investment obligations, identify issues of concern to small businesses, ascertain areas where regulation can be made more effective, and offer recommendations for the systemic improvement of regulatory governance through changes to policymaking frameworks or institutional relations.

Box 2.4. Regulatory oversight in Thailand

Thailand has initiated important regulatory reforms aimed at improving oversight of regulatory policy and government-wide use of key regulatory management tools.

The 2019 Act on Legislative Drafting and Evaluation of Law established the Office of the Council of State as the economy's regulatory oversight body, while requiring the use of regulatory impact analysis (RIA) and public consultation for federal regulatory actions.

Located within the office of Thailand's Economic Leader, the Office of the Council of State serves a regulatory gatekeeper role, scrutinising the legal quality of draft regulatory proposals and the RIA and public consultation practices that accompany those proposals. These important reforms have positioned Thailand well to continue on its path to improving regulatory quality government-wide.

Source: OECD (2020f).

Although regulatory oversight bodies are becoming increasingly common throughout the world, there is wide variability in their institutional design, the source of their mandates and the scope of their oversight authorities. These variables all factor into the ability of an oversight body to carry out the functions described above effectively. However, it is important to keep in mind that there is no blueprint for a particular institutional or legal setting to facilitate effective regulatory oversight for every economy. These conditions are economy-specific and highly contextual – a function of history, administrative culture and the maturity of the regulatory framework.

Regulatory oversight bodies function best when they are situated at the centre of government and enjoy high-level political support. Locating the regulatory oversight body in a politically accountable part of government can help ensure that it is held accountable to the electorate and public interest. This could also help allay concerns about regulated industries or other interest groups potentially exercising undue influence; since the regulatory oversight body is independent of any specific sector of the economy, it would not be seen as 'the fox watching the hen house'. In many cases, regulatory oversight bodies are housed within the ministries of economy or finance, where professional staff may be better trained and equipped to scrutinise regulatory quality and to coordinate government-wide efforts compared to smaller offices at the centre of government (in some economies, the coordination function may be carried out by other mechanisms such as interagency committees).

BENEFITS OF GRP

When GRPs are implemented consistently and transparently through a whole-of-government approach, they provide many important benefits to policymakers, stakeholders and society at large. Fundamentally, GRPs promote accountability for government decision makers (in particular, policymakers), avenues for the participation of stakeholders, and efficient and effective regulatory outcomes for the public.

Benefits for policymakers

Government-wide implementation of GRPs provides several important benefits for policymakers (see Box 2.5). Poorly designed regulatory measures are costly for governments for several reasons. Regulatory measures that are not fit for purpose, arbitrarily impose disproportionate costs on certain stakeholders or lack sufficient justification can be subject to legal challenge or complications when it comes to compliance and enforcement.

Box 2.5. How GRPs benefit policymakers

Good regulatory practices (GRPs) can help insulate policymakers from policy controversy and enhance public trust in the following ways:

- Following administrative laws that prescribe consistent and transparent procedures to develop and implement regulations reduces public uncertainty and the likelihood that regulatory measures will be issued capriciously.
- Public consultation allows the public to inform policy options with best available data and helps balance competing interests by providing equitable opportunities for stakeholder input.
- Publishing regulatory impact analyses (RIAs) concurrently with regulatory proposals promotes transparent, evidence-based decision-making and mitigates the risk of arbitrary policy decisions.
- Providing equitable opportunities for public input on proposed regulatory measures, and relying on objective data and analysis to inform policy decisions, enhances public perceptions of the legitimacy of policymakers and the policies they enact.

By relying on evidence-based decision-making tools such as RIA, policymakers can insulate themselves from controversial policy decisions through objective analyses that transparently present costs and benefits of policy options to stakeholders for input. RIA helps ensure that regulatory measures are fit for purpose and do not impose unnecessary costs beyond what is needed to achieve the regulatory objective(s). Ensuring that regulatory measures are fit for purpose helps enhance the perceived legitimacy of regulatory outcomes among stakeholders.

Public consultation is a powerful tool that policymakers can rely on to help balance opposing interests on controversial regulatory decisions. By providing equitable opportunities for public input on draft regulatory measures, policymakers can also solicit valuable information from stakeholders about real-world compliance impacts including the trade-offs associated with different policy options.

Finally, by following laws that prescribe consistent and transparent procedures to develop and implement regulation, policymakers can enhance public trust in the regulatory policy process,

which encourages greater participation from stakeholders and further legitimises the roles of policymakers.

Benefits for stakeholders

The implementation of GRPs in the regulatory policy development process provides significant benefits to stakeholders. When the process is made predictable and transparent, stakeholders can better plan for and engage in opportunities to provide inputs to policymakers. Stakeholders also benefit from being given access to high-quality information and analyses (through, for example, the RIAs accompanying the draft measures) as that allows them to better understand the impacts of the proposed regulatory measures they are interested in, which in turn means that they are able to provide more relevant, in-depth feedback and information to policymakers.

Box 2.6. How GRPs benefit SMEs

A genuine appreciation of the value of small and medium enterprises (SMEs) in generating jobs and economic growth is demonstrated when governments routinely assess the impact of regulatory measures on SMEs. For example, arbitrary regulatory measures and procedures, especially at the border, can prevent small businesses from marketing new products, competing in the economy and succeeding in global markets, while predictable and streamlined customs-related regulations and procedures help ensure that all individuals and businesses have more opportunities to benefit from advances in global trade, logistics, e-commerce and the new digital economy.

Good regulatory practices (GRPs) can help governments address some of the regulatory difficulties faced by SMEs:

- Well-functioning public consultation procedures allow for all interested SMEs, regardless of where they operate, to have meaningful opportunities to receive timely notice of new regulatory proposals and to offer comments to improve these proposals.
- Regulatory impact analyses (RIAs) can explicitly consider the disproportionate impact of compliance on SMEs and employ evidence-based approaches to design flexible alternatives to enable innovation and entrepreneurship.
- Internal coordination of rulemaking activity by regulatory oversight bodies can help facilitate government-wide approaches to promoting SMEs by directing policymakers to explicitly support regulatory approaches that advance SME interests.

Benefits for society

GRPs help support the management of well-functioning regulatory systems and the development of well-designed regulatory measures that are fit for purpose. Well-designed regulatory measures reduce administrative burdens to the minimum necessary for meeting public policy objectives while maximising public benefits. When regulation maximises net benefits by relying on tools like RIA to inform decision making, public welfare and quality of life are improved. Minimising regulatory costs while maximising benefits also strengthens competitiveness and supports sustainable growth and employment.

Economies that employ GRPs take more ownership over the policies that they promulgate. Enhancing the legitimacy of regulatory decisions and outcomes helps reinforce public

confidence in the policy process and further encourages public participation. When economies consistently and predictably adhere to GRPs, it also sends positive signals to firms and the investment community, expanding market opportunities and international trade.

Economies could also direct regulatory management tools toward evaluating public policy whose benefits may not yet be clear enough to justify the costs involved. For example, promoting social equity and inclusion as explicit goals of regulation involves considering policy options that may not be the most obviously cost effective. However, by engaging stakeholders through the public consultation process, it is possible to generate data on the social benefits of these options. Policymakers could then objectively analyse the social benefits and costs of these options through RIA, potentially providing them with powerful evidence to advance these goals.

HOW GRPs IMPROVE THE QUALITY AND SUSTAINABILITY OF BUSINESS ENVIRONMENTS

When economies implement GRPs coherently, consistently and effectively they are better able to guide and adapt policy initiatives to address specific economic goals such as promoting innovation, competition and entrepreneurship. The policy coordination function performed by regulatory oversight bodies can help direct the regulatory management tools of RIA and public consultation toward advancing specific objectives such as promoting the interests of SMEs, fostering innovation in emerging technologies or removing barriers to entry for business formation and entrepreneurship. A whole-of-government approach to regulatory management is necessary for economies to be agile and adaptable in the face of changing policy conditions and to match policy objectives with the appropriate management tools and resources.

RIA can be employed by economies to consider the potential impacts of regulatory measures on investment, innovation, competition and entrepreneurship. It can also be utilised to analyse social measures like equity, inclusion and sustainability and the distributional impacts of regulatory policy options. By systematically evaluating regulatory policy options and their potential impacts on social as well as economic goals, RIA can help economies understand how regulation can be leveraged to advance those goals in the most efficient and cost-effective way.

RIA also encourages economies to consider non-regulatory alternatives to achieving policy objectives. Particularly when dealing with emerging technologies or promoting flexible compliance approaches to advance innovation or SME development, these non-regulatory measures can provide a ‘light touch’ approach that achieves policy objectives in a less burdensome way. Voluntary standards and codes of practices can be particularly helpful to stimulate innovation when economies lack data and experience with regulating technologies that were previously unregulated. Importantly, when relying on voluntary or light-touch regulatory measures, economies should establish robust monitoring and evaluation systems within these policies to ensure policy objectives are being met.

The simplification and streamlining of outdated regulatory measures governing business formation and licensing is one area of low-hanging fruit that developing economies often begin with when initiating regulatory reform programmes to advance GRPs. As part of this process, economies would usually conduct ex-post review of existing regulatory measures to evaluate if they continue to be fit for purpose. Typically, many outdated regulatory measures are identified that can impose significant unintended compliance costs due to duplication with more current regulations. When economies successfully demonstrate how the elimination of

outdated, duplicative requirements through ex-post reviews can streamline business licensing procedures and facilitate greater ease of doing business, it can build momentum for broader regulatory reforms to advance more wholistic application of GRPs in the economy.

Box 2.7. Ex-post regulatory review and administrative simplification in Russia

Russia enacted Federal Law no. 247 on Mandatory Requirements in the Russian Federation in July 2020, which established the implementation of the ‘regulatory guillotine’ approach to ex-post regulatory review and administrative simplification.

The law is aimed at improving the quality of the legal conditions for business and ensuring the operation of a system of legal, substantiated, relevant, non-contradictory and effective obligatory requirements. The goal of the regulatory guillotine is to form a new, modern and efficient system of mandatory requirements for businesses that would reduce significant social risks and balance the interests of the economy, population and business.

The reform was based on two main principles:

- Acts established before 2020 cannot be the subject of government control (supervision) after 1 January 2021, with several exceptions.
- New regulations will be enacted that would have updated requirements developed using a risk-based approach and taking into account the current level of technological development.

The reform involved 39 ministries and agencies, over 1,300 experts and 43 working groups, and applied to 132 types of economy control (supervision). As a result of the regulatory guillotine, 3,025 regulations containing mandatory requirements were eliminated and 9,319 outdated Acts of the Soviet Union were declared invalid.

Source: Russia IER.

Another GRP that could help improve business environments is public consultation. It is one of the most powerful regulatory management tools that economies can leverage to promote innovation and advance the interests of SMEs. As noted earlier, the regulated community is often in the best position to provide credible information about the potential impacts of proposed regulatory measures, thus helping policymakers avoid unintended consequences. In its 2021 recommendations for agile regulatory governance, the Organisation for Economic Co-operation and Development (OECD) suggests that economies should be ‘putting in place mechanisms for public and stakeholder engagement in the regulatory process’ and that the process should include ‘citizens and innovative small and medium-sized enterprises (SMEs) as well as start-ups, from an early stage and throughout the policy cycle to enhance transparency, build trust, and capitalise on various sources of expertise’ (OECD 2021b).

3. STRUCTURAL REFORM AND AN ENABLING BUSINESS ENVIRONMENT

The business environment, that is, the set of conditions outside a firm's control, is shaped by structural reforms and has a significant influence on how businesses behave throughout their life cycle. It includes a wide set of factors, such as microeconomic regulations, availability of public services and access to infrastructure, that directly affect the decisions and performance of businesses and workers and the markets in which they operate, as well as more indirect factors such as the macroeconomic environment and currency volatility.

Business dynamics (the rate at which firms enter and exit the market) affect aggregate productivity by reallocating resources toward the most efficient firms through the entry and growth of new, productive business and the exit of less productive businesses, the growth of existing businesses through within-firm productivity enhancements, including new product and process technologies, and the speed at which these enhancements diffuse to other firms (Albrizio and Nicoletti 2016).

This section outlines structural reform and its impact on the business environment for firms. It discusses how the business environment facilitates the entry and exit of firms and hence overall productivity, as well as the incentives for firms to be socially responsible in their operations. It also emphasises the importance of the business environment in enabling SMEs to contribute to sustainability, inclusion and resilience.

Structural reform, in essence, addresses impediments to the smooth functioning of markets. A major focus is making markets more competitive, for example, by addressing market failures that create market power through barriers to the entry and exit of firms. Other market failures, such as the presence of externalities or public goods, also distort markets. They lead to socially suboptimal environmental, inclusion, resilience and innovation outcomes and can warrant government intervention to address them. These market failures and the policy responses to them are discussed in more detail in Chapter 4.

Throughout this report, the impact of the business environment on business dynamics and firm performance is measured by a range of indicators, with comparisons made across economies and over time (see Appendix A for the data on APEC economies and APEC and global rankings). These indicators cover a range of measures including the ease of doing business and barriers to business, product market regulation, insolvency regimes and firm competitiveness. While some of the indicators are now somewhat dated, they could be utilised for reference when examining the business environment that affects the decisions and performance of businesses in the APEC region. The indicators are useful tools for identifying the key components of the measures and good practices used by economies. That said, the age of the indicators and the discontinuation of some of them point to the need to invest in better, timely and comprehensive data on the region's business environment and other issues. A more detailed discussion of data constraints and gaps, especially on issues of inclusion, sustainability and resilience, is found in Chapter 5.

STRUCTURAL REFORM AND BUSINESS DYNAMICS

Structural reform provides the framework conditions in which firms operate. The process of structural reform necessarily involves changes to the institutions of an economy, thereby influencing the way that people and businesses behave. Institutions include all the norms, regulations and laws – the ‘rules of the game’ – that shape the economic, political and social behaviour of firms and individuals (North 1990, 1994). The performance of an economy depends to a large extent on the quality of its institutions and the incentives they generate for productive activity (Rodrik, Subramanian, and Trebbi 2004; Acemoglu, Johnson, and Robinson 2005; Rodrik 2005; Acemoglu, Gallego, and Robinson 2014). One way that institutions influence economic growth is through their effects on the business environment and the decisions of firms (Urbano, Aparicio, and Audretsch 2019).

The business environment comprises all the conditions outside a firm’s control that create the framework in which firms operate. It includes a wide range of factors, such as the regulatory environment for firm inputs (e.g., labour and capital), outputs (e.g., consumer protection) and behaviour (e.g., competition law), macroeconomic stability, tax policy, trade openness as well as the provision of infrastructure and public services.

Box 3.1. Structural reform and the business environment in China

The optimisation of the business environment and the implementation of the negative list for market access and foreign investment are critical structural reforms that the Chinese government has been keenly promoting in recent years.

First, there has been a substantial improvement in China’s global business environment ranking, resulting in a noticeable enhancement in business entities’ perceived gains. According to World Bank data, China’s business environment ranking rose dramatically from 96th in 2013 to 31st in 2019. This leap places China among the top 10 economies with the most significant improvements in business environment. Such enhancements stimulate not only a passion for innovation and entrepreneurship but also an invigoration of the business landscape.

Second, with the implementation of the market access negative list, the management of market access has been continuously improved. This evolution has further broken down barriers to market-based allocation of production factors and to the circulation systems and mechanisms of goods and services, and promoted both an effective market and a well-functioning government.

Third, the implementation of the negative list for foreign investment access helps guide foreign investment in a reasonable manner and provides legal protection during its participation in China’s economic development, promoting rational distribution of global resources.

The Chinese government maintains a steadfast commitment to enhancing the business environment. To date, third-party evaluations of the business environment have been concluded, and comprehensive economy-wide evaluations have been undertaken, resulting in a robust ex-ante and ex-post regulatory impact assessment (RIA) mechanism. Currently, the government is assessing the implementation effects of the

negative list for market access and foreign investment access, as well as exploring policy measures to further broaden market openness.

Source: China individual economy report (IER).

Salient features of the business environment are shown by the World Bank's Doing Business⁶ indicators (World Bank 2020). The indicators identify 10 key factors in domestic laws and regulations that affect firms throughout the business life cycle (i.e., starting, operating and closing a business): starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency (see Appendix A, Figure A.1.).

The World Bank has since discontinued the Doing Business series and will replace it with Business Ready (B-READY) indicators to assess the business and investment climates in 180 economies worldwide annually. In assessing the business environment, the updated indicators will take an approach that balances ease of conducting a business with broader private sector benefits. It will focus on 10 topics organised according to the life cycle of the firm. The main topics include business entry, business location, utility services, labour, financial services, international trade, taxation, dispute resolution, market competition, and business insolvency (World Bank 2022a, 2022b).⁷

The 2020 Doing Business indicators exhibit wide variation across APEC economies (Appendix A, Table A.1). The top performers are New Zealand (highest); Singapore; and Hong Kong, China. At the other end of the scale, difficulties in getting credit in the Philippines and in resolving insolvency in Papua New Guinea contribute to their low scores. Box 3.2. discusses features of New Zealand's business environment that contribute to its high ranking.

Scores from the Doing Business indicators tend to correlate with other leading indices related to the business environment, that is, economies that rank higher (or lower) on one index tend to also score higher (or lower) on the others, which increases confidence that the indicators identify key features that affect the business environment for firms.

The Indicators of Product Market Regulation⁸ by the Organisation for Economic Co-operation and Development (OECD) identifies various facets of product market regulation, including distortions induced by government involvement (public ownership, involvement in business operations, and regulations) and barriers to firm entry (administrative burden on start-ups, barriers in services and network sectors, and barriers to trade and investment) (see Appendix A, Figure A.2. and Table A.2. ; OECD 2018d).

⁶ <https://www.worldbank.org/en/businessready/doing-business-legacy>

⁷ A number of alternative indicators are available until the release of the first B-READY data at <https://www.worldbank.org/en/businessready/alternative-existing-indicators>

⁸ <https://www.oecd.org/economy/reform/indicators-of-product-market-regulation/>

Box 3.2. New Zealand's business environment

New Zealand introduced a number of comprehensive market-orientated reforms throughout the 1980s. These reforms shifted New Zealand from a highly regulated economy toward a liberalised economy. These reforms are credited as contributing to New Zealand's positive economic environment and economic prosperity during the 2000s.

New Zealand's business environment consistently ranked first on the World Bank's Doing Business index (until the report was discontinued in 2021). The indicators for business environment comprise [financial markets regulation](#), [competition regulation and policy](#), [regulating entities, standards and conformance](#), [trade and tariffs](#), and [intellectual property policy](#).

New Zealand works to provide small businesses with information, tools, products, advice and guidance at every step of their life cycle. The website business.govt.nz provides free, publicly accessible help for small businesses to smooth their interactions with local and central government; streamline application processes; and upskill digitally. There is also tailored advice available through [regional business advisors](#) to help them grow and innovate. The Small Business Services team collaborates across government agencies when challenges arise for small businesses, for example, during extreme weather events or economic uncertainty, so that they can respond with new tools and information.

Since the major economic reforms of the 1980s, New Zealand has continued to develop policy and improve the regulatory environment to work toward inclusive, resilient and sustainable business. An example is the [Consumer Data Right](#) initiative that will allow customers to securely share information that is held about them by businesses or other entities with trusted third parties. This right will be incrementally rolled out, starting with the banking sector. The [Equitable Transitions Strategy](#) aims to ensure that the transition to a low emissions future is fair, equitable and inclusive. This includes supporting businesses to successfully navigate the transition, especially those that may be most affected and have fewer resources to respond.

Source: New Zealand IER.

The World Economic Forum's Global Competitiveness Index⁹ identifies key factors that affect competitiveness, including the enabling environment, human capital, the product market and the innovation ecosystem (See Appendix A, Figure A.3. ; Table 3.1; Schwab 2019).

The World Competitiveness Ranking¹⁰ by the International Institute for Management Development (IMD) identify economic performance, government efficiency, business efficiency and infrastructure as key components of the business environment that affect competitiveness of the economy (see Appendix A, Figure A.4 and Table A.4; IMD 2022).

Structural reform contributes to removing barriers to the smooth and efficient functioning of product, capital and labour markets. It can promote competition that generates economic and employment gains and encourages innovation. Structural reform policies also explicitly reflect other policy objectives, such as inclusion, sustainability and resilience. Although competitive markets can contribute to these objectives, as discussed below, for example by providing opportunities for women and vulnerable communities (Hernando and San Andres 2015a), market failures such as externalities, public goods and imperfect information can result in

⁹ <https://www.weforum.org/reports/the-global-competitiveness-report-2020/>

¹⁰ <https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/>

socially suboptimal outcomes, even in a competitive environment. Market failures in innovation, inclusion, resilience and sustainability, and the policy measures to correct them, such as regulation or the explicit pricing of environmental goods and services, are discussed in Chapter 4.

Enhancing competition through structural reform

This section looks at how structural reforms to enhance competition can enable innovation, sustainability, resilience and inclusion.

Enabling innovation

Structural reform increases the level of competition, and to remain competitive and profitable, firms need to invest in innovation (Dau, Moore, and Kostova 2020). Innovation is defined by the OECD as ‘the successful development and application of new knowledge’ involving both invention and its practical application (OECD 2006). Innovation is the engine for technological progress and is an important driver of productivity, growth and living standards.

Competition generates incentives for firms to innovate to gain a competitive advantage and earn profits, yet the relationship between competition and innovation is complex. One view is that when the level of competition is low, a rise in competition drives firms to innovate. However, when competition is already high, more competition reduces incentives for innovation. A number of key factors have been identified to explain the relationship (Shapiro 2012; OECD 2023a). Firms have an incentive to innovate if the market is contestable, that is, where barriers to entry are low. Market contestability can arise, for example, when sunk costs are low or consumers can switch brands easily or there are no regulatory barriers to entry. In this case, the innovating firm can capture returns from providing an innovative product or service. On the other hand, where entry barriers are high, as in a monopoly, there is a little incentive to innovate.

Firms have an incentive to innovate if they can appropriate enough of the returns to make their investment worthwhile. The new knowledge embedded in innovation is a quasi-public good, that is, it is easy to replicate, and firms try to protect their returns from innovation through measures such as trade secrets and being first to market. This characteristic of knowledge represents a market failure that results in less than socially optimal levels of innovation. Government intervention to correct the market failure is common and includes measures such as providing tax incentives for business R&D and defining and enforcing intellectual property rights, as discussed in Chapter 4. Firms that can combine complementary assets also enhance their innovation capabilities, and thus their ability to innovate.

Innovation is a major contributor to productivity and economic growth and hence increased income and well-being in the long term but does not necessarily benefit all segments of the population the same way. Low-income workers and other disadvantaged groups may be excluded from participating in innovative activities, or lack the resources and ability to take advantage of new technologies, and firms may lack information about their needs (Barnes 2006). Inclusive innovation initiatives directed at improving the welfare of low-income and excluded groups may thus be needed (OECD 2015). Governments can support inclusive innovation through measures such as funding R&D, providing access to finance, addressing regulatory impediments, providing technical assistance and incorporating inclusion in innovation policy settings.

Firms undertake innovation, but may not have the incentive to invest in socially beneficial innovation such as green technologies if the benefits flow to others and they cannot appropriate enough of the return to make their investment worthwhile (Rodrik 2020). This positive externality is a market failure as discussed in Chapter 4, and as a result, governments support business innovation through a range of measures, including funding basic science and providing R&D subsidies. In addition, firms have little incentive to invest in green innovation when there is little public demand because the externalities are under-priced.

Governments play a key role in fostering an enabling environment for firms to innovate. Structural reforms that promote competition policy are a core ingredient; and they are typically supported by complementary innovation policies, such as skills development, funding of basic research and R&D grants that tackle various barriers that entrepreneurs may face, such as the high risks associated with innovation, and recognise the public good elements of innovation.

Enabling sustainability

Market competition is one of a number of drivers for firms to adopt sustainability products, practices and innovations (Hermundsdottir and Aspelund 2021). Other drivers include government regulation, stakeholder pressure such as customer demand, and the requirements of investors. According to one review of sustainability and firm competitiveness, the degree to which firms engage in sustainability activities is influenced by the business environment, (Hermundsdottir and Aspelund 2021). In particular, stronger environmental regulations and consumers with high environmental consciousness drive firms to improve environmental outputs.

Firms can improve their competitiveness through improved sustainability in a number of ways. A sustainability focus can make processes more efficient and reduce the use of raw materials, energy and other resources. It can also improve product quality by reducing the use of materials; using more environmentally friendly material and packaging; recycling and reusing materials; and eco-labelling. Managerial processes such as environmental management systems and mandatory reporting can help identify and realise cost savings and productivity improvements. Developing and marketing sustainable products can meet green consumer demand. Overall, sustainability activities can contribute positively to a firm's competitiveness, and could be seen as a business opportunity rather than a cost.

However, the presence of market failures, such as negative externalities, means that market competition alone will not lead to optimal actions contributing to sustainability. These market failures, where prices do not fully account for the costs of one's actions, mean that firms may not fully take the wider environmental impacts into account in their business decisions. Other market failures that affect sustainability include information problems, missing markets and market power. Chapter 4 discusses policies that address these market failures in order to promote sustainability.

Enabling resilience

The COVID-19 pandemic has brought the issue of resilience to shocks to the fore. Resilience is defined by the OECD as 'the capacity to detect and avoid risks, reduce the negative impacts of shocks when they materialise, and recover faster and stronger' (OECD 2021a).

The impact of shocks differs according to the unique circumstances of each economy, so there is no one-size-fits-all prescription for structural reforms that will improve resilience. Short-term responses to shocks include stimulus packages to sustain businesses and job retention schemes to protect workers. While stimulus packages can support a fast recovery, more fundamental structural reforms can lead to improved resilience (APEC Economic Committee 2022).

Core components of longer-term structural reforms that enhance resilience include supporting people through transitions with social safety nets, education and training; building resilience through healthcare, the provision of core infrastructure, and environmental policies; and enhancing market competition and facilitating reallocation through entry and exit of firms, and through trade, innovation and labour market policies (OECD 2021a).

Structural reforms that enhance market competition allow firms to be more dynamic and innovative. Firms that invest in resilience – the capacity to absorb stress, recover critical functionality, and thrive in new circumstances – nearly double their survival rate over the long run (O’Keeffe et al. 2021). Organisational resilience is a potential strategic advantage that enables firms to capitalise on opportunities when competitors are less prepared for shocks. At the same time, structural reforms that remove rigidities and ease the reallocation of labour and capital after firms exit the market create greater resilience at the economy-wide level (Aiyar et al. 2019)

Enabling inclusion

The primary objective of structural reforms has traditionally been to promote economic growth through, for example, improved competition, greater efficiency, and ultimately, through their influence on employment and productivity (Haraguchi and Weiss 2017). Their impact on inclusion can be ambiguous. For example, product market reforms can increase both employment and wage dispersion (OECD 2018b). Furthermore, a focus on economic growth, measured by gross domestic product (GDP), misses important aspects that matter for human well-being, such as income distribution, inclusion and sustainability, leading to initiatives such as APEC’s work on the need to go beyond GDP (Stiglitz, Fitoussi and Durand 2018; APEC PSU 2019). Indeed, the use of frameworks for policy design that consider non-GDP related issues has been increasing, including the OECD’s Framework for Measuring Well-Being and Progress¹¹ and New Zealand’s Living Standards Framework¹².

Nonetheless, economic growth remains a powerful instrument for reducing poverty. A survey by Cerra et al. (2021) finds a consensus in the literature that growth increases education, health and job opportunities for the poor, lifting their incomes. Economic growth also improves their access to public goods and services. However, the distribution of the benefits of growth can be uneven across industries, sectors, regions and population groups. There is increasing recognition that the pursuit of growth should go hand in hand with policies that share its benefits and create opportunities for all – the concept of inclusive growth.

Inclusion is about capabilities and opportunities, while income and wealth are about economic outcomes. However, income or wealth inequality that is persistent and segregates along

¹¹ <https://www.oecd.org/wise/measuring-well-being-and-progress.htm>

¹² <https://www.treasury.govt.nz/information-and-services/nz-economy/higher-living-standards/our-living-standards-framework>

demographic characteristics is a clear indication of lack of inclusion and untapped economic potential.

Policies that promote inclusion are likely to vary considerably depending on the context in each economy. In large part, policies aimed at increasing inclusion address barriers to participating in the economy. The OECD framework on Policy Action on Inclusive Growth emphasises investments in human capital and infrastructure; sustainable management of natural resources; strengthening competition; supporting business dynamism and inclusive labour markets; and promoting more effective government policy that integrates equity into its design (OECD 2018e). The associated policy measures could range from providing collective goods such as rural infrastructure to ensuring property rights and public safety, legal protections against discrimination, and human capital investments in health, education and nutrition (Rodrik 2000).

APEC's work on inclusive growth, for example, focuses on helping disadvantaged groups, including Indigenous communities and rural SMEs, to obtain the skills they need to participate in the modern economy. While these policies are aimed at helping the poor, they also increase the productive capacity of the economy, contributing to economic growth. Well-designed, coherent structural reform policy packages that promote win-win outcomes, while mitigating trade-offs, can contribute to both growth and inclusion (OECD 2018b).

There is a strong business case for firms in a competitive market to embrace inclusion, diversity and equity in their business strategies (see, for example, Forbes 2023). They can better attract top talent and improve their decision making, employee engagement and customer orientation. Customers and clients also increasingly expect business to be socially responsible. Companies with diverse workforces typically outperform their peers (Hunt, Layton, and Prince 2015; Hunt et al. 2020).

Firms that do business with poor and disadvantaged communities are central to promoting inclusion, and complement governments' redistributive and pro-inclusion policies. The poor and disadvantaged represent a large consumer market in many economies, and competitive markets can create the incentives for profit-seeking firms to buy from and sell to the poor – supplying consumer goods and services, buying inputs from producers and providing employment opportunities – helping to contribute to inclusive growth (UNDP 2004).

In contrast to profit-seeking firms, inclusive business models have a dual rationale: the pursuit of commercial returns as well as the generation of benefits for poor and disadvantaged communities (Jenkins et al. 2011). The models can be utilised by a range of entities including private firms and non-for-profit organisations. They involve building relationships between businesses and the poor for mutual benefit. A core component is creating value for low-income communities by integrating them into the entity's business operations on the demand side as clients and consumers, and on the supply side as producers, entrepreneurs or employees (UNDP 2008). In addition to improving access to goods and services, providing employment to workers and income opportunities to producers, suppliers and distributors, the models can help to build the capacity of low-income farmers and entrepreneurs, increase access to finance for suppliers and consumers, create or adapt products to meet local needs and requirements, and develop innovative distribution approaches to hard-to-reach communities (Schoneveld 2020).

Facilitating market dynamism through structural reform

The entry of new firms could stimulate competition and drive innovation, productivity and job growth. The entry of new firms and the exit of unproductive firms (the process of creative destruction) are seen by many economists as being important for productivity growth (Schumpeter 1934; Bartelsman, Haltiwanger, and Scarpetta 2009). New firms entering the market create competitive pressure that can force inefficient firms to exit the market (Nicoletti and Scarpetta 2003). The literature shows that the entry of new firms results in higher productivity through the reallocation of resources from less productive firms to more productive firms (Schumpeter 1934; Bartelsman, Haltiwanger, and Scarpetta 2009).

New firm entry increases market competition, which lowers prices and expands output. It also stimulates innovation and promotes productivity and economic growth (Klapper, Laeven, and Rajan 2006; Djankov et al. 2002). Dynamic markets that facilitate both entry and exit of firms also foster sustainability and inclusion.

There can be regulatory barriers to the entry of firms (e.g., registration costs) and to their exit (e.g., efficiency of insolvency regimes) as suggested by the World Bank's Doing Business indicators related to entry and exit of firms (see Appendix A, Table A.5; World Bank 2020). Data on the entry and exit of registered firms in APEC economies show some economies (Australia; Hong Kong, China; New Zealand; Singapore; Chinese Taipei) having almost half the number of exits as new limited liability firms entering the market, displaying a high level of market dynamism (see Appendix A, Table A.6; World Bank 2021a).

Box 3.3. SME growth and recovery from COVID-19 in the US

The COVID-19 pandemic affected every business, but the effects varied by sector, firm size, and geography. In some sectors, like leisure and hospitality, businesses were hit hard and have yet to fully recover. The pandemic also hurt states that rely heavily on tourism.

Small businesses were resilient in helping the US economy recover from the COVID-19 recession. New business applications increased and smaller businesses created more jobs.

The smallest American businesses created nearly a million jobs in the first year of COVID-19, while other businesses shed over six million jobs. Business applications increased significantly in mid-2020, and record-high levels persisted in late 2022. Small businesses helped soften the economic blow of COVID-19, and they may have helped the economy innovate and adapt.

In the first three months after the COVID-19 emergency declaration, the number of U.S. establishments fell by 3.4 percent. Within a year, the number of establishments returned to at least pre-pandemic levels. Businesses with one to four employees accounted for nearly all the net establishment growth. Business applications have exceeded pre-pandemic highs in every month since June 2020, with the retail sector as the biggest driver.

Source: United States IER.

Fostering innovation

A key vehicle of innovation is the entry and exit of firms. New entrepreneurial firms enter the market offering new products or practising new production processes. New firms can be an important way for new products and new production methods to be introduced into markets and can drive out poor performers.

As they acquire larger market shares, they produce an aggregate technological change in the economy. In a process of creative destruction, the incumbent firms based on older, less efficient technology are out-competed by new firms and shrink or exit the market, allowing resources to be reallocated to the more efficient technology of the new firms (Baron and Spulber 2017; Aghion et al. 2004). The contribution of firm dynamics is particularly important in high-tech industries where new firms tend to play an important role. If creative destruction happens at the level of an entire sector, it can lead to structural transformation of the economy.

Innovation requires ease of market entry, the rapid growth of successful firms and exit in case of failure, so low barriers to both the entry and exit of businesses are necessary for the dynamic process of competition (Carree et al. 2002). The lingering survival of unsuccessful incumbents in markets, especially when they can only survive thanks to various kinds of subsidies and regulatory frameworks that favour incumbents, is especially penalising for innovation and aggregate productivity growth as these firms sequester labour and capital inputs that could be used more efficiently elsewhere in the economy (Albrizio and Nicoletti 2016; Calvino, Criscuolo, and Menon 2016).

At the same time, viable incumbent firms can be a vector of transformation toward more sophisticated products and industries (Aghion, Cherif, and Hasanov 2021). Incumbent firms close to the technological frontier threatened by new competitors could be spurred to innovate to overcome the threat posed by new entrants (Aghion et al. 2004). Highly productive incumbent firms can expand to meet the threat. Within-firm productivity enhancements are shaped by the ability to innovate, including by reorganising efficiently available resources, notably through investment in both tangible and intangible capital.

New firms typically start out small – they are SMEs.¹³ But, depending on the scale economies in the industry, the firm is likely to have to grow to survive (Audretsch et al. 2002). Many small newcomers fail in their first few years before reaching an efficient scale of production. (Bartelsman, Haltiwanger, and Scarpetta 2009). New firms that survive grow faster in terms of employment and revenues than more mature firms (Haltiwanger, Jarmin, and Miranda 2013). The growth advantage of small and new firms that survive over large enterprises is even greater in high technology industries (Audretsch 1995).

The growth of young firms, rather than the size of firms, contributes disproportionately to job creation, output, and productivity growth. Many studies have shown that new firms are the ones most likely to grow (see, for example, Haltiwanger et al. 2017) and there is considerable evidence that new and young firms account for a high share of new jobs (Audretsch 2012). Young firms are more likely to experiment with radical innovations and new business models, so it is important to enable them to access adequate resources to test the market. Young firms need to grow rapidly and access global markets – or exit and not linger to become small-old firms that lock up resources that would be better reallocated to innovative firms. Structural

¹³ The term SME is used here to broadly refer to both micro businesses and medium-sized businesses.

reforms to product, labour and capital markets as well as bankruptcy laws that do not overly penalise failure are essential in this regard.

Fostering sustainability

The entry of new firms is a key driver of innovation and change in an economy. New entrants can be stimulated by consumer demand for ‘green’ products and services and government policies designed to incentivise sustainable business (including regulation and standards) (Palmié et al. 2021). Startups can also be motivated by social goals as well as profitability (Halberstadt et al. 2021).

New firms enjoy a number of advantages over incumbents, including greater flexibility and social motivation. On the other hand, incumbents have a broader resource base, more capabilities and an established presence in the market. Hockerts and Wüstenhagen (2010) argue that new entrants are more likely than incumbents to pursue sustainability-related opportunities. Incumbents respond to the activities of new entrants by themselves developing sustainable products and services. The combined impact of both new entrants and incumbents can promote the sustainable transformation of industries.

Fostering inclusion

High sustained employment and good high-paying jobs, which are key elements of inclusive growth, are underpinned by continuous creative destruction that replaces the old with the new. However, this process can have downsides. As old industries and technologies are replaced, workers can lose their jobs and find that their skills are redundant. While new industries and technologies can create new job opportunities, they can take time to emerge. In addition, the opportunities for new jobs and the loss of old jobs may not be evenly distributed. Highly educated, younger workers who are geographically mobile can find it easier to adapt to new opportunities. Older workers who lose their jobs can find it harder to upskill and can take longer to be re-employed.

Aghion et al. (2016) argue that a ‘flexicurity’ system can help to capture the benefits of creative destruction and at the same time reduce the costs of worker displacement. The policies combine labour market flexibility with measures to protect displaced workers and help them get back into employment. These include training to improve the employability of displaced workers and strengthen the resilience of the workforce and a social safety net to provide some income security for the unemployed (APEC Economic Committee 2021b).

The transformation of entire industries can result in the closure of firms in some sectors of the economy. For example, when governments commit to reducing greenhouse gas (GHG) emissions, the fossil fuel industry would likely see closures. These closures can have profound effects not just on individual workers, but also on whole communities and society more generally. ‘Just transition’ policies seek to minimise the harmful social impacts of change, while maximising their potential sustainability benefits. A wide range of policies has been adopted by governments in pursuit of a just transition, including ensuring that people have access to financial and social support; supporting workers with skills, training and information to find and keep jobs; creating new economic opportunities to replace traditional industries; supporting regions negatively impacted; and realising new opportunities in the green economy (OECD 2020c, 2023c; Krawchenko and Gordon 2021).

Starting a business

Barriers to market entry

Some of the barriers faced by new firms are regulations on starting a business, registering property and enforcing contracts (Roman and Rusu 2021), red tape and the time involved to comply with bureaucratic procedures (Tomasi, Pieri, and Cecco 2023).

The barriers are likely to be greater for smaller firms. New businesses can find the administrative burdens to enter the market to be high. APEC's Ease of Doing Business work programme is of particular relevance in this respect.

The World Bank's Doing Business indicators on the ease of starting a business show the number of procedures, time and cost involved together with the requirement for paid-in minimum capital (see Table 3.1). The indicators show that the regulatory and institutional environment facing new businesses differs markedly across APEC economies, from between one and 13 different processes; half a day to 41 days; and cost of 0.2 percent to 23.35 percent of per capita income.

The top-performing APEC economies, by rank, are New Zealand; Canada; and Hong Kong China. Globally, New Zealand; Georgia; and Canada rank highest on starting a business. In the APEC region, it is most difficult to start a business the Philippines, where 13 procedures, 33 days and 23 percent of annual income are required. Papua New Guinea and Indonesia round out the three worst performers in the region. However, the Philippines has initiated measures to improve the business registration process to facilitate firm entry into the market (see Box 3.4).

Table 3.1. World Bank Ease of Starting a Business indicators, 2020: APEC economies

Economy	Procedures	Time	Cost	Paid-in Minimum Capital	Ease of Starting a Business		
	Number	Days	% Income per capita	% Income per capita	Score	Global Rank	APEC Rank
Australia	3.0	2.0	0.7	0.0	96.60	7	5
Brunei Darussalam	3.5	5.5	1.1	0.0	94.93	16	6
Canada	2.0	1.5	0.3	0.0	98.24	3	2
Chile	6.0	4.0	2.7	0.0	91.43	57	13
China	4.6	8.6	1.1	0.0	92.62	45	10
Hong Kong, China	2.0	1.5	0.5	0.0	98.22	5	4
Indonesia	11.2	12.6	5.7	0.0	81.21	140	19
Japan	8.0	11.2	7.5	0.0	86.10	106	14
Korea	3.0	8.0	14.6	0.0	93.36	32	8
Malaysia	7.5	17.5	11.1	0.0	83.32	126	17
Mexico	7.8	8.4	15.2	0.0	86.07	107	15
New Zealand	1.0	0.5	0.2	0.0	99.98	1	1
Papua New Guinea	6.0	41.0	18.6	0.0	80.15	142	20
Peru	8.0	26.0	9.4	0.0	82.13	133	18

The Philippines	13.0	33.0	23.3	0.0	71.28	171	21
Russia	4.0	10.1	1.0	0.0	93.06	39	9
Singapore	2.0	1.5	0.4	0.0	98.23	4	3
Chinese Taipei	3.0	10.0	1.9	0.0	94.44	21	7
Thailand	5.0	6.0	3.0	0.0	92.36	47	11
United States	6.0	4.2	1.0	0.0	91.59	55	12
Viet Nam	8.0	16.0	5.6	0.0	85.11	115	16

Note: Procedures, time and cost are averaged for men and women.

Source: World Bank (2020).

Box 3.4. Business registration in the Philippines

The Ease of Doing Business and Efficient Government Service Delivery (EODB and EGSD) Act of 2018 (RA 11032) aims to streamline and enhance the efficiency and efficacy of the government's existing systems and procedures, by reducing processing time, bureaucratic red tape and corruption.

The law established the Philippine Business Hub to simplify the business registration process by reducing it to only one step, resulting in a faster turnaround time of seven days, compared to the previous 33-day and 13-step process. The Hub serves as a centralised system for managing all business applications and transactions, including from small and medium enterprises (SMEs), reducing processing times and bureaucratic red tape. This leads to increased efficiency and productivity. The system also promotes transparency in government transactions and reduces corruption. It also improves the government's capability to collect data and monitor economic activity, thus enabling more informed policy decisions and better resource allocation.

In addition, the law has improved conflict resolution through the implementation of the Report Card Survey (RCS) 2.0, which monitors progress and gauges the effectiveness over time of the conflict resolution practices and procedures of government agencies. This has increased investor confidence and contributed to a more stable and predictable business environment.

Source: The Philippines IER.

Most enterprises in emerging market economies (EMEs) are informal (unregistered with the authorities). Informal enterprises typically display low productivity, enjoy limited access to capital and technology, have poor working conditions, lack access to social safety nets and justice, and do not pay taxes. These features are associated with slow economic growth, persistent inequality and poverty and reduced government revenue (Bussolo and Sharma 2022).

Informal enterprises can be deterred from entering the formal market by business regulations, and policy responses have included measures to make it easier for firms to register. However, entry reforms and related policy actions to promote firm formalisation have resulted in only a modest increase in the number of formal firms (Bruhn and McKenzie 2014; Bussolo and Sharma 2022). This suggests that there are numerous barriers to formalisation, that these barriers are not homogenous across all informal enterprises and that a suite of policy actions are needed to encourage formalisation. The OECD advocates policy measures in addition to easing entry regulations and processes, including sharing information about the benefits of formalisation for the enterprises, creating incentives to help enterprises formalise, enforcing

any regulations requiring business registration and strengthening data collection on businesses (OECD 2020b).

Impacts of entry barriers

Entry regulation has adverse effects over and above the direct costs of compliance and enforcement. The breadth and depth of its broader impacts work through the incentives on entrepreneurs to start a business and the resultant effects on competition between firms in an industry (Blanchard and Giavazzi 2003; Alesina et al. 2005).

High entry costs limit the number of active businesses in the market and so reduce competition and productivity. The lack of competition protects low-productivity firms that would otherwise exit, and diminishes the incentive to adopt advanced technologies and to invest (Poschke 2010). High entry costs deter entrepreneurs from starting businesses (Ardagna and Lusardi 2010). New entrants are larger, suggesting that small firms are dissuaded from entering or have to wait to grow until they can afford the costs of incorporation (Klapper, Laeven, and Rajan 2006). Job creation suffers and employment settles at a lower level (Fonseca, Lopez-Garcia, and Pissarides 2001).

Reforms to entry requirements can affect the number and size of firms in the market. Such reforms may include measures such as one-stop shops for business registration and reductions in processing time, registration fees or minimum capital requirements. For example, reforms in Portugal that simplified business processing with one-stop shops boosted sectoral competition, improved firm performance and also increased the exit of firms (Fernandes, Ferreira, and Winters 2018). Reforms in India that deregulated entry increased the number of small firms in the industrial sector (due to the easier start-up rules) and increased productivity in the sector (Alfaro and Chari 2014). Russia has developed support platforms to ease the cost of doing business for SMEs as shown in Box 3.5.

However, the scale of the reform also appears to matter. Klapper and Love (2016, 2010) find that small reforms (those with less than 40 percent impact on the costs and benefits of registration) do not have a significant effect on new firm registration: economies that start out with high registration costs need larger reforms to induce a significant number of new registrations.

Box 3.5. Support platforms for SMEs in Russia

Russia has developed a number of initiatives to ease the costs of doing business for small and medium enterprises (SMEs). They have introduced My Business centres to provide the support infrastructure for SMEs. These centres provide single-window access to comprehensive support, including advice, training, registration of businesses, financial services and co-working places.

They also have Digital SME Platforms, which allow entrepreneurs to remotely access the most popular governmental and commercial services and support measures required for business development, including loans. Export support centres are another important element of the infrastructure for businesses.

To reduce document flow and unnecessary reporting, special tax regimes have been developed for SMEs, which are applied based on the scale of the business and the activities carried out. In 2019, a special regime for the self-employed was introduced. It allows owners to legalise a

business without leaving home, and register and pay tax through a smartphone application. An automatic taxation system exempts microenterprises from accounting, reporting and tax calculations (these would be done by banks and the Federal Tax Service).

Source: Russia case study.

Other factors hindering market entry

In addition to factors that directly impede the entry of firms, such as the processes and cost of registration, other features of the business environment can deter firm entry. Weak competition that distorts the playing field hampers the entry and growth of new firms, disincentivises innovation, hinders the reallocation of resources and inhibits productivity growth (Scarpetta et al. 2002). Labour market rigidity can limit the ability of firms to adjust flexibly to market conditions. The effect is stronger for reallocation through the entry and exit of firms than for reallocation among continuing firms (Haltiwanger, Scarpetta, and Schweiger 2014) and for small firms (Bartelsman, Haltiwanger, and Scarpetta 2009). High taxes and the administrative burden of complicated tax codes can hinder the entry of new businesses (Bacher and Brühlhart 2013; Braunerhjelm and Eklund 2014). Some studies such as Desai et al. (2003) and Ardagna and Lusardi (2010) argue that the efficiency of the judicial system is associated with decisions to start a new business. Lee et al. (2011) find that lenient, entrepreneur-friendly bankruptcy laws also create high rates of entry of new businesses and are important for facilitating experimentation and innovation. Policies such as economy support of unviable firms substantially increase their hurdles to exit and are obstacles to the entry of new firms (Collier and Goderis 2009).

Box 3.6 illustrates the constraints on businesses imposed by the provision of essential services through state-owned enterprises (SOEs) in Papua New Guinea.

Box 3.6. Essential services and SOE reform in Papua New Guinea

As a developing economy in the APEC region, Papua New Guinea needs functioning and efficient essential infrastructure and utility services (such as electricity, telecommunication, water and transportation).

Most of these essential services are provided by state-owned enterprises (SOEs), a majority of which operate in a monopolistic environment, subject to economic regulation. However, most of them have been criticised for being unprofitable and failing to deliver the essential services required to enhance business activities and development potential. For example, frequent power outages severely impact business operations.

Lack of critical infrastructure and utility services significantly hinder connectivity, accessibility and growth in the economy. This affects the ability of the larger population, particularly those in the regions and the remote parts of the economy, to access markets and income-earning opportunities as well as social services such as education and health, which hampers progress on achieving inclusive and sustainable development.

Recognising these issues, Papua New Guinea is placing strong focus on reforming SOEs in order to achieve economic efficiency and profitability in providing critical infrastructure and utility services. The government, through the Ministry of Public Enterprise and State Investments, and backed by the Asian Development Bank and other multilateral agencies, has a

determined approach to reform the SOEs, reducing their fiscal drag on the economy and providing a platform for growth.

Key elements of the reform plan include a review of existing legislation and regulatory framework; consolidation and restructuring of business operations to drive improved service delivery; and restructuring cost debts that undermine the profitability of SOEs.

Source: Papua New Guinea IER.

Table 3.2. OECD Product Market Regulation indicators, 2018: Selected APEC economies

Economy	Distortions from government involvement				Barriers to domestic and foreign entry				Overall Score
	Public ownership	Involvement in business operations	Simplification and evaluation of regulations	Score	Administrative burden on start-ups	Barriers in service & network sectors	Barriers to trade and investment	Score	
Australia	1.79	0.94	1.42	1.38	1.09	1.01	0.73	0.94	1.16
Canada	2.22	2.14	1.02	1.79	2.00	2.15	1.01	1.72	1.76
Chile	1.30	1.13	2.22	1.55	1.02	1.59	1.20	1.27	1.41
Indonesia	4.94	3.09	3.20	3.74	1.00	3.03	2.03	2.02	2.88
Japan	1.91	2.03	2.01	1.98	0.59	1.39	0.72	0.90	1.44
Korea	2.21	1.92	0.93	1.69	1.09	2.59	1.49	1.72	1.71
Mexico	2.19	1.69	1.37	1.75	0.67	1.77	1.96	1.47	1.61
New Zealand	2.61	0.73	1.78	1.71	0.50	1.13	0.67	0.77	1.24
Russia	4.01	1.87	1.92	2.60	1.50	2.33	1.75	1.86	2.23
United States	1.90	1.85	1.86	1.87	2.17	1.54	0.93	1.55	1.71

Note: Data not available for all APEC economies. Scores are from 0 to 6, with lower scores indicating more competition-friendly regulations.

Source: OECD (2018a).

The experience of Papua New Guinea notwithstanding, the OECD's Indicators of Product Market Regulation¹⁴ suggest that the APEC region has a generally favourable business environment with respect to distortions from government involvement in the economy as well as barriers to the entry of domestic and foreign firms (OECD 2018a). Scores of APEC member economies on these two indicators fall on the lower end, suggesting less product market regulation, as shown in Table 3.2. (see also Appendix A, Table A.2.).

Operating a business

Barriers affecting business operations

Various dimensions of the business environment can impede the efficiency, profitability and competitiveness of firms and the smooth operation of markets. There is a range of indicators that identify a multiplicity of potential obstacles to business operations.

The World Bank's Enterprise Survey¹⁵ identifies the biggest obstacles for business as access to finance; access to land; business licensing and permits; corruption; courts; crime, theft and

¹⁴ <https://www.oecd.org/economy/reform/indicators-of-product-market-regulation/>

¹⁵ <https://www.enterprisesurveys.org/en/enterprisesurveys>

disorder; customs and trade regulations; electricity; an inadequately educated workforce; labour regulations; political instability; practices of the informal sector; tax administration, tax rates; and transportation. Across APEC, access to finance appears to be the biggest obstacle affecting business (see Appendix A, Table A.1 and Table A.7). Hong Kong, China uses a number of measures to support SMEs with access to finance as shown in Box 3.7.

Box 3.7. Supporting SMEs with access to finance in Hong Kong, China

There are over 360,000 small and medium enterprises (SMEs) in Hong Kong, China, constituting more than 98 percent of business establishments and employing around 45 percent of the workforce in the private sector. Their vitality and business performance are of crucial importance to the development of the economy.

To help SMEs stay resilient, enhance their competitiveness and attain prosperity and success, Hong Kong, China through the Hong Kong Export Credit Insurance Corporation (HKECIC) initiated the 100% Credit Limit Top-Up Scheme in June 2020. This scheme supports exporters by extending credit to their overseas buyers amid the volatile trading environment and uncertain global economic situation (HKECIC 2022).

As SMEs have been hard-hit by the COVID-19 pandemic and global economic downturn in recent years, the government continues to enhance the SME Financing Guarantee Scheme to help SMEs obtain commercial loans with government guarantees, including offering a higher ratio of government guarantee, raising the maximum loan amount per enterprise and introducing a principal moratorium.

Various government funding schemes, including the Dedicated Fund on Branding, Upgrading and Domestic Sales, the SME Export Marketing Fund and the Trade and Industrial Organisation Support Fund are also available to help enterprises explore more diversified markets and enhance competitiveness.

Source: Hong Kong, China IER.

There are also obstacles related to logistics, as indicated by the World Bank's Logistics Performance Index.¹⁶ Indicators from this index include customs, infrastructure, international shipments, logistics quality and competence, tracking and tracing, and timeliness (see Appendix A, Table A.8; World Bank 2023a). The World Bank Doing Business indicators measure the impact on businesses of dealing with construction permits, getting electricity, registering property, protecting minority investors, paying taxes, trading across borders and enforcing contracts (see Appendix A, Table A.1; World Bank 2020).

The number and range of obstacles affecting businesses provide a menu of potential policy reforms to address them. The reforms would necessarily be specific to the obstacles identified in an economy. The OECD has developed the Economic Reform Programme (ERP), a toolbox consisting of a Diagnostic Tool that identifies key structural obstacles affecting an economy's competitiveness and inclusive growth, a Prioritisation Tool that helps authorities select and prioritise reform measures, and a Monitoring Tool that tracks progress in ERP implementation over time, plus measures of immediate outputs and the outcomes of reforms (OECD 2018a, 2018b, 2018c).

¹⁶ <https://lpi.worldbank.org/>

Box 3.8. Support of MSMEs in Indonesia

The support needed for micro, small and medium enterprises (MSMEs) is diverse. Adaptive fiscal measures help economic growth keep up when a shock such as COVID-19 happens. The National Economic Recovery (PEN) programmes have contributed to pulling economic growth up, particularly when they successfully identified the target recipients of the programmes, in this case the health sector, business sector and MSMEs. Credit restructuring programmes helped channel finances to MSMEs amid uncertainty or repayment risks. The financial assistance programme helped micro-enterprises obtain finance. The pandemic also revealed the urgent need for organising a valid and reliable database for target recipients, which in most cases are scattered in various institutions, both at the economy-wide and regional levels.

Since the majority of MSMEs are micro enterprises, grant-like programmes would help the most during a shock. However, a large fiscal capacity is needed to carry out such programmes, and they would only serve as a buffer fund for most MSMEs. More important are policies to build sustainable financing for micro enterprises, which are often reluctant to access bank loans (or have their loans denied); increase the share of SMEs; and provide digitalisation support for MSMEs.

Financing for MSMEs should go beyond conventional loans. It could take a form of profit-sharing based loans (Sharia compliance system or cooperative system); peer-to-peer (P2P) lending for micro enterprises; and strengthening partnerships between SMEs and micro enterprises.

A more holistic approach is also needed to boost micro enterprises' skill and capacity, which can be conducted through continued assistance for micro-entrepreneurs from the time they start a business. The assistance could take a form of business and management training, facilitating access to financing, as well as facilitating access to wider markets.

Source: Indonesia case study.

A number of APEC economies have identified digital infrastructure as an important barrier that particularly affect SMEs. APEC's ongoing work on digitalisation and the Enhanced APEC Agenda for Structural Reform (EAASR) pillar of 'harnessing innovation, new technology, and skills development to boost productivity and digitalization' reflect the importance of digital infrastructure to innovation and productivity. Australia's data portability initiative, discussed in Box 3.9, provides the secure infrastructure for data that can underpin a data-driven economy.

Box 3.9. Data portability in Australia

Consumer Data Right (CDR) is Australia's data portability initiative. It is a significant economic reform changing the way Australian consumers engage, use and benefit from their data, and will transform the economy by driving competition, innovation and efficiency. The CDR ecosystem also supports the growth of an innovative data-driven economy, including through new business ideas, products and services, partnerships, business processes and technologies.

CDR enables consumers to share their data with trusted third parties in order to access personalised products and services for their benefit. It also gives Australian businesses and

individuals more transparency over the insights that can be derived from their data and makes it easier to find better-value products and services, which drives competition and delivers savings to households and businesses.

CDR is a regulatory framework that creates the infrastructure for individuals and businesses to securely share data held about them with accredited and trusted third parties. With the consumer's consent, the third party can use this data to provide services tailored to the consumer's unique circumstances, such as comparing products and services, accessing better-value and improved services, and assisting with financial and cashflow management.

Source: Australia case study.

Drivers of CSR adoption

Businesses are increasingly expected to be accountable for how their practices affect society and the environment, driven largely by consumer and investor demand. The societal view of corporations has evolved, with businesses expected to also generate public goods such as sustainability and shared values such as inclusion in addition to profits (Latapí Agudelo, Jóhannsdóttir, and Davíðsdóttir 2019). At the same time, firms are reconceptualising their purpose as promoting social outcomes in addition to meeting commercial imperatives (Mayer 2021). Firms play a crucial role in sustainability, given their proximity to markets and their societal power. This includes their organisational adaptability, social responsibilities and ability to develop solutions to climate change and sustainability (Ba 2021).

Corporate sustainability also makes business sense. It can support financial performance, enhance legitimacy, reduce reputational risks, improve relationships with diverse stakeholders and generate business opportunities (van Zanten and van Tulder 2021). The centrality of firms in addressing sustainability is of particular relevance to APEC's corporate law and governance work programme.

Corporate social responsibility (CSR) is about a company holding itself to certain standards, holding particular values, and engaging in specific practices and activities with the aim of improving society and the environment and acting in socially responsible ways (Gillan, Koch, and Starks 2021). It is manifested through several dimensions: economic, legal, ethical and philanthropic. The economic responsibility is to create profit through economic growth. A business cannot survive otherwise. The legal responsibility is to follow all laws and regulations in its business practices. The ethical responsibility is to make moral decisions that affect employees, customers, the supply chain and the environment. The philanthropic responsibility is to contribute to the quality of life for society.

Sustainability in businesses, as part of a broader approach to CSR, can be driven by several positive and negative drivers. According to Nexio (2022), the most important incentives include alignment with organisational values and objectives, regulatory compliance, reputational gain, attracting and retaining human capital, responding to competitive pressures and minimising negative impacts.

CSR is slightly different from the ideas of environmental, social and governance (ESG) and corporate sustainability (CS) reporting discussed in Chapter 5. ESG is more explicit about governance and is about how corporations and investors adopt environmental, social and (economic) governance considerations in their business models and operations (Gillan, Koch,

and Starks 2021). CS is about conducting business in a way that creates sustainable, long-term shareholder, employee, consumer and societal value by pursuing responsible environmental, social and economic strategies.

The CSR framework is looser and more general than the ideas of ESG and CS, and the nature of CSR is qualitative and self-regulating, meaning that what CSR looks like in terms of business operations can vary greatly across companies, and combined with the voluntary nature, can be difficult to compare (Tschopp and Huefner 2015). The ISO 26000 voluntary standard on social responsibility provides some clarification and guidance for companies on what social responsibility is in practice and how companies can achieve it.

Benefits of CSR

Firms can adopt a range of CSR actions in the societal, environmental and economic landscapes (Haanaes and Olync 2022). For example, they may offer competitive wages and benefit packages to employees; provide other peripheral benefits, such as generous parental leave, tuition fee reimbursement, and retirement benefits; participate in workplace giving programmes; support charitable causes; use recycled materials; reduce the intensity of their carbon emissions profile; or maintain a solid record of paying corporation tax.

CSR can generate benefits for a business that contribute to its long-run profitability (Folbre 2012; Kitzmueller and Shimshack 2012). For example, taking an employee-centric approach to remuneration and benefits can have a positive impact on organisational culture and employee engagement. Likewise, productivity can also be positively affected (Weinger 2022). Other benefits include generating a positive brand image and improving stakeholder morale and retaining workers (Galbreath 2010; Sprinkle and Maines 2010). Evidence from Australia suggests that staff turnover rates are lower in businesses pursuing a CSR strategy (Galbreath 2010). This means that CSR can reduce staffing costs. Similarly, capital costs can also be reduced if sustainability actions reduce the firm's risk profile (McWilliams and Siegel 2011).

In a competitive market, CSR can become strategically significant for a firm. It can strengthen and build the firm's corporate image and stakeholder–company relationships, and enhance stakeholders' advocacy (Du, Bhattacharya, and Sen 2010). As a strategically significant resource, reputation can underpin a premium pricing strategy and induce consumer loyalty – both of which are highly favourable to profit maximisation. Moreover, employees whose personal values align with the sustainability activities of the business are less likely to leave. Companies often highlight the achievements of their CSR activities in their annual reporting. In sum, CSR and profit maximisation are not mutually exclusive (Folbre 2012; Kitzmueller and Shimshack 2012).

Nevertheless, CSR actions represent a challenge to conventional incentives facing managers. More and more, managers are expected to act in a way that reflects social responsibility, and ensure their business provides some form of social good. Yet, it may not be immediately clear where and how the business will benefit from socially responsible activities that comprise a public good, or if and how the manager will be rewarded for exhibiting behaviours consistent with sustainability. Hahn et al. (2010) suggest that firms' sustainability choices follow a win–win paradigm to simultaneously achieve economic, environmental and social outcomes. Following this paradigm can mean that businesses can seek conflict-free solutions where the economic, environmental and social imperatives do not clash. However, in turn, this can lead to timid decision-making that inhibits changes to core business practices that would be

conducive to sustainable development goals. It also tends to narrow the scope of CSR actions by focusing solely, or mainly, on those that can support profit maximisation (Negru 2020).

Public goods and CSR

CSR involves businesses taking actions in excess of what is required by law in the jurisdictions in which they operate (Rupp and Mallory 2015) and, in some cases, going beyond societal expectations. CSR requires that corporations recognise and appropriately internalise the negative externalities, such as emissions, that their businesses produce (Johnston et al. 2021). But externalities tend only to become voluntarily internalised within the firm when it is consistent with profit maximisation. Not all the benefits of CSR activities accrue to the firm as they can generate public goods such as cleaner air from reduced emissions. According to McWilliams and Siegel (2011), firms can capitalise somewhat on the value from the public goods they produce through how these reflect positively on their reputation. Firms' CSR activities therefore complement conventional forms of government sustainability intervention to address market failures as discussed in Chapter 4 (Kitzmueller 2012).

The business environment and CSR

Gillan, Koch, and Starks (2021) argue that the nature and characteristics of CSR actions are highly dependent on the geographic locations and jurisdictions in which the business operates. Attributes of an economy or a jurisdiction that influence CSR include the sustainability and resilience of supply chains; societal norms and expectations; references of various stakeholder groups; leadership and governance; and political dynamics and stability (Gillan, Koch, and Starks 2021).

Variations in business CSR activities tend to be more strongly associated with the characteristics of the host economy than with the characteristics of the business. Law, culture, economics and other sociological characteristics are integral to the differences in CSR actions between businesses in different jurisdictions. Law, however, is the main predictor of the extent of CSR adoption and the nature of CSR actions implemented. For businesses operating across jurisdictions, the attributes of the host economy are less significant when compared to businesses operating in one jurisdiction. Operating in multiple jurisdictions appears to be correlated with the pursuit of positive CSR reputations.

Manifestations and drivers of CSR in EMEs are not entirely clear. EMEs are generally characterised by weak, or developing, formal institutions, and relative political uncertainty. The absence of, or limitations in, formal institutions can make way for informal institutions and culture to become the central drivers of business strategy and decision making, including for CSR (Boubakri et al. 2021). It is not empirically clear if informal institutions and the culture of the host economy can be an appropriate substitute for weaker formal institutions in an EME context. However, Russell, Russell, and Honea (2016) argue that consumer values, expected norms, and consciousness narrow the scope of social and environmental issues, suggesting that informal institutions and culture could play an even more significant role in determining the extent and nature of CSR adoption in businesses.

Structural reform and firm performance

Structural reforms force firms to rethink their strategies in order to adapt to the new rules of the game in the market, and survive, remain profitable, grow and thrive (Dau, Moore, and

Kostova 2020). Firms' strategies include entry into new industries, partnership with new investors, the identification and pursuit of new growth opportunities, product diversification, and changes to the scale and scope of their operations. The strategies are supported by investment in new technology; product and process innovation; new creative strategies; changes to ownership, control and governance structures; and changes to marketing and branding, together with increased attention to customer needs (Davies and Walters 2004; Cuervo-Cazurra and Dau 2009).

Structural reform that liberalises trade exposes firms to international competition. It increases import competition, expands export opportunities, provides opportunities for the firm to expand across borders to gain market share, opens access to imported intermediate goods, and creates foreign input competition (Shu and Steinwender 2019). It forces firms to improve their efficiency, to innovate and introduce new and better products, and to develop knowledge and capabilities that facilitate internationalisation into other markets, lifting their competitiveness to international levels and improving their overall performance (Dau, Moore, and Kostova 2020). Structural reform also stimulates changes to ownership, control and governance structures.

Trade liberalisation also creates threats in import-competing sectors from foreign firms and more products (Greenaway, Gullstrand, and Kneller 2008). While opportunities are more likely to be available to the most productive firms, the least productive are most likely to be vulnerable to threats and exit the market. More competitive and innovative domestic firms enter export markets and expand foreign direct investment (Cuervo-Cazurra, Gaur and Singh 2019). New exporters initially account for a small proportion of aggregate exports, but grow faster than both established exporters and non-exporters. As only firms with sufficiently high productivity enter foreign markets, exporters are on average longer-lived than less productive domestic firms that are forced to exit. The exit of small firms is influenced by competition from other advanced economies, but the exit of large firms is affected more significantly by competition from low-cost economies (Bernard, Jensen, and Schott 2006).

Trade-induced reallocation through entry and exit affects aggregate productivity. Trade opening brings about an increase in the productivity threshold for surviving firms, forcing firms with productivity below the threshold to exit, thus making room for more productive new entrants and improving aggregate productivity (Melitz 2003; Constantini and Melitz 2008; Burstein and Melitz 2011).

Closing a business

Market exit and allocative efficiency

Starting new firms and closing non-viable firms are essential to an economy's process of creative destruction and economic growth. As new, more productive firms enter the market and grow, less productive ones are driven out of business. The rate at which new firms enter and non-viable firms exit is shaped by the business environment, including access to credit, labour market regulation, product market regulation and insolvency frameworks as well as economic conditions.

Firms exit the market in three main ways: voluntary liquidation, merger and acquisition (M&A) and forced liquidation (bankruptcy) (Jovanovich and Rousseau 2008). Exit through M&A can be considered a positive route, particularly for a young and small firm aiming to cash in profits

once it has thrived and grown to the extent that it becomes an attractive target for larger firms. M&A shifts labour and physical capital resources as well as intangible knowledge capital resources to more efficient uses and to better management and spreads new technology in a similar way to the entry and exit of firms (Dezi et al. 2018). Voluntary closure occurs when owners shut down a business for personal reasons such as owner retirement. Neither of these forms of exit are necessarily associated with business failure.

Forced liquidation that leads to the exit of unviable firms from the market is part of the cycle of reallocation of resources from failing businesses to more efficient firms. Market selection and the exit of failing firms is harsh. About 20 to 40 percent of entering firms fail within the first two years, but failure rates decline as firms become older. Young survivors are relatively larger and tend to grow rapidly (Bartelsman, Haltiwanger, and Scarpetta 2009). Small firms exit more frequently, but the ones that survive tend to grow faster than average and are more likely to be efficient innovators (Aghion 2016).

The exit of failing firms and the entry of new firms are a feature of well-functioning dynamic market economies that exhibit a high degree of allocative efficiency, where resources are allocated to the more productive businesses. Allocative efficiency involves both static and dynamic dimensions. Static allocative efficiency is associated with more productive businesses being larger. Dynamic allocative efficiency is associated with businesses that have become more (less) productive expanding (contracting) (Andrews and Cingano 2014).

Insolvency regimes

Sound insolvency regimes seek to achieve two key outcomes: the effective restructuring of distressed but viable businesses, and the simple, efficient reallocation of the assets of unviable businesses toward more productive uses (Atkins and Martin 2023).

But, they not only influence the end of the business life cycle; they also have a profound effect at the beginning, in providing firms with access to finance. Difficulties in accessing finance are one of the major obstacles in starting and growing a new business. A number of empirical studies conclude that efficient insolvency regimes promote a firm's access to finance by providing banks and investors with confidence that there are sound, transparent and orderly processes that will allow them to recover their funds in the event of a firm's financial distress (see, for example, Haselmann, Pistor, and Vig 2010).

The design of insolvency regimes is relevant for understanding three inter-related sources of contemporary productivity weakness: the survival of 'zombie' firms, capital misallocation and stalling technological diffusion (Adalet McGowan, Andrews, and Millot 2017c; Adalet McGowan and Andrews 2018).

The design of insolvency regimes matters for productivity growth. Tight bankruptcy laws provide a strong guarantee for investors, but they simultaneously place a greater burden on entrepreneurs in the case of failure and can raise entry barriers for new firms, hamper entrepreneurship and deter risky investment (Lee et al. 2011; Menon, Criscuolo, and Calvino 2015). Bankruptcy laws that excessively penalise business failure significantly increase barriers to the exit of failing firms (Adalet McGowan, Andrews, and Millot 2017c).

As a result, zombie firms that would typically exit in a competitive market are kept alive. Zombie firms are defined as firms that are unable to cover debt servicing costs from current

profits over an extended period (Adalet McGowan, Andrews, and Millot 2017a). They retain resources, such as capital and labour, that could be better used in other, healthy firms, preventing efficient resource reallocation (so-called ‘congestion effects’).

Because they are significantly less productive than their healthy counterparts, they drag down aggregate productivity (Gouveia and Osterhold 2018; Cefis et al. 2022). Zombie firms lock up resources, creating barriers to the entry of new firms and raising the wages and funding costs of incumbent firms, which reduces their employment and limits their expansion possibilities (Banerjee and Hofmann 2018). The crowding-out effect is most pronounced for productive young firms whose growth prospects are hampered by market congestion, exacerbating inefficient resource reallocation (Adalet McGowan, Andrews, and Millot 2017c). A study of zombie firms in Canada by Amundsen, Lafrance-Cooke, and Leung (2023) finds that in addition to lowering the productivity of other firms, zombies themselves are particularly unhealthy and lowered aggregate productivity in Canada more than 5 percent in 2019, a substantive loss to the economy. The continued survival of low-productivity firms contributes to a slowdown in aggregate productivity.

Insolvency regimes that create barriers to exit and to corporate restructuring, and impose high personal costs on business failure, contribute to a high share of capital sunk into weak or zombie firms. A higher share of the industry capital stock sunk in zombie firms contributes to capital misallocation, congests markets and constrains the growth of productive firms, reducing aggregate business investment and multifactor productivity. Conversely, reforms to insolvency regimes that reduce barriers to corporate restructuring and lowers the personal cost associated with entrepreneurial failure may reduce the share of capital sunk in zombie firms and spur productivity-enhancing capital reallocation (Adalet McGowan, Andrews, and Millot 2017a).

Poorly designed insolvency regimes create high hurdles for the exit or restructuring of zombie firms. Other major factors creating barriers are continued access to cheap loans that allow zombie firms to roll over their debts, the perverse incentives on banks to protect their balance sheets and continued government support programmes that allow weak firms to remain in the market.

Zombie firms also inhibit the quality and quantity of innovation, particularly for incumbent enterprises with high innovation intensity, by distorting competition and credit allocation in the industry. Credit misallocation crowds out the credit available to more productive firms. Financing subsidies allow zombie firms to finance their investment at a much lower cost, thus giving them an unfair advantage when competing against the remaining firms (Dai, Li, and Wang 2019).

Effective insolvency regimes contribute to productivity by facilitating the exit of less productive firms and the successful internal restructuring of more productive firms. The exit of firms reallocates resources to where they can be used more productively and creates possibilities for new firms to emerge and succeed. Timely restructuring allows existing firms to reorganise themselves to exploit the gains provided by new products, processes and technologies, boosting within-firm productivity growth. Insolvency regimes that facilitate efficient corporate restructuring and do not sanction business failure too severely are likely to increase innovation and loosen barriers to experimentation. They can spur firm creation and incentivise new firms to enter the market with more innovative, riskier products and business strategies (Adalet McGowan, Andrews, and Millot 2017b).

Insolvency regimes in the APEC region

Under APEC’s Corporate Law and Governance work programme, efficient, reliable, transparent and predictable insolvency processes are important for the reallocation of productive resources in the corporate sector, for investor confidence and for forward-looking corporate restructuring.

Effective insolvency regimes drive an active investment market, with greater access to credit for companies at lower cost – which in turn supports job creation, innovation, productivity and economic growth. By reducing the pain of failure, they increase risk acceptance among entrepreneurs, which is reflected in higher levels innovation (Prusak et al. 2022). Effective insolvency laws also encourage entrepreneurial culture by offering a second chance to honest failed entrepreneurs without the stigma of business failure and the risk of losing everything if things do not work out as planned. Efficient and predictable insolvency and debt resolution frameworks are key drivers of increased access to credit and improved financial inclusion.

The primary goal of an insolvency system is the allocation of risk among participants in a market economy in a predictable, equitable and transparent manner, providing confidence to lenders and entrepreneurs and fostering economic activity and productivity. A secondary goal is the protection and maximisation of value. An efficient insolvency regime liquidates non-viable businesses, reallocating their assets to more productive uses in the economy, and rehabilitates viable ones, restructuring their debts and their operations so they can return to solvency (Garrido et al. 2019).

Table 3.3 shows the Ease of Resolving Insolvency indicator from the World Bank’s Doing Business indicators (World Bank 2020). The indicator shows wide variation among APEC economies, with scores between 32.2 (Papua New Guinea) and 90.5 (the US). The top-ranked APEC economies are the US (highest); Japan; and Korea.

Table 3.3. World Bank Ease of Resolving Insolvency indicators, 2020: APEC economies

Economy	Recovery Rate	Strength of Insolvency Framework	Resolving Insolvency		
	Cents on the dollar	Index 0-16	Score	Global Rank	APEC Rank
Australia	82.7	11	78.86	20	5
Brunei Darussalam	47.2	10.5	58.23	59	17
Canada	86.7	11	81.03	13	4
Chile	41.9	12	60.06	53	15
China	36.9	13.5	62.07	51	14
Hong Kong, China	87.2	6	65.67	45	13
Indonesia	65.5	10.5	68.07	38	11
Japan	92.1	13	90.22	3	2
Korea	84.3	12	82.88	11	3
Malaysia	81	7.5	67.04	40	12
Mexico	63.9	11.5	70.35	33	9
New Zealand	79.7	8.5	69.48	36	10
Papua New Guinea	24.9	6	32.16	144	21
Peru	31.3	9.5	46.56	90	19

The Philippines	21.1	14	55.08	65	18
Russia	43	11.5	59.10	57	16
Singapore	88.7	8.5	74.32	27	8
Chinese Taipei	82.2	10.5	77.06	23	6
Thailand	70.1	12.5	76.79	24	7
United States	81	15	90.48	2	1
Viet Nam	21.3	8.5	38.05	122	20

Source: World Bank (2020).

Table 3.4. shows the OECD insolvency indicators for selected APEC economies for 2022 across four key design features: treatment of failed entrepreneurs; prevention and streamlining of insolvency; restructuring tools; and other factors. The structure of the aggregate insolvency indicator is shown in Appendix A, Table A.5 and a detailed breakdown of each feature is shown in Appendix A, Table A.9. The indicators identify 13 key features of insolvency frameworks (Adalet McGowan, Andrews, and Millot 2017a), including:

- features that *raise the personal costs to failed entrepreneurs*: time to discharge, fewer exemptions
- mechanisms that *aid prevention and streamlining*: early warning mechanisms, pre-insolvency regimes, special insolvency procedures for SMEs
- features that may potentially *impose barriers to restructuring*: creditors' inability to initiate restructuring, an indefinite stay on assets, lack of priority given to new financing, no cramdown of restructuring plans on dissenting creditors, dismissal of incumbent management during restructuring
- *other factors*: high degree of court involvement, lack of a distinction between honest and fraudulent bankruptcy, restrictions on individual and collective dismissals during proceedings

Although data is available for only a subset of APEC economies, the OECD aggregate insolvency indicator shown in Table 3.4. is broadly consistent with the World Bank Ease of Resolving Insolvency indicators (shown in Table 3.3). The US; Canada; Korea; and Japan rank high on the OECD insolvency indicators.

Table 3.4. OECD Insolvency Indicators, 2022: Selected APEC economies

Economy	Treatment of failed entrepreneurs	Prevention and streamlining	Restructuring tools	Other factors	Aggregate insolvency indicator
Australia	1	2.0	1.5	1.4	0.45
Canada	0	1.0	2	0.3	0.25
Chile	1	1.0	2.5	2.05	0.50
Japan	0.5	2.0	1	0.8	0.33
Korea	1	0.0	1	1.2	0.25
Mexico	1	1.0	2	1	0.38
New Zealand	1	1.0	1.5	1.75	0.40
United States	0	1.0	1.5	0.7	0.25

Note: Indicators are not available for all APEC economies.

Source: Adalet McGowan and Andrews (2016, 2018); André and Demmou (2022); OECD (2022b).

Adalet McGowan and Andrews (2016, 2017c, 2018) have explored cross-economy differences in the design of insolvency regimes. They find that the regimes vary significantly across economies, with important differences in the treatment of failed entrepreneurs, availability of preventative and streamlining tools and ease of corporate restructuring. Differences in the extent to which insolvency regimes promote orderly exit of non-viable firms indicate that some economies have scope to improve resource allocation and productivity through their bankruptcy laws and procedures (OECD 2018f). The analysis concludes that a brief time to discharge, allowing creditors to initiate restructuring and having early warning mechanisms are the most important dimensions of insolvency regimes for productivity. In addition, policies that manage the costs of worker displacement can reduce the negative social consequences of firm closures. At the same time, the exit of zombie firms creates higher employment growth from the expansion of viable firms, creating new opportunities for displaced workers.

Many economies have enhanced their insolvency frameworks since the studies by Adalet McGowan and Andrews (2016, 2017c, 2018), notably in their processes for early warning systems and pre-insolvency procedures, and they have further plans for future reform. For example, the 2012 reforms to the Portuguese insolvency framework, which included policies to improve the efficiency of prudential banking supervision and insolvency legislation, effectively reduced reallocation barriers and lowered economy-wide resource distortion (Nieto-Carrillo, Carreira, and Teixeira 2022). André and Demmou (2022) update the studies by Adalet McGowan and others and conclude that there remains room for improvement, particularly on simplified frameworks for small businesses, which are still often lacking.

Insolvency frameworks for SMEs

Small businesses constitute the majority of all businesses in the global economy, employing a significant proportion of the workforce. They stimulate economic activity and contribute to job creation, providing employment for many workers. Many SMEs enter the market, but they also fail in record numbers.

Small firms appear to be more prone to business failure than larger ones. Their creditor, supply and client bases are typically thin and undiversified; they rely heavily on timely payments from their clients; and they are vulnerable to the vagaries of economic shifts. As a result, they can face cashflow problems and the risk of default from late payments or a loss of suppliers. Small firms can find it hard to raise bank finance as they tend to lack the types of physical assets that are acceptable to financial lenders as collateral, and thus lack working capital. Personal loans may be used to provide capital, comingling business and personal debt. SMEs in financial distress may themselves be the clients of other SMEs, causing business failures along the SME supply chain.

Standard business insolvency processes may not be available to SMEs. They may be unsuitable, being designed primarily for resolution of financial difficulties of larger firms that assume an insolvency estate of significant worth, and the presence of creditors with sufficient value at stake to participate in and oversee the process. Standard insolvency processes may be too expensive and complex to access, and creditors may be rationally disinterested in participating in the process because there is little or no asset value for them to recover.

An unsuitable insolvency framework for SMEs can hamper the restructuring of viable enterprises and the rehabilitation of honest but unfortunate entrepreneurs. It also prevents the assets, if any, of failing SMEs from being allocated to more productive uses. The absence of a

suitable insolvency process discourages entrepreneurship, responsible risk taking, and access to finance. Overall, an unattractive insolvency framework for SMEs can end up destroying wealth, jobs and growth (Gurrea-Martínez 2021). On the other hand, a cost-effective insolvency regime can encourage non-viable firms to exit the market and efficiently reallocate their assets to new uses, allow viable but distressed firms to restructure to continue in business, incentivise lending, encourage greater entrepreneurial activity and facilitate the creation of new firms.

There is increasing recognition that addressing the needs of insolvent SMEs is vital for economic growth and entrepreneurship (Mokal et al. 2018; Gurrea-Martínez 2021; Sarra 2021). It is crucial that insolvency regimes are responsive to the specific challenges of SMEs: their small size, lack of collateral, undiversified nature, and lack of suitable external governance mechanisms, all of which can contribute to their high failure rate. A number of economies, including the US and Australia, have implemented reforms to their insolvency regimes for SMEs (Australian Government 2020; Bonapfel 2022). The World Bank’s updated Principles for Effective Insolvency and Creditor/Debtor Rights Regimes (see Appendix A, Table A.10.) reflects the insolvency of SMEs by adding specific guidance and core concepts that any effective SME insolvency regime should ideally incorporate (World Bank 2021b). The principles are a distillation of international best practice in the design of insolvency systems and creditor/debtor regimes. In addition, the United Nations Commission on International Trade Law has issued a legislative guide to insolvency law for SMEs (UNCITRAL 2022).

ROLE OF SMEs

SMEs are a crucial component of APEC economies. Definitions of SMEs vary, reflecting the underlying characteristics of each economy, although most use the number of employees as the basic criterion. Given the differences in definitions, what is considered to be an SME in one economy may not be considered to be an SME in another. In APEC, the latest comprehensive study on SMEs covering all APEC economies with available data was conducted in 2020. Table 3.5. provides a snapshot of SME statistics and the types of criteria used in the region at that time. Nevertheless, under any definition, over 97 percent of enterprises in APEC are considered to be SMEs.

Job creation, innovation and economic growth

SMEs represent around 90 percent of all firms globally, make up to roughly 70 percent of employment and, by some estimates, contribute to up to 90 percent of global GDP (ILO 2019). They are the predominant form of enterprise in APEC economies, provide most employment and new jobs and are major contributors to value creation. Their contribution is even greater when informal businesses are taken into account.

Since most new businesses start out small – including those that grow to become large enterprises – SMEs can be an important source of innovation, competitiveness and job creation in an economy. Small, young firms are often drivers of radical innovations important for economic growth and also create new jobs and lasting employment opportunities.

Sustainability and inclusion

The potential contribution of SMEs to sustainable, broad-based and inclusive growth worldwide is well-recognised. Although the environmental footprint of individual businesses may be small, their aggregate impact can be significant. Reducing their consumption of

resources, and generation of water and air pollution as well as waste are key to improving sustainability. At the same time, the transition of economies to a green economy can provide business opportunities for SMEs as important suppliers of green goods and services.

SMEs that generate jobs and add value are an important means of inclusion and poverty reduction. They create jobs across sectors, skill levels and regions, including rural and remote areas. They provide economic empowerment opportunities for women and other groups with untapped economic potential, such as Indigenous peoples, people with disabilities, and those from remote and rural communities. They are important in generating employment and alleviating poverty, particularly among women (Ayalu, Abbay, and Azadi 2022).

SMEs can also contribute to inclusive growth by adopting explicitly inclusive business models that integrate different population segments into their business practices by providing them access to essential goods and services and generating income opportunities for them as employees, producers and suppliers (Koirala 2019).

Table 3.5. SMEs in the APEC Region

Economy	No. of SMEs	% share of total enterprises	Year	SME Criteria*			
				N	S	A	I
Australia	2,309,436	99.8	2017–2018	●	●		
Brunei Darussalam	5,876	97.2	2017	●			
Canada	1,280,764	99.8	2018	●			
Chile	944,905	98.6	2017	●	●		
China	21,921,056	99.6	2017	●	●	●	●
Hong Kong, China	338,113	98.3	2018	●			●
Indonesia	64,194,056	99.99	2018		●	●	
Japan	3,578,176	99.7	2016	●		●	●
Korea	3,732,997	99.9	2017		●	●	●
Malaysia	907,065	98.5	2015	●	●		●
Mexico	4,169,677	99.7	2018	●	●		●
New Zealand	518,856	97.0	2018	●			
Papua New Guinea	49,500	13.0	2016	●	●	●	●
Peru	1,899,584	99.5	2017		●		
The Philippines	920,677	99.6	2017			●	
Russia	6,100,000	40.0	2022	●	●		
Singapore	262,600	99.5	2018	●	●		
Chinese Taipei	1,466,209	97.6	2018	●	●	●	●
Thailand	3,077,822	99.8	2018	●		●	●
United States	30,748,033	99.9	2016	●	●		●
Viet Nam	507,860	98.1	2017	●	●	●	

* N = Number of Employees; S = Sales/Revenue; A = Assets/Capital; I = Industry/Sector

Source: Hrzdzak (2020), Tables 1 and 2; Russia case study.

Challenges for SMEs

SMEs face a number of challenges and obstacles that limit their economic growth and longevity and the wider contributions they make toward sustainability and inclusion. The factors limiting their potential are often due to internal features of their small scale (Yoshino and Taghizadeh-Hesary 2016; Harvie 2019). They include:

- lack of resources (finance, technology, skilled labour, market access, market information)
- diseconomies of scale and scope
- higher transaction costs and interest costs than large firms
- inability to effectively utilise and adapt technology

- lack of access to basic infrastructure
- inability to adapt to rapidly changing market demand and technological change
- lack of networks that can help address a lack of information, know-how, and experience of domestic and international markets
- inability to invest in R&D and innovation (product, process, organisation)
- proclivity for ‘churning’ and instability
- lack of entrepreneurial zeal, capacity and know-how

Lack of effective and consistent dispute resolution is also one of the major challenges for SMEs trading across borders (APEC Business Advisory Council (ABAC) and University of Southern California (USC) Marshall School of Business 2015). Traditional cross-border litigation or in-person alternative dispute resolution mechanisms often entail staggering legal and travelling costs, as well as lengthy court procedures. These costs pose significant burden on SMEs and divert their limited resources away from pursuing business opportunities and participating in international markets, hindering their growth as a result.

Small businesses are also affected by a less than supportive external business environment. Table A.7(Appendix A) shows the biggest obstacles as identified by firms.¹⁷ The obstacles vary depending on each economy’s characteristics, although lack of access to finance is a common theme. See Box 3.10. for how Singapore is addressing an issue that particularly affects firms in its economy.

Box 3.10. Urban planning in Singapore

Singapore’s unique circumstances as a highly urbanised economy with limited land for competing needs necessitate comprehensive long-term planning. Singapore has sought to address this through the Long-Term Plan, which guides Singapore’s development and land use over the next 50 years and beyond. The government intends to plan ahead of demand to account for emerging trends, such as climate change, technological disruptions and the evolving business environment; to safeguard options to meet the aspirations of future generations; and to incorporate flexibility.

Source: Singapore IER.

While scale underlies many of the limiting factors for SMEs, their small size does confer some advantages. They can be nimbler in producing and integrating innovations, and more agile and quicker than larger firms at seizing opportunities arising from change.

Structural reforms that promote competition provide opportunities for SMEs to enter the domestic market and participate in global trade while simultaneously providing them with exposure to global competition in local markets, even for SMEs that do not operate internationally. However, those structural reforms could mean added administrative burdens, which likely affect SMEs more than large firms, as they have fewer resources to deal with a complicated policy and regulatory environment that could include high taxation and inflation, red tape, corruption as well as difficulties in keeping track of and complying with changing

¹⁷ <https://www.enterprisesurveys.org/en/data/exploretopics/biggest-obstacle>

regulations. Lack of transparency and overly burdensome regulatory requirements can deter SME entry and hinder their growth.

Sustainable, inclusive growth and resilience for SMEs

The challenges discussed here have resulted in many SMEs performing poorly, struggling to survive and failing to reach their full potential. SMEs may be excluded from the global marketplace, unable to accommodate the added time, cost and management capacity of conducting cross-border trade. While it is costly for larger firms to engage in international markets, the costs can be prohibitive for SMEs since many costs are fixed, and often sunk, regardless of a firm's size or revenue.

Predictable and efficient customs procedures and logistics services are therefore especially important for SMEs. The relative performance in trade logistics for APEC economies, as scored by the World Bank's Logistics Performance Index is shown in Appendix A, Table A.8 (World Bank 2023a). The top APEC performers are Japan (highest); Singapore; and Hong Kong, China. Globally, the top performers are Germany (highest); Sweden; and Belgium. The ranking of Papua New Guinea (lowest); Peru; and Brunei Darussalam reflects their challenges in all the dimensions of logistics measured: customs; infrastructure; international shipping; logistics quality and competence; tracking and tracing; and timeliness.

The inability of SMEs to grow and expand could be seen in the so-called missing middle phenomenon, where many developing economies in Asia have a large number of micro-sized enterprises and a small number of large enterprises, but little in between (Harvie 2019). SMEs tend to be less resilient than larger companies in absorbing external shocks. They have been particularly vulnerable to the impact of COVID-19, being largely represented in those business sectors most affected. They have smaller cash buffers, weaker supply chain capabilities and lower uptake of digital tools and technologies than their larger counterparts, making them less resilient than larger firms.

SMEs also struggle to be environmentally sustainable and inclusive as will be discussed in Chapter 4. They may lack the time, knowledge, capacity or funds to improve their environmental sustainability or inclusionary business practices. Also, resource constraints can make SMEs more risk-averse and less willing to invest in new technologies than larger firms (OECD 2017a). A recent survey undertaken by the World Economic Forum found that 69 percent of the SMEs surveyed included sustainability in their mission statement but only 51 percent linked it their business strategy, and 21 percent of them linked their executive compensations to the firm's social and environmental sustainability performance (Rajah, Fauconberg, and Woeffray 2021).

Enabling business environment for SMEs

The sustained success of SMEs depends on local conditions, such as the regulatory environment for business, public services and infrastructure, and access to finance (EDFI 2016). See Box 3.11 for enabling infrastructure for SMEs in New Zealand.

A key challenge for policymakers is to identify not only how to improve the entry, survival and growth of SMEs to realise their potential economic and employment contribution, but also how to improve their environmental sustainability and inclusion practices (Harvie 2019). There is no single recipe applicable across all APEC economies, as the characteristics of SMEs and the

obstacles they face differ according to the economic and policy characteristics of each economy. In addition, it is important to recognise that the burden of an inefficient business environment falls disproportionately on SMEs.

Box 3.11. Digital infrastructure for SMEs in New Zealand

New Zealand implemented a small business digital enablement programme, **Digital Boost**, to reduce barriers and enable the digitalisation of small businesses. The programme was designed in collaboration with small business experts and aimed to target small businesses at every stage of their digital journey.

The programme includes an online education platform to educate and enable small and medium enterprises (SMEs) to increase their digital skills; a digital tool for quick and easily accessible assessment of an SME's digital presence and guidance to help businesses engage safely in e-commerce; voluntary collaboration between the main private sector providers of digital services, telcos and trading banks to provide free, discounted or subsidised digital goods and services to SMEs and communities; and funding during the 2022/2023 financial year to support SMEs to use the programme.

The programme has made a significant contribution to increasing digital enablement by SMEs and demonstrates that by enabling SMEs to adopt digital technologies they can become more productive and sustainable.

Source: New Zealand case study.

The SME policy space is complex. It comprises framework conditions that shape the business environment, broad policies that impact SMEs, and specific targeted policies to support SMEs. In addition, policies need to take into account the changes in regulations, markets and technologies across borders that affect opportunities for SMEs and their performance (OECD 2017a). The ASEAN SME Policy Index is a key reference here, as it provides a snapshot of the components of SME policy across ASEAN economies and enables comparison to be made across the economies (OECD and ERIA 2018; OECD 2023c; see Appendix A, Figure A.6 and Table A.11).

Although there is a diversity of issues facing SMEs across economies, a number of common policy priorities emerge from the literature (OECD 2017a). First, inefficient insolvency regimes limit business dynamism, the restructuring of viable firms and access to external finance by SMEs, as discussed earlier. Second, trade and investment openness, trade facilitation and predictable and efficient customs procedures and logistics that reduce the costs of international trade are key to promoting SME participation in global markets. Third, access to finance is critical for facilitating market entry, long-term investment, expansion and innovation by SMEs. The case for policy intervention to address failures in financial markets that limit access to credit is well-recognised. Finally, skills shortages limit SME productivity and innovation. SMEs can find it hard to attract and retain the management talent and workforce skills they need to innovate, grow, thrive and compete in global markets.

In response, governments have adopted a range of policy approaches to support SMEs, including improving access to finance, enhancing management capability and training, providing funding and tax incentives to boost investment and providing networking services (OECD 2017b). The types of policy support measures for SMEs include:

- **structural changes to the regulatory environment** that promote overall competition and the functioning of markets, including measures to reduce the barriers to the entry of new firms and the exit of failing firms as discussed earlier (Blees et al. 2003; Kemp and Lutz 2006)
- **regulatory and policy changes to specific obstacles facing SMEs**, such as simplified customs procedures; protection of intellectual property; measures to address importing constraints; trade liberalisation and trade facilitation; and connectivity (González 2017)
- **changes to regulatory processes** to consider the impact of regulations on SMEs (e.g., through regulatory impact statements) (Trnka, Reyes, and Raes 2021)
- **changes to government administrative practices**, including measures such as reducing red tape and establishing one-stop shops for businesses to interact with government
- **a range of direct support measures for SMEs** at all stages of their development, including start-up and scale-up programmes; support for business investment in R&D; skills development; access to finance (e.g., government venture capital funds or credit guarantees); access to technology and infrastructure (e.g., digital platforms) and provision of market information (Charoenrat and Harvie 2021).

A number of these measures have been incorporated into the support measures for SMEs and MSMEs in Mexico (see Box 3.12) and Chile (see Box 3.13).

Box 3.12. Supporting MSMEs in Mexico

The MIPYMES MX platform provides a comprehensive set of resources and support to help micro, small and medium enterprises (MSMEs) access financing, training, technical assistance, business development services, and regulatory and legal support. The platform is online and free of charge. It seeks to address the barriers facing MSMEs by boosting the business and digital skills of entrepreneurs, enabling them to develop and grow their businesses and increase their participation in domestic and global markets. The platform is a coordinated effort among various government agencies, private sector organisations and civil society groups. This collaboration allows for a more holistic and effective approach to promoting MSME development in Mexico. The platform is well-utilised.

Source: Mexico IER.

Box 3.13. Addressing barriers facing SMEs in Chile

Chile has implemented a number of focused measures to address the barriers facing small and medium enterprises (SMEs) and improve their productivity and growth prospects. The barriers include the greater regulatory burden on SMEs in the design and implementation of structural reforms, their (in)ability to access government support and information in a timely fashion, the absence of enabling factors for productive transformation such as investment in innovation, and the added costs of complying with regulations such as minimum wage increases.

Chile has made concrete efforts to systematically consider the impact of regulations and public policies on SMEs. The SME Statute (Law 20.416) established a regulatory framework for smaller businesses and promoted coordinated action among different ministries and public services on a standard procedure to assess the impact of new regulations on SMEs. This legislation set a precedent by considering the concept of cost-effectiveness of regulations.

Significant progress has also been made in streamlining the procedures that SMEs must follow throughout their life cycle. They can use a platform called Your Company in One Day to create their business online. And through another online platform, Agile SME, they can obtain commercial licenses and perform other subsequent procedures with different public institutions. An Advisory Council for Small-Scale Enterprises provides a permanent dialogue platform with government authorities that includes major trade associations representing smaller businesses. Access to government services has also been significantly improved.

An inclusive recovery plan, Chile Apoya, was established to support the individuals and sectors most affected by the pandemic and the global economic context. Multiple support measures were implemented, include strengthening access to financing programmes for non-banked SMEs; expanding the coverage of reactivation support programmes; creating special support lines for sectors with lagging recovery such as culture, tourism, and aquaculture; providing additional support to women-led SMEs to reduce gender gaps in entrepreneurship; and creating an SME registry that allowed prioritised allocation of resources. Measures have also been introduced to support SMEs in minimising the cost of adjusting and complying with cross-cutting policies such as minimum wage increases. This includes an agreement (via a participatory process involving all stakeholders) that expanded the coverage of SMEs receiving a subsidy to finance the increase in costs.

Source: Chile IER.

Governments also have a role in supporting inclusive businesses. This could include measures such as raising awareness about inclusive business practices, reviewing regulations that could constrain businesses from adopting such practices, introducing structural reforms to promote them (e.g., removing barriers to women's access to labour markets, finance and capital) and providing financial incentives as discussed in Chapter 4 (ADB 2018; Cohen and Rubin 2019). They could also introduce policy measures to address market failures that contribute to environmental degradation so as to encourage or require SMEs to be more sustainable, as discussed in Chapter 4.

Improved access to justice is also an essential component of creating an enabling business environment for SMEs. Online dispute resolution (ODR) leverages information and communication technologies to provide a speedy and cost-effective electronic resolution and enforcement of disputes across borders, bridging language and jurisdictional barriers. It provides SMEs a quick and inexpensive option to resolve cross-border disputes, thereby promoting cross-border confidence. The APEC Collaborative Framework for Online Dispute Resolution of Cross-Border Business-to-Business Disputes presents APEC's initiative to capitalise on the benefits of ODR to facilitate greater access to justice for micro, small and medium enterprises (MSMEs). There are currently five economies that have opted into the framework, namely, China; Hong Kong, China; Japan; Singapore; and the United States. Listed ODR providers from these participating economies offer their own platform for online negotiation, mediation and arbitration and will regularly report their progress to APEC. These participating economies have taken further steps to promote the use of ODR. For instance,

Hong Kong, China is facilitating inclusive access to justice through ODR and other legal technologies, targeted particularly at MSMEs (see Box 3.14).

Box 3.14. Facilitating inclusive access to justice in Hong Kong, China

Hong Kong, China has been promoting the use of law technologies (LawTech) to enhance the capability of the legal profession with modern technology and facilitate inclusive access to justice.

Use of LawTech has been strong in the areas of online dispute resolution (ODR) and legal cloud development. Initiatives supported by the government include:

- *COVID-19 ODR Scheme*: making speedy and cost-effective ODR services available to the general public and businesses, in particular micro, small and medium enterprises (MSMEs) under this scheme.
- *APEC Collaborative Framework for ODR of Cross-Border Business to Business Disputes*: opting into the Framework and supporting the development of procedural rules for ODR in line with the Framework, such as for the eBRAM Centre's ODR platform.
- *Hong Kong Legal Cloud*: subsidising local legal and dispute resolution professionals to subscribe to the Hong Kong Legal Cloud services through the Hong Kong Legal Cloud Fund set up in 2021.
- *Inclusive Global Legal Innovation Platform for ODR*: setting up the platform in collaboration with the United Nations Commission on International Trade Law, to keep track of the latest developments in the ODR landscape and explore and/or develop innovative legal tools to address potential issues.

To strengthen competition and enable a competitive environment, Hong Kong, China regularly updates its arbitration law to ensure it stays abreast of international developments. One recent example is the outcome-related fee structures for arbitration (ORFSA) regime implemented in December 2022 through legislative amendments to the Arbitration Ordinance (Cap. 609). The new ORFSA regime provides potential arbitration users with additional flexible funding options, and an avenue for small- and medium-sized law firms and young barristers to enter the market. A leaflet to promote understanding of ORFSA among potential users has been published, and Hong Kong, China will work with relevant stakeholders to provide further guides and tools, as necessary.

Source: Hong Kong, China IER.

CONCLUDING REMARKS

Structural reforms that shape well-functioning dynamic and competitive markets contribute to a business environment that enables firms to innovate, and be sustainable, resilient and inclusive alongside their commercial objectives. Most firms in APEC economies are SMEs, but they face challenges in realising their potential economic contribution and in being more sustainable, inclusive and resilient. There is no single policy recipe applicable across all APEC economies to support SMEs as the characteristics of SMEs and the obstacles they face differ according to the economic and policy characteristics of each economy. Having said that, this chapter has identified several general processes that would allow economies to identify and

address the specific circumstances and needs of SMEs in their economy, such as RIAs, whole-of-government coordination to streamline processes and rulemaking, and multistakeholder consultation processes.

4. STRUCTURAL REFORM, INNOVATION, INCLUSION AND SUSTAINABILITY

Structural reforms can contribute to a business environment that promotes competition among firms and drives productivity and economic growth. In a competitive market, firms face incentives to be more sustainable in response to consumer demand and to the requirements of investors. A competitive market also drives firms to be more innovative, investing in new products and processes to succeed in the market. Structural reforms encourage the entry of new firms, which are typically small, and the growth of successful firms, providing employment opportunities.

However, there may be market failures or structural barriers that prevent firms from being more sustainable, inclusive, resilient and innovative. In these cases, there is scope for policy measures to address these market failures as a complement to structural reforms. This section will identify the incentives firms face to become sustainable, inclusive, resilient and innovative; the market failures that can limit the effectiveness of their actions; and the policy measures that can be used to address the market failures.

PROMOTING SUSTAINABILITY

Sustainability is increasingly recognised as a critical factor in achieving long-term economic growth. APEC's commitment to sustainability is reflected most recently in the APEC Putrajaya Vision 2040 which identifies 'strong, balanced, secure, sustainable and inclusive economic growth' as crucial drivers of economic growth (APEC 2020). The Aotearoa Plan of Action identifies the actions APEC economies will take to achieve the Putrajaya Vision 2040.

The sustainability performance of APEC economies is shown in several indicators, each of which includes a different portfolio of environmental measures, and some of which include dimensions of inclusion.

The UN's Sustainable Development Goals¹⁸ show the progress of economies toward achieving the goals (see Appendix A, Figure A.7, Table A.12, Table A.13). The top-performing APEC economies are Japan (highest); New Zealand; and Korea in terms of closeness to reaching the goals. Papua New Guinea faces particular challenges in addressing the goals of No Poverty and No Hunger, and the Philippines on Reducing Inequalities.

The Green Growth Index¹⁹ by the Global Green Growth Initiative, which covers efficient and sustainable resource use, natural capital protection, green economic opportunities and social inclusion, shows Japan (highest); New Zealand; and Thailand as top performers (see Appendix A, Figure A.8, Table A.15). Brunei Darussalam scores low on efficient and sustainable energy, sustainable land use, and gender equality, while Malaysia's low scores are in the areas of efficient and sustainable energy, sustainable land use, and social protection.

The Environmental Performance Index²⁰ from the Yale University Center for Environmental Law and Policy (CELP) and Columbia University Center for International Earth Science

¹⁸ <https://www.sdgindex.org/>

¹⁹ <https://greengrowthindex.gggi.org/>

²⁰ <https://epi.yale.edu/>

Information Network (CIESIN), which covers climate change policy, environmental health and ecosystem vitality, shows Australia (highest); Japan; and New Zealand as top performers, although they are weak in ecosystem services and fisheries (see Appendix A, Figure A.9, Table A.16). Papua New Guinea and Viet Nam face challenges on almost all the measures, although Viet Nam scores well on sanitation and drinking water.

Market failures

Market failures and sustainability

Markets are prone to failure in terms of incentivising firms to engage in sustainable business practices. When markets function efficiently, scarce resources, including environmental resources, are directed to the uses, and users, that value them most highly (Markulev and Long 2013). When markets are not functioning well (for example, due to lack of effective competition or information) or not complete (for example, as a result of externalities or the public good nature of some goods and services), resources may not be used in a way that reflects all their value, resulting in overconsumption of resources or excess pollution.

Externalities and public good issues are common forms of market failure in markets involving natural resources and the environment. According to Sir Nicholas Stern (2007): ‘Climate change is a result of the greatest market failure the world has seen’. Where there are market failures, firms take only the private costs they bear and the benefits they enjoy into their decisions, and the costs of greenhouse gas (GHG) emissions and pollution are borne by society as a whole and future generations. As a result, the market fails by over-producing environmentally harmful GHGs and pollution.

Similarly, the voluntary sustainable business practices of firms could generate positive externalities. For example, by reducing their carbon footprint, they would be addressing the drivers of climate change. However, firms cannot fully appropriate that value because the benefits are largely enjoyed by others, that is, they are public goods. As a result, firms underinvest in sustainable business practices, leading to market failure.

Externalities and public goods issues are accompanied by a number of other market failures, including those arising from incomplete information, such as lack of information about the future costs of unsustainable products, how to reduce emissions, or ill-informed consumers (Doane 2002); missing markets, such as the absence of pricing or emissions trading schemes; and market power (Biely and van Passel 2022). Factors like hyperbolic discounting (such as underestimating the importance of future environmental damage) and behavioural biases (such as status quo bias, which discourages consumers from changing their behaviour) can also contribute to market failure.

Furthermore, the cost of collective action can prevent firms from coordinating on, for example, in establishing ‘smart’ electricity grids or electric vehicle charging points, when doing so could produce benefits (ICC 2020). In addition, there may be government failures, where government policy leads to an inefficient outcome; for example, fossil fuel subsidies could incentivise excess consumption of fuels and GHG emissions (Anthoff and Hahn 2010).

These market failures call for a package of structural reforms aimed at correcting market failures and encouraging sustainable business practices. At the same time, they create a business case for firms to engage in sustainable entrepreneurial initiatives such as ‘green’

innovation to address environmental issues (Dean and McMullen 2007; Hockerts and Wüstenhagen 2010; Köhn 2020).

Policy measures

Market-based approaches to policy will often be the most efficient means of addressing market failure. This is because they involve creating incentives for firms to direct resources to where they are most valued, especially over the longer term. These can include market creation (e.g., tradeable emissions permits) or taxes and subsidies. In some cases, however, it may not be possible to employ market mechanisms to address market failure, for example, when property rights are impossible to define or enforce, or when outcomes cannot be measured. In these circumstances, other policy options, such as direct regulatory approaches may be more appropriate.

Pricing externalities

Pricing environmental externalities can ensure that the social costs of environmentally harmful activities are reflected in the decisions of producers and consumers. Prices that force generators of externalities to internalise the costs of their activities incentivise them to reduce those costs through, for example, using resources more efficiently or developing new technologies, and can encourage firms to manage resources in sustainable ways.

Emissions trading schemes, also known as cap and trade, can be a cost-effective way of employing property rights and prices to incentivise firms to reduce their GHG emissions. Emitting firms trade permits within a cap set by government that is below business-as-usual emissions. The scheme creates incentives for firms to reduce the cost burden of permits by reducing their emissions, thus contributing to sustainability.

Pollution taxes (Pigouvian taxes) set their rates according to the amount of emissions and extent of environmental damage as a mechanism for internalising the costs of externalities. Indirect taxes on inputs that can damage the environment, for example, fuel tax, fall in this category.

Subsidies can be useful instruments to encourage the activities of firms and consumers that generate positive externalities such as provision of public goods (e.g., nature conservation), use of eco-friendly goods (e.g., electric vehicles), and investment in green innovation. They address market failures by recognising that the stewards of environmental services such as air and water filtration, soil erosion prevention and climate stabilisation are not sufficiently rewarded for the public goods they generate.

However, getting prices right means more than ensuring that they are adequate (in that they reflect the environmental externalities). They would also need to be effective (in that they trigger the needed response) and acceptable (in that they can be implemented without undue opposition) (Fay et al. 2015).

Pricing is often part of a mix of other reinforcing policy instruments to make it more effective. This could include ensuring a supportive enabling environment, for example, through structural reforms to ensure well-functioning product, labour and finance markets and through defining and enforcing property rights. Governments could also foster the availability of low-emissions alternatives for firms and households, for example, through green innovation, green public transport or green energy infrastructure. These policies could be complemented with regulation

that requires switching to lower-emissions alternatives such as standards for energy-efficient lighting or building codes and also subsidies to encourage uptake of low-emissions alternatives such as electric vehicles (APEC Economic Committee 2022).

Regulation

It is not always possible for governments to develop pricing signals to correct market failures. Regulation can be a powerful force in driving sustainable practices among businesses – from corporate reporting to mandatory actions or prohibitions. Regulation can be preferable to explicit pricing in some circumstances, for example, when a precise pollution or resource-use limit needs to be met, or when the institutional framework is not sufficiently developed to implement pricing. Regulation is an important part of a portfolio of policy measures aimed at improving sustainability by guiding the behaviour of firms and consumers to internalise environmental externalities.

Regulation imposes limitations and responsibilities on firms and individuals and covers a range of activities that generate negative environmental externalities such as GHG emissions or the overexploitation of fish stocks. Environmental regulations generally require polluting firms to undertake abatement activities and may impose costs on businesses. However, Dechezleprêtre and Sato (2017) find that the negative impacts of domestic environmental regulations on firms' international competitiveness are small and concentrated in a few industries. They also find that environmental regulations induce firms to innovate in cleaner technologies.

Governments also play a role in promoting environmental programmes within businesses, for example, in reducing waste, limiting various forms of pollution, and encouraging the use of energy from renewable sources. The ban on single-use plastics in New Zealand retailers is an example of government-induced corporate social responsibility (CSR) (Parker 2022). That said, some economies face significant challenges in achieving sustainable development goals, both in terms of their consumption and production (Lopes de Sousa Jabbour, Ndubisi, and Roman Pais Seles 2020).

Corporate sustainability disclosure

Corporate sustainability disclosure, discussed in more detail in the next chapter, is primarily a tool for reducing and mitigating the effects of information asymmetries between businesses and investors, where firms know more about their sustainability activities than potential investors do. Corporate disclosure practices can be voluntary; or they may be mandated through regulation.

Corporate sustainability disclosure provides potential investors with transparent information about the firm's environmental, social and governance (ESG) strategies in order to inform their investment decisions. Consumer dissatisfaction with the lack of transparent reporting, and the unsupported claims of social responsibility by businesses (a practice known as greenwashing), has driven an increase in sustainability disclosure.

Disclosure can mitigate information asymmetries, levelling the playing field for investors, thereby increasing the liquidity of secondary securities, which reduces the return required by investors for investing in a business. Having access to such disclosures would also make it easier for investors to estimate future cashflows, thereby reducing the cost of capital. Disclosure also increases investor willingness to hold securities, which can improve risk

sharing in the economy. It could also facilitate monitoring of corporate activities, which can improve managerial decision making and lead to better, more efficient corporate investments as well as provide information about other businesses in the same sector or geographic region in the form of knowledge transfers and spillovers (Christensen, Hail, and Leuz 2021).

Structural reforms

Well-functioning, competitive markets without market failures, such as price distortions created by externalities, can produce efficient and sustainable outcomes. They encourage firms to produce at the lowest cost and to use scarce resources efficiently, and they lead firms to innovate and adopt more sustainable business practices that reduce costs and provide a competitive advantage. Sustainability is also becoming a significant factor driving choices by employees and customers, and this has made firms see sustainability practices as a competitive advantage rather than a cost. Thus, structural reforms that promote competitive markets can provide the foundation for competing firms to provide sustainable goods and service to the market (see Box 4.1).

Competition law also has an impact on sustainability. It could be used to promote sustainability by preventing or prohibiting the anticompetitive practices by firms that are detrimental to a sustainability perspective, for example, where cartels prevent consumers from buying more sustainable products (OECD 2020d; Malinauskaite 2022). On the other hand, competition law can also hamstring cooperative activities by firms that could promote sustainability. In many jurisdictions, competition law includes a general public interest exception for these types of issues (OECD 2020d).

Box 4.1. Promoting industry competition for sustainability in Chinese Taipei

Chinese Taipei is committed to achieving a target of net-zero carbon emissions by 2050, matching similar resolutions by economies across the world in response to the global warming crisis. Core to achieving this target is to transition to a more competitive industry, including:

- promoting the rollout of green energy and spurring the growth of green energy industry chains and domestic supply chains
- encouraging industries to meet the demands of supply chains and global green initiatives
- using the information and communications technology industry to implement more efficient, lower-carbon and smarter manufacturing processes
- deploying advanced technologies, developing competitive domestic technologies and facilitating rapid commercialisation of those technologies to capitalise on business opportunities arising from the international transition to net zero
- assisting small and medium enterprises (SMEs) to establish a low-carbon mindset and capabilities, and employ measures such as preferential loans for green and sustainability initiatives, to facilitate the transition to low-carbon business models, while simultaneously encouraging green business investment

Source: Chinese Taipei case study.

SMEs and sustainability performance

To properly address the climate crisis, SMEs across the globe will need to transition to a net zero emissions model. In aggregate, the SME contribution to carbon emissions is significant, meaning they must be encouraged to adopt cleaner business models. At the same time, they also have an important role to play as innovators and in devising solutions to climate change (OECD 2022a). SMEs can strategically deploy their resources, skills and capabilities to tackle social and environmental issues as a means to create value and generate a competitive advantage (Bacinello, Tontini, and Alberton 2021).

SMEs, generally speaking, have lower corporate sustainability performance than large firms and are less willing to voluntarily engage in corporate sustainability initiatives beyond what is required of them through regulation. Part of the attitude of SMEs toward corporate sustainability can be explained by the widespread belief that environmental and social issues are global and ‘large’ and therefore beyond the responsibility of smaller firms; by the resource, knowledge and technical constraints that limit SMEs’ feasible range of sustainability activities or the input they can have in dealing with environmental and societal issues; and by a failure to recognise potential long-term economic benefits that could come from sustainable practices, such as developing a competitive advantage (Cantele and Zardini 2020; Cheffi et al. 2021).

SMEs generally lag on adopting sustainability practices within their core business and many view ESG as an unnecessary expense they do not see benefits from (UN Global Compact 2022). According to the research, fewer than half of companies with turnover under USD 5 million report on their sustainability performance, yet the comparable figure for large companies with revenues above USD 1 billion is 94 percent (UN Global Compact 2022). Further, 92 percent of companies with revenues over USD 1 billion have some form of emissions targets, whereas only 58 percent of SMEs do.

Drivers of sustainability

Some research suggests that the small size and close relationships between owners and employees of SMEs, plus a deep level of embeddedness within local communities, could be drivers for SMEs to improve their corporate sustainability activities (Ernst et al. 2022).

It is becoming increasingly necessary for SMEs to engage in corporate sustainability and environmentally conscious activities and business operations, and to monitor and to report their sustainability performance, to be able to participate in value chains, access financing and maintain their competitiveness (OECD 2022a) even though they are not necessarily mandated to do so. The requirement that SMEs implement corporate sustainability measures comes mostly as an indirect consequence of emerging regulatory requirements for financial institutions and large enterprises. SMEs that deal with those financial institutions to access financing and large enterprises as part of the value chain are exposed to the requirements.

Barriers affecting sustainability performance

Sustainability in SMEs can be constrained by insufficient resources, high capital requirements, cost of implementing sustainability initiatives and lack of access to expertise (Álvarez Jaramillo, Zărtha Sossa, and Orozco Mendoza 2019). The business case for sustainability investments are rarely apparent to SME managers (as discussed in Chapter 3) because such investments often require high upfront costs with unpredictable and uncertain long-term returns

due to the dynamic nature of market demand, the changeability of regulation and the pace of technological development (OECD 2022a). It is also not unusual for SMEs to lack know-how on the steps required to achieve a net-zero emissions position and also awareness of the financing options available. Moreover, SMEs are forced to navigate a complicated landscape of a growing number of entities, actors, public and private institutions as well as policymakers, regulators and ESG rating agencies (OECD 2022a).

Ernst et al. (2022) find that regulatory pressure, or a requirement to undertake corporate sustainability activities, reduces the willingness of SMEs to engage in corporate sustainability. Such a requirement is often perceived as unfair, demotivating and an imperative of someone external to the company, which limits the level of self-determination an SME can have in running its business and choosing its activities.

Adhering to sustainability standards and improving business practices in the direction of greater sustainability typically involves costs, such as buying energy-efficient machinery and plants, using expensive non-toxic chemicals, increasing wages, investing in resource-efficient production practices, or building more appropriate, comfortable and inclusive facilities. The high initial capital cost of implementing sustainability measures can be prohibitive for SMEs (Álvarez Jaramillo, Zartha Sossa, and Orozco Mendoza 2019). The ongoing cost of monitoring and reporting sustainability performance and showing compliance to any standards may also be prohibitive for SMEs.

Consequently, SMEs are often only peripherally engaged with CSR, and tend to dedicate their time to other priority areas, such as competition, changing consumer demands, supplier management and managing financial resources. The SME approach to CSR tends to be rather informal, which can lend itself to nimbleness and innovation, but can also obfuscate or lack strategic directionality. Since SMEs tend to view CSR as costly, they tend to move toward adopting CSR only when compelled to do so via regulation and policy (Cheffi et al. 2021).

Benefits of sustainability adoption

Despite the barriers, SMEs stand to derive significant benefits from improving sustainability performance. Businesses that are compliant with ESG standards get better access to markets (Raimo et al. 2021), attract stronger demand for their goods and services (Henisz, Koller, and Nuttall 2019) and ultimately make more money (Pulino et al. 2022). For example, fresh produce exporters in sub-Saharan Africa earned EUR 2.6 million more than they would have if they had not met ESG standards (Henson, Masakure, and Cranfield 2011).

Also, CSR has been shown to have a significant positive effect on SMEs, both on their financial performance and their innovation capability (Lin, Chang, and Dang 2015; Bahta et al. 2020). There are employee benefits from sustainable practices and reporting too. Workers benefit from improved conditions as a result of compliance with export standards (Asfaw, Mithöfer, and Waibel 2010). A qualitative study of hotels in Thailand concluded that CSR substantially enhanced the employer–employee relationship (Supanti, Butcher, and Fredline 2015).

The consequences of SMEs not improving their sustainability performance are not insignificant. SMEs that fall behind on ESG risk losing valuable opportunities with larger companies, both within the value chain and in accessing capital. If company stakeholders, shareholders and customers demand improvement of sustainability performance and SMEs do not deliver, they may become uncompetitive and unviable due to lack of patronage and

investment. This effect is likely to be magnified by the global technological evolution and globalisation of trade, with innovative competitors that consumers can turn to as substitutes.

Ecosystem for sustainability financing

Although regulatory policy can be used to encourage SMEs to adopt CSR and other sustainable practices, such an approach may be considered punitive. A more palatable approach would be to improve the ability of SMEs to access financing to help them meet sustainability standards and participate in global value chains (OECD 2022a). Access to financing is essential for investments in net-zero emissions initiatives, yet this often remains out of reach of SMEs, either because of the qualifying criteria or their lack of awareness of the available financing options (OECD 2022a). Lack of access to financing, by undermining SME participation in global value chains, could inhibit economic growth and competitiveness, especially in low-income and emerging economies (Cusolito, Safadi, and Taglioni 2016).

Given the importance of access to financing, policy should focus on developing a sustainable finance ecosystem to promote the transition of SMEs to a net-zero emissions position. Specific measures may include providing financial support complemented with non-financial support to address gaps in knowledge and awareness. Efforts to gain an understanding of the demographics of entrepreneurs and SMEs should be made to better understand their financing needs. Providing targeted support to SMEs to assist them with disclosure requirements and promoting international cooperation initiatives to encourage cross-border knowledge sharing, policy dialogue and collaboration are also needed (OECD 2022a).

Networks can assist SMEs to improve their sustainability performance and access to financing. The UN Global Compact is a voluntary initiative based on commitments to implement universal sustainability principles in business practice. Its Local Networks are business-led, multistakeholder groups that work with businesses to help implement universal sustainability principles, leveraging local and regional expertise and experiences to help companies understand what responsible business looks like in different economic, cultural and language contexts (UN Global Compact 2022).

Creating an environment conducive to SME sustainability financing is a worthwhile long-term objective. However, there is also merit in short-term, direct policy interventions such as subsidies or quotas. Direct interventions can be risky, in that they can distort markets, have high opportunity costs and skew incentives between financial institutions and SMEs. If not wielded correctly, direct interventions can entrench or stimulate market failures (IFC 2011a).

Promoting sustainability in SMEs, however, should not be considered solely the responsibility of governments and policymakers. Instead, a tripartite model of businesses, financial institutions and governments can be leveraged to create finance systems that incentivise SMEs to innovate and upgrade their production processes to meet sustainability standards (WEF 2017). Digital innovation in particular paves a way forward for SMEs to have access to suitable financial products and services. Conventional lending has seen financial institutions consider lending to SMEs as too risky and, as such, SMEs have tended to be subject to higher interest rates. New technology, such as cloud computing and artificial intelligence (AI) have begun to enable faster, convenient and cost-effective financial services for SMEs (Nemoto and Yoshino 2019).

PROMOTING INCLUSION

APEC has a longstanding commitment to inclusive growth to ensure that all those who have the potential to contribute to economic growth have the capabilities and opportunities to do so (see, for example, Hernando and San Andres 2015b, APEC Economic Committee 2018b; San Andres, Carranceja, and Yang-Lun 2020). The emphasis on inclusion is reflected in the APEC Putrajaya Vision 2020:

We will foster quality growth that brings palpable benefits and greater health and wellbeing to all, including MSMEs, women and others with untapped economic potential. We will intensify inclusive human resource development as well as economic and technical cooperation to better equip our people with the skills and knowledge for the future (APEC 2020).

This section builds on APEC's previous work and discusses the role of firms in promoting inclusion.

Inclusion indicators

Despite the importance of inclusive growth, there appears to be no single convenient indicator that can be used to measure inclusion for particular disadvantaged groups.²¹ However, there are a number of indicators, such as income distribution, that infer inequality and exclusion, including the OECD well-being database (OECD 2020h), the World Bank Human Development Index²² and measures of progress in the achievement of the sustainable development goals (SDGs) (see Appendix A, Table A.12 and Table A.13).

The World Bank's Women, Business and the Law indicators²³ measure gender equality (see Appendix A, Table A.17; World Bank 2023). They cover indicators structured around women's interactions with the law as they begin, progress through and end their careers. The indicators are mobility, workplace, pay, marriage, parenthood, entrepreneurship, assets, and pensions (see Appendix A, Figure A.10 for the components of each indicator). They rank Canada (highest); New Zealand; and Australia as top APEC performers. Globally, 10 economies – Belgium; Canada; Denmark; France; Iceland; Ireland; Latvia; Luxembourg; Portugal; Sweden – score 100. The indicators suggest that Brunei Darussalam; Malaysia; and Papua New Guinea lag in provisions for parenthood of workers, such as paid parental leave and prohibitions against the dismissal of pregnant workers.

²¹ The Global Inclusion Index measures inclusiveness in terms of gender, LGBTQ+, religion and disability (WMM 2022). Dörfel and Schuhmann (2022) propose a Multidimensional Inclusiveness Index that includes all the factors important for well-being.

²² <https://databank.worldbank.org/databases/human-development>

²³ <https://wbl.worldbank.org/en/wbl-data>

Inclusion as a business imperative

Firms are facing a variety of concerns, including geopolitical uncertainty, climate change and warnings of an impending global recession. Focus on these issues means the issue of inclusion may be perceived as less important in business. However, incorporating inclusion into a business's core operating principles can assist the firm in navigating the complex global business environment, where resiliency management has become imperative. It can also assist with identifying opportunities for innovation.

From a stakeholder and shareholder perspective, there is a growing expectation that inclusion should be incorporated in the policies and actions of firms and that inclusion is key to the long-term survival of businesses operating in the global context. Businesses benefit from taking a wide-angled view of ESG targets and implementation, which includes the integration of inclusion policies (Baumann-Pauly and Vithani 2022).

SMEs and inclusion

Stimulating growth that can be characterised as inclusive can be achieved through promoting SMEs. In most economies, SMEs represent the majority of businesses, and therefore collectively, the sector is the largest employer. Opportunities created by SMEs often spread across geographical boundaries and industries and employ broad and diverse parts of the labour force (Baumann-Pauly and Vithani 2022). Moreover, compared to informal (unregistered) businesses, SMEs tend to provide more stable and highly paid employment and better benefits to their employees. SMEs are also frequently the principal provider of goods and services in low- to medium-income communities. Their community embeddedness means that SMEs are generally better connected to local networks, which can strengthen supply chains – through which job creation and revenues can be increased (Baumann-Pauly and Vithani 2022).

It is, therefore, commonly argued that a strong SME sector is crucial for inclusive growth and job creation, including low-skilled job creation (Baumann-Pauly and Vithani 2022). Concurrently, they provide opportunities for skills development and can establish gainful career trajectories for employees.

Inclusion of the disadvantaged and vulnerable

Some groups of people face particular disadvantages that limit their ability to fully participate in the economy as producers/suppliers, workers and as owners in starting, growing and sustaining their businesses, excluding them from enjoying the gains of economic growth, constraining their access to public services such as social protection, housing, education and healthcare, and limiting their potential contribution to the economy. Such inequality of opportunity is not only inequitable, but it is also inefficient. It prevents the optimal allocation of people's skills and talents, reduces incentives to invest in education and training, and overall, creates a drag on long-term economic growth.

Groups with untapped economic potential include, but are not limited to, women, Indigenous peoples, people with disabilities, and those from remote and rural communities. People in some groups, such as women from remote and rural communities, can be doubly disadvantaged, magnifying the impact of lack of opportunities (APEC Economic Committee 2020). People living in poverty also face structural barriers to economic opportunity due to their lack of access to basic services such as skills development, social protection, infrastructure and digital skills

(APEC Economic Committee 2017, 2018a, 2019, 2021b). The participation of groups with untapped economic potential in the labour market can be challenging, given various institutional and societal constraints that manifest differently in each APEC economy. For example, according to one study, disadvantaged groups, in some economic contexts, may be subject to lower rates of pay and higher instances of discrimination (Wang, Guo, and Cheng 2015).

Moreover, changes to the policy environment are often felt more acutely by disadvantaged groups, such as Indigenous peoples (Foley 2006). For example, climate change mitigation policies tend to displace the employment of people living in rural and regional locales as well as people with limited transferable skills.

Key to developing policies that promote the inclusion of disadvantaged and vulnerable people is an understanding of the nature of the barriers. These barriers vary from one economy to another, owing to different levels of economic development, domestic priorities and employment conditions. They include a wide range of barriers including structural (e.g., education, employment, healthcare laws, operations) and sociocultural factors (e.g., gender stereotypes).

Inclusion of women-owned SMEs

Diversity and inclusion lend themselves to robust and sustainable economic growth. Women-owned SMEs comprise roughly one-third of all SMEs and, consequently, make significant contributions to the economy. Yet, the growth potential of women-owned SMEs is inhibited by various financial and non-financial challenges. See, for example, the indicators shown in Appendix A, Table A.17.

With this, the importance of female-led entrepreneurship becomes more apparent. Through start-ups and SMEs, women have the opportunity to develop and enhance their economic prospects. The opportunities for economic growth arising from gender equality are vast (Zhu and Kuriyama 2016), as women are empowered to establish new businesses. As such, advancing gender equality is an imperative for all economies, at all stages of economic development. For developing economies in particular, the empowerment of female entrepreneurs, and would-be entrepreneurs, could result in significant increases in business growth, employment and other residual economic benefits (Zhu and Kuriyama 2016).

However, with respect to the mechanism of structural reform, care must be taken to ensure income inequalities are not inadvertently exacerbated (Dartanto, Yuan, and Sofiyandi 2017). The effectiveness of structural reform is essentially contingent on how income distribution is affected (Campos, Grauwe, and Ji 2018, 30). Some evidence suggests that there is a trade-off between economic growth and equity when it comes to financial and capital account liberalisation, which often concurrently increases inequality while fostering overall growth. Conversely, reforms that aim to improve legal impartiality and enforce adherence to legislation tend to incur a trade-off between growth and equity (Ostry, Berg, and Kothari 2021). In other words, progressive legislative reforms can be simultaneously good for growth and equity.

It also needs to be recognised that women are not a homogenous group, and intersectionality matters. For example, in Aotearoa New Zealand, wāhine Māori (Māori women) face institutional barriers in leadership roles. Successful wāhine Māori leaders are thought to leverage cultural support to navigate the commercial world, which has generally not

encapsulated the inclusive elements of the Māori world view (Ruru 2016). Similarly, Australian aboriginal women report significant cultural, societal and institutional barriers to acceptance as either women or Indigenous people (Clark et al. 2021). Such barriers inhibit general acceptance and integration into society, which has an extended impact on the proclivity and ability of Indigenous women in Australia to meaningfully participate in the labour market or establish an SME.

Women with disabilities experience similar barriers to participation in labour markets (APEC Economic Committee 2020). Consequently, business ownership has been cited as an opportunity for independent, fulfilling employment for disabled women. These examples underline how intersections of diversity can have a cumulative, compounding effect. Women already experience greater challenges compared to men with regard to labour market participation and SME formation and growth. These challenges are often even more acutely experienced by women of diverse ethnic or cultural backgrounds or those with disabilities.

Barriers to inclusion

The SME landscape paints a mixed picture with regard to economic inclusion and performance. Productivity levels in micro businesses tend to be about half of those found in SMEs, which are themselves considerably less productive than large businesses. This can be a driver for worsening levels of income and other social inequality. Moreover, SMEs face difficulties accessing capital and navigating the regulatory environment, and these represent significant barriers to innovation, business growth and achieving scale. The ability to innovate and achieve business growth is essential for inclusive and sustainable economic development (Gurría 2018). Empowering the growth and innovation potential of SMEs is, therefore, favourable to broader economic development goals.

There are considerable growth differentials between female- and male-owned SMEs, with female-owned businesses experiencing considerably less growth than their male counterparts. The relatively slow growth of female-owned SMEs is a result of various factors, including regulatory issues; access to finance; lower rates of business education and literacy; lower rates of work experience; higher levels of risk aversion; operation in lower growth business sectors; the additional burden of household responsibilities; navigation of the legal and cultural environment; availability of time; their household bargaining position; geographic mobility; and access to human capital (IFC 2011b).

In the post-COVID-19 business environment, barriers facing female entrepreneurs in establishing and developing a business are likely worsened (UN Women 2020). For example, female entrepreneurs have comparatively less access to information and communications technology than their male counterparts.

Access to finance

Access to finance has been identified as a significant barrier to the establishment and growth of female-owned SMEs (IFC 2011b). It has also been identified as the main constraint to the establishment and development of Indigenous-owned SMEs (Reserve Bank of New Zealand 2022). Likewise, in emerging markets, acute access-to-finance issues are the greatest constraint on the establishment and growth of SMEs. This has a negative flow-on effect on sustainable economic growth as, without access to finance, SMEs are limited in their ability to re-invest, grow and create employment opportunities. In emerging markets, women are an incredible

source of potential economic growth. ‘Women entrepreneurs are poised to transform their local economies and contribute significantly to the global economy’ (IFC 2023).

However, women-centric growth opportunities are not being realised while women face institutional, cultural, legal and societal barriers to accessing the requisite financing for entrepreneurial activities. In some emerging markets, banks have introduced SME lending programmes, but several domains remain underserved by capital access opportunities.

In summary, men and women, especially those in emerging markets, face challenges to business establishment and growth. However, women experience them more acutely than men (ILO 2011), and if the economic growth potential of women is to be realised, these barriers need to be addressed.

Policies to promote inclusion

Policies targeted at Indigenous Peoples

Indigenous peoples face multiple barriers to participate fully in the formal economy. They often lack formal recognition over their lands and natural resources; are underserved by public investments in basic services and infrastructure; and face barriers in access to justice and on participation in political processes and decision making.

The rights of Indigenous peoples have been increasingly recognised through the adoption of international instruments such as the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), which includes the right of Indigenous people to economic development and the right to participate in the economy.²⁴ Business growth is key to providing opportunities for Indigenous people to participate in the economy, in line with Indigenous values and needs. Thriving businesses create employment and income opportunities, promote self-determination and reduce dependency on transfers.

The OECD (2019a) proposes a number of policy priorities to support Indigenous business. First is to improve Indigenous statistics, include Indigenous representatives in data governance and provide regular reporting on Indigenous well-being outcomes. Second is to enable Indigenous business development by increasing their access to finance. There is also a need to facilitate the inclusion of Indigenous businesses in public procurement. Further, Indigenous property rights to land and natural resources should be strengthened, which would provide opportunities to generate economic benefits from them (e.g., through tourism). Finally, there is a need to improve policy coherence and empower Indigenous communities. The policies adopted need to reflect the differing circumstances of the Indigenous peoples across economies. The Indigenous people-led National Indigenous Economic Strategy for Canada (2022) builds on these OECD recommendations with economic strategies built on people, productivity, infrastructure, access to capital and land rights to accelerate participation and self-determination.

Godwell and Nooh (2022) identify a number of additional factors that promote the inclusion of Indigenous peoples in trade, such as partnering with non-Indigenous businesses and participating in trade agreements. An example would be New Zealand’s Trade for All Agenda designed to ensure that trade benefits all New Zealanders (New Zealand Foreign Affairs and

²⁴ DRIPS_en.pdf (un.org)

Trade n.d.). Working closely with Māori partners, recent free trade agreements (FTAs) between New Zealand and the United Kingdom and European Union have dedicated Māori trade and economic chapters that contain unique features to recognise Māori concepts and values, and specific cooperation initiatives to strengthen trade outcomes for and with the Māori.

There is also increasing recognition by non-Indigenous firms of the desirability of the full participation of Indigenous people into all aspects of their business operations. Policies that can support this include guidance issued to firms, such as the Canadian Guide to Developing Indigenous Inclusion Policies (LEPC 2018).

Policies promoting SME growth

SMEs have a wealth of potential as drivers of inclusive growth (Koirala 2019). SMEs play a central role in reducing wealth inequality and are crucial for sustained job creation (ADB 2012). Achieving inclusive growth can, therefore, be accomplished via the growth of SMEs.

From a policy perspective, increasing the number of new SMEs is not necessarily as important as implementing mechanisms to support the growth of existing SMEs. For example, greater levels of inclusive growth may be achieved by supporting SMEs in sectors with high employment growth potential, rather than solely focusing on growing SME numbers across all sectors (Ravanera and Kaplan 2019). Even though growth will be achieved, at least in the short term, from any business that fills a gap in an emerging market, the goal of policy in this area is to support long-term inclusive growth opportunities.

Policies to enable access to finance

The most pertinent policy area to support SMEs, based on the challenges experienced at present, is to streamline and enable access to finance, especially for women entrepreneurs and SME owners (Koirala 2019).

Adjacent to easing access to finance, policymakers may consider their role in enhancing the following characteristics of the business landscape: regulation and institutional quality, including legal structures, limited bureaucracy, cost and time of formalisation, and tax law; managerial capacity and capability, including human capital, business literacy and capabilities (accounting, marketing, strategy); and access to infrastructure, including transport, telecommunications, fibre optics, and transport systems that ensure SMEs can effectively market themselves and sell their products across all channels (Ravanera and Kaplan 2019).

APEC economies have implemented a range of policies in support of the inclusive growth of SMEs. An example is Canada's Women Entrepreneurship Strategy, described in Box 4.2, a whole-of-government approach to addressing the barriers faced by women entrepreneurs within the entrepreneurship ecosystem. The Black Entrepreneurship Programme is aimed at addressing systemic barriers facing Black entrepreneurs in starting, growing and sustaining a business (Box 4.3).

Even though inclusive growth can be accomplished by streamlining access to capital for women and other groups with untapped economic potential, similar, or greater, levels of inclusive growth may be realised by supporting SMEs to implement inclusion-based practices in their businesses (Ravanera and Kaplan 2019). This could represent an indirect pathway to business ownership for groups with untapped economic potential.

Box 4.2 Women Entrepreneurship Strategy in Canada

Women entrepreneurs continue to experience gender-specific barriers and challenges within domestic and global entrepreneurial ecosystems. This makes it more difficult for them to start and grow their businesses, access new markets and participate in trade. In Canada, the majority of women-owned small and medium enterprises (SMEs) have lower rates of survival compared to majority men-owned SMEs. In addition, women receive less than 3 percent of venture capital investment worldwide and are also under-represented among equity investors.

In 2018, the government of Canada announced the Women Entrepreneurship Strategy to address the barriers and increase the representation of women entrepreneurs including diverse, under-represented and/or intersectional women. The Strategy is a whole-of-government approach facilitated through policy and programming across 20 federal departments, agencies and Crown corporations.

It aims to increase women-owned businesses' access to the financing, networks and expertise they need to start up, scale up and access new markets, and improve and disseminate knowledge and data on women entrepreneurship. Supporting initiatives to strengthen women's entrepreneurship contributes to women's economic empowerment, and results in overall economic growth, job creation and competitiveness.

Source: Canada case study.

Box 4.3 Black Entrepreneurship Programme in Canada

Many Black entrepreneurs and business owners continue to face systemic barriers in starting, growing and sustaining their businesses. Many of them report challenges with accessing financing, especially from traditional lending institutions. Access to business support services, the cost of borrowing and access to equity and venture capital also remain key obstacles. COVID-19 also disproportionately impacted entrepreneurs, with many Black Canadians reporting high rates of unemployment and difficulties meeting basic financial commitments compared to non-racialised individuals.

To address these long-standing barriers, the government of Canada announced its first-ever Black Entrepreneurship Programme in 2021. The programme is part of a broader commitment to address systemic barriers and racism against Black Canadians that include advancing Canada's Anti-Racism Strategy; creating a CAD 25 million fund for Black-led organisations; developing justice reforms, modern policing structures and standards; and enhancing mental health and community supports for young Black Canadians.

The objective of the programme is to provide targeted support to help Black entrepreneurs access business support services (e.g., business planning and mentorship) from federal and regional organisations and capital through a dedicated Black Entrepreneurship Loan Fund, as well as to improve access to data on Black entrepreneurship in Canada.

The programme provides targeted support by helping Black entrepreneurs access capital through the Black Entrepreneurship Loan to start and grow their businesses, access business support services through designated regional and federal ecosystem system organisations, and access information about the Black entrepreneurship ecosystem through intelligence gathering by the Black Entrepreneurship Knowledge Hub. The programme aims to enhance overall sustainability

and drive growth, competitiveness, innovation and productivity toward broader economic and social benefits.

Source: Canada case study.

Public procurement policies

Creating a public sector procurement environment that is conducive to SME participation is a significant mechanism for government-initiated small business growth. By developing a ‘friendly’ approach to procurement, SMEs can improve their job creation, innovation and long-term growth prospects (ADB 2012). The inclusion of SMEs in the procurement process can also increase competition for government contracts, which can lead to better value for money and efficiency. Through their involvement in public sector procurement, SMEs also have the opportunity to develop skills and expertise as well as networks that can be leveraged for subsequent opportunities (Chao and Toro 2017).

In summary, inclusive growth can be promoted through the growth of SMEs. However, the growth of SMEs needs to be strengthened through targeted interventions (Tandon 2020) with the goal of inclusion in mind.

PROMOTING RESILIENCE

The COVID-19 pandemic and consequent disruption to worldwide supply has heightened world attention on the issue of resilience. APEC’s work in this area has been at the macro level with a focus on global value chains (GVCs), the energy sector and digitisation (see, for example, APEC Energy Working Group 2018, 2023; Wirjo and Calizo 2022; Wirjo, Quynh, and Calizo 2022). This section complements that work by looking at resilience from the point of view of the firm.

Resilience is multi-faceted and sometimes hard to detect. It is, therefore, a difficult aspect of a business to measure (Kativhu, Mwale, and Francis 2018). The plethora of approaches to measuring, and conceptualising, resilience makes it difficult to fairly compare the results of different studies. Consequently, any attempt to think about resilience in a collective way is limited by conflicting methodological approaches to the issue (Constas, d’Errico, and Pietrelli 2022).

Resilience goes beyond business continuity, providing the agility firms need to adapt to shocks and long-term change. In an organisational context, business resilience refers to the capacity to operate, and excel, in altered and unfavourable circumstances, to absorb the stress of changing environmental conditions and to maintain functionality during times of uncertainty. As such, business resilience has become a key indicator of a business’s overall performance (BCG 2023). This is because resilient businesses typically have better outcomes than their less resilient counterparts. Typically, resilient businesses perform well because exogenous shocks have a lessened impact on their core functions and performance, they can recover and adapt more quickly than their peers and the extent of recovery is also greater.

Impacts on the community and the economy

Resilience can have a profound impact on the performance of a business (Iftikhar, Purvis, and Giannoccaro 2021). However, resilience should not only be considered in commercial terms. Business resilience cannot be isolated from the communities in which businesses operate (Owen-Burge 2022). Businesses depend on a healthy community environment to operate, and likewise communities benefit from healthy thriving businesses. The cost of ignoring the potential impacts on communities arising from a lack of business resiliency is too high.

Businesses have come to appreciate the threats they face from disaster and other exogenous events, such as climate change. Such events can damage core business operations, disrupt supply chains, and risk the lives of employees and customers. These events can harbour significant long-term consequences for the market, especially if a business is forced to close, relocate or operate in a significantly reduced form. Businesses are often fragile, and even a short disruption can have a considerable impact on businesses operations and cashflow; and this fragility is more acutely experienced by small businesses (ARISE 2017). This can have subsequent repercussions for a business's stakeholders, including customers, employees and suppliers.

Business resilience is, therefore, critical to the sustained function of economies at all levels. The imperative for business resilience is even greater for economies that are heavily reliant on a single or a few sectors. Given this, economic resilience can be considered in terms of business resilience, and firms can be considered part of the resilience solution (ARISE 2017): resiliency is, therefore, not only the responsibility of businesses, but of customers, investors, policymakers and other stakeholders.

Efficiency today can come at the cost of resilience tomorrow. Communities, industries and businesses can either choose to invest in resilience to reduce the impacts of adverse exogenous conditions or face the costs of under-preparedness in the future. Underinvestment can expose a firm to the wider impacts of disruption, while overinvestment can waste valuable resources that may be better deployed elsewhere. This trade-off is further complicated by the strong degree of uncertainty about the when, how and to what extent disruptions may occur. This uncertainty can make it difficult to assess how, where, when and how much investment should be deployed (New Zealand Productivity Commission 2023).

However, the role of businesses in resilience is crucial (Owen-Burge 2022). Firms can put the environment, stability and nature at the centre of their decision-making process by understanding the risks of, disclosing, and adapting to potential exogenous shocks, such as those engendered by climate change. This can help to manage risks by incorporating environmentally friendly solutions in adaptation planning and implementation in order to ensure continuity of business activities and a stable flow of goods and services.

Resilience as a core business strategy

Large international companies have taken a strategic view of resilience, moving away from a risk management approach toward integrating resilience into the core business strategy (Natale, Poppensieker, and Thun 2022), indicating that businesses are realising the significance of resilience in the contemporary business landscape. The main aspect being developed to promote business resiliency from within organisations is agile leadership (BSI 2021). However,

a focus on processes and people has seen an uptick in importance in recent years. Principally, this involves prioritising the health, safety and well-being of stakeholders, including clients, employees and the wider community (BSI 2021).

Achieving business resiliency relies on a series of principles (Mathenge 2020). They include behaviour in alignment with a shared vision and purpose; a contemporary understanding of the business's context and environment; quick responsiveness; good managerial capability and governance structure; diversity of skills, leadership, knowledge and experience; effective coordination of internal capabilities and robust risk management processes.

Armed with these principles, firms can implement coordinated approaches that provide sufficient resources to enhance resilience; appropriate governance models conducive to the coordination of resilience activities; mechanisms to direct investment domains suitable for the business's internal and external environments; systems to support implementation; and mechanisms for monitoring and evaluating resilience (Mathenge 2020). These coordinated efforts also require an effective communication programme to support business-wide decision making and understanding.

More recently, following the disruptions caused by COVID-19, resilience has been widely discussed in the context of supply chains. However, supply chains are built and fundamentally substantiated by businesses. Supply chain resilience is built at the business level through visibility, agility, responsiveness, cooperation and flexibility. Resilience also tends to be built based on the prior experiences and shocks experienced by the business. Given that firms balance the economic consequences of disruption with the costs of risk mitigation, they are well-positioned to decide the acceptable level of risk and how to organise their core business functions to minimise their vulnerability (OECD 2020c).

Business approaches to risk management can take multiple forms, including avoidance of unacceptable risk; just-in-time delivery (i.e., not producing or ordering goods in advance of receiving orders from consumers); practice of selective risk; hedging of suppliers and production locations; vertical integration; and shared risk via offshoring and outsourcing (OECD 2020c).

In recent years, firms have taken an innovative approach to building resilience by building close relationships with suppliers and developing internal frameworks to support their resilience, as providers of goods and services both direct to the consumer and to other businesses in the supply chain; as employers and trainers of human capital; as mitigators of risk; and as investors in innovation (BCI 2022).

As firms begin to undertake resilience-building activities, four key principles offer guidance (WEF 2022). First, communication is required for moving from a commitment to the development and planning of goals and procedures that can enable the business to overcome exogenous shocks. Resolve serves as a foundation for the business to establish the need and purpose of business resilience. Agility serves to facilitate the execution of actions, so that businesses may adapt to sudden changes. Finally, empowerment serves to enable individuals to take ownership and work with others to overcome novel challenges.

As a framework, these principles can help in understanding why and how different businesses perform differently when navigating the same exogenous shock (Sutcliffe and Vogus 2003). In addition to the four principles, there are three dimensions or levels of analysis that can be

applied to organisational resilience (Radic et al. 2022). The individual level is concerned with personal resilience, which refers to the degree to which individuals are equipped with the resources they need to navigate a crisis. The team level is considered to be the interactions between individuals and if there is a communication culture that facilitates quick adaptation to uncertain circumstances. The organisation level is concerned with the resilience of different domains of the business, for example, whether production can be managed to cope with changing demand. The environmental level is concerned with the interactions with other businesses and the broader regulatory and cultural environment in which the business operates.

Barriers and market failures

Investing in resilience often comes with an unfair, or disproportionate, allocation of costs. Business owners will typically shoulder the financial burden of resiliency investments, while other stakeholders share in the benefits, that is, there is a positive externality from the firm's resiliency. This dynamic does not necessarily incentivise firms to invest in resilience, and suggests that market forces alone are limited in their capacity to engender investments in resilience (Multi-Hazard Mitigation Council 2020).²⁵

At the implementation stage, insufficient human capital, lack of understanding of resilience, insufficient monitoring, and difficulties in managing supply-chain and concentration risk could serve as hindrances. Additional challenges may arise when attempting to develop resilience via cross-border partnership with other businesses. These include contextual factors, including the cultural and regulatory environment, that serve as barriers to the participation of potential partners; institutional factors, including the behaviour of individuals; and programmatic factors, including the different factors that influence how climate change response programmes are designed (OECD 2017c).

Policies to promote resilience

As a central stakeholder in business resilience, governments have a crucial role to play in reducing business exposure to uncertainty and risk, and providing support for businesses to manage exogenous shocks (OECD 2020a). This is because business resilience, or lack thereof, can reflect on the resilience of communities through employment, economic prospects and living standards.

The role that government can play in building resilience includes a mix of structural reform and other policies. Government-led initiatives to support business resilience can include ensuring that business regulations are not a detriment to agility and flexibility; helping small businesses establish robust relationships to identify, and help mitigate, potential bottlenecks in their value chains; and strengthening financial regulation and support for businesses to engender trust and certainty in value chains (OECD 2020a).

To mitigate the impacts of inequitable cost allocation, governments may seek to introduce incentives that better align the costs and benefits of investing in resilience. This can comprise a series of financial mechanisms that serve to transfer benefits back to those who bear the cost of resilience. In so doing, the total cost of resiliency is reduced for the business owner(s) and resiliency investments become more appealing to them. Incentives may include loan discounts, preferences, insurance premium reductions, tax incentives, grants and other financial levers.

²⁵ The Multi-Hazard Mitigation Council is a Council of the US National Institute of Building Sciences and is a public/private partnership designed to reduce the societal and economic costs of natural and manmade hazards.

Some insurers, for example, already offer resilience incentives. Governments may consider expanding green lending into the market for resilience investments.

The Multi-Hazard Mitigation Council (2020) makes key proposals for government to enable businesses to reduce risk and build a future resilience portfolio:

- application of a *Build Back Better* principle to planning, development and reconstruction projects
- establishment of *incentives for businesses* to invest in sustained risk reduction
- *removal of legal and other regulatory barriers* that prevent or disincentivise investments in resiliency
- taking a wide-angled and inclusive view of *upgrading key infrastructure* by engaging stakeholders to determine imperative actions
- *facilitate the involvement of businesses* before and after an exogenous shock to ensure private resources can be mobilised in risk management
- promote and *communicate the benefits of resilience* to consumers, businesses and other groups
- *increase public awareness of resiliency*, as insufficient awareness may mean pro-resilience policies may be resisted and their effectiveness diminished
- assume a *data-driven approach to resilience*, ensuring decisions are fully informed to promote the effectiveness of their implementation.

To tackle disaster risk management and promote resilience, cooperation and collaboration between business and government is required (ARISE 2017). Collaboration is principally required for developing a landscape that is conducive to investment and innovation, and for innovation to be scalable to changing levels of potential disaster. For policymakers, their role is to further incentivise investments in resilience to the point where it can be considered a competitive advantage for businesses. This means building resilience and disaster risk reduction into a broad range of public policy domains, including building codes, urban planning, tax policy and land use regulation. Governments may also consider tax and other financially based incentives for stimulating business resilience. At the very least, regulations should not be excessively burdensome, and constrain or disincentivise investments in resilience. Moreover, regulations should provide a degree of certainty and not be subject to erratic and intermittent change (ARISE 2017).

A practical first step for governments in approaching resiliency is via a comprehensive risk assessment, through which both public and private entities can determine the risks that can be reduced or mitigated entirely with structural reforms (ARISE 2017). Although such risk assessments can be malleable, fundamentally they should address various disaster scenarios and likelihood of systemic risk.

It is important to recognise that governmental policy responses to resilience should not be considered in isolation. Different policy domains may directly or indirectly alter incentives or the practicality of investing in resilience. Policy should, therefore, be considered as a programme or collection of interconnected influences (ARISE 2017). To ensure no, or limited, conflict between policy domains, it is important that stakeholders, including businesses, be involved in the development of policy, and in any post-disaster recovery effort.

SMEs and resilience

Given their comparative vulnerability, SMEs tend to bear a disproportionate share of the losses stemming from a disaster and an exogenous shock. SMEs are acutely vulnerable due to their size, comparative lack of resources, geographic concentration and relative lack of capability. Their inability to access financing or formally share risk through contractual arrangements, as well as their general lack of risk awareness, increases their vulnerability (UNDRR 2021). Vulnerability can be concentrated in domains where SMEs account for a large proportion of employment, where poverty rates are higher, and access to finance is limited, meaning these areas are less resilient and subject to a greater degree of risk (UNDRR 2021).

Because SMEs are generally experienced in managing uncertain environments and changing market conditions, their owners and managers can be highly resilient themselves. This kind of entrepreneurial resilience can serve as an important foundation to small business resilience (Branicki, Sullivan-Taylor, and Livschitz 2017). Japan, for example, emphasises the importance of the personal flexibility of managers (see Box 4.4).

Box 4.4. SMEs and managerial resilience in Japan

As the environment surrounding small and medium enterprises (SMEs) changes drastically, managers are required to have the ‘ability to change themselves’ and respond with flexibility in order to improve productivity, sustain the business and expand sales channels. To that end, it is important to support management so that they can have a sense of conviction and a sense of ownership, and to provide appropriate assistance to management through dialogue and listening.

Source: Japan individual economy report (IER).

Despite having a degree of resilience, SMEs remain vulnerable to exogenous shocks and are generally underprepared for recovery (Yoshida and Deyle 2005). In the event of a disaster, SMEs, which typically operate from a single site, may find it hard to continue; larger corporations, on the other hand, may have operations in various geographic locales, making it more likely that they are able to continue operations (Zhang, Lindell, and Prater 2009).

The vulnerability of SMEs and their exposure to the impacts of exogenous shocks result from a number of factors, including over-dependence on critical infrastructure, lack of investment in risk reduction, low levels of liquid assets, and an inability to manage costs and price volatility. Barriers for SMEs in investing in resilience include access to capital, barriers to innovation, asymmetric relationships with larger corporations or governments, and lack of continuity planning (UNDRR 2021).

As noted, SMEs tend to experience greater losses and are more likely to be subject to closure after experiencing an exogenous shock. This can have considerable macroeconomic flow-on effects (e.g., SMEs account for 70 percent of foreign exchange (FOREX) earnings in Ethiopia). Since SMEs account for the vast majority of construction businesses in some developing economies and emerging markets, economies may face roadblocks in rebuilding after a disaster. In some cases, inequality can be exacerbated by the impacts of an exogenous shock. For example, in economies such as Cambodia, where over 60 percent of SMEs are owned by women, gender inequality could increase if SMEs are disproportionately affected by economic shocks (UNDRR 2021).

Bolstering SME resilience

Policymakers should consider the resilience of SMEs an imperative because the performance of SMEs following an exogenous shock has significant subsequent, and peripheral, economic impacts. For example, around 50 percent of the private-sector workforce in the US is employed by small businesses, and those businesses are a critical component of the economic prosperity of cities, towns, states and the economy (US Small Business Administration 2023).

Promoting the development of small businesses is a well-established strategy used by economic development planners, especially in jurisdictions characterised by socioeconomic distress and deprivation (Porter 1997). Given that SMEs are disproportionately vulnerable to exogenous shocks, the deprived communities in which they are situated are also particularly vulnerable. Small business resilience should, therefore, not be considered solely as a commercial imperative, but rather one of social justice and economic equity.

There are SME-led solutions that can contribute to improved resilience, such as collective bargaining for fixed price contracts (UNDRR 2021). There are also policy-driven solutions, such as implementing progressive procurement and directing government expenditure on construction through small businesses. From a policy perspective, increased investment on resilience in SMEs can be achieved by improving access to finance; reducing trade barriers and tariffs; increasing access to technologies and promoting innovation; reducing power imbalances in contracts; and communicating the package of benefits from investing in resilience (UNDRR 2021).

The ability of an SME to respond and adapt to an exogenous shock or other type of disaster can be described as adaptive capacity (Runyan 2006). Adaptive capacity comprises factors such as the availability of capital for recovery; organisational culture and personal attitudes of SME owners and managers; access to expertise; and perceptions of exposure and risk (Runyan 2006). Recent research has found the perceptions of managers and owners to be among the most significant factors contributing to the resilience of a small business (Halkos et al. 2018). Although factors involving capital access and expertise can be ameliorated by policy interventions, it is less clear if meaningful interventions can be made to shift organisational culture and risk perceptions toward appreciating the importance of resilience.

Lessons from the COVID-19 experience

Examining business responses to the disruptions imposed by COVID-19 offers some lessons on what can be done to support SME resilience, as shown in Box 4.5 (Kuckertz et al. 2020).

Research has indicated that small businesses and start-ups successfully leveraged their available resources to respond to the COVID-19 crisis, but their capacity for growth and innovation was negatively affected. This suggests that policy should focus on more than the short-term resources needed during a crisis. There is a need for long-term measures to support the broader entrepreneurial ecosystem and engender rapid recovery and growth (Kuckertz et al. 2020). Thailand has developed measures to help businesses recover from the pandemic as shown in Box 4.6.

Box 4.5. Lessons from the COVID-19 experience in Korea

During the COVID-19 pandemic, the Korean government provided relief funds to small and medium enterprises (SMEs) adversely affected by the crisis. Many SMEs were unable to operate their businesses due to COVID-19 containment and mitigation policies; and the decline in foot traffic caused by concerns over being infected further depressed product sales.

To address the urgent need to distribute relief funds to a large number of SMEs, the Korean government developed an efficient digital system. This initiative received positive feedback from many SMEs for the promptness of its fund distribution.

As a result of this policy experience, the Korean government has gained valuable knowledge on how to swiftly and systematically support a significant number of businesses in the face of sudden disaster. The data accumulated through this project are now being utilised in various initiatives aimed at supporting SMEs.

Source: Korea IER.

Box 4.6 Business support for firms to recover from COVID-19 in Thailand

Thailand developed credit facility measures to help rehabilitate businesses impacted by the COVID-19 pandemic. The measures were designed to be appropriate to the risk; flexible enough to withstand the rapidly changing environment; and inclusive to address different needs in different sectors.

The scheme included a soft loan facility for businesses, particularly small and medium enterprises (SMEs), to invest in improving their resiliency and competitiveness in the areas of digital technology, sustainability and innovation. The scheme also provided for debt restructuring through asset warehousing with buy-back options, which enabled businesses to avoid bankruptcy.

The scheme has contributed to building inclusive, resilient and sustainable businesses that would be better able to respond to subsequent shocks, environmental risks and disruptions by enhancing the capacity of firms to adapt to changing circumstances. The scheme has enabled firms to invest in improving their resiliency and competitiveness in the areas of digital technology, sustainability and innovation. This has led to increased productivity and dynamism in the economy, as well as positive impacts in terms of job creation, as firms modernised their operations and expanded their businesses.

The scheme has also resulted in the development of more sustainable business practices, such as the adoption of energy-efficient technologies and waste reduction strategies, which can help businesses mitigate environmental risks and adapt to changing market demands.

Source: Thailand case study.

PROMOTING INNOVATION

Structural reform to support competitive markets

The competition between firms arising from structural reform to liberalise markets spurs innovation. Indeed, stimulating innovation is one of the reasons that governments undertake structural reform. In monopolised markets or markets characterised by low levels of competition, businesses have little incentive to innovate (Greenhalgh and Rogers 2006), and so aggregate innovation performance is low. Intensified competition can increase aggregate innovation performance because in an effort to remain competitive, and attain a competitive advantage, businesses continually seek to implement new processes, ideas, products and systems (Gilbert 2006; Aghion, Cherif, and Hasanov 2021).

However, innovation research has argued that innovation and competition share an inverted U-shaped relationship, which means that increases in competition will increase aggregate innovation performance to a certain point (Aghion, Fally, and Scarpetta 2007). Once this point is reached, the market is oversaturated and aggregate innovation performance begins to decline. This occurs because businesses find it increasingly difficult to operate in an intensely competitive environment, largely competing on price, while also investing in innovation activities. Policymakers concerned with innovation performance should, therefore, seek to support market liberalisation, while also seeking to prevent oversaturation.

Beyond levels of competition, the liberalisation of markets creates additional learning opportunities for businesses, especially SMEs. Generally, SME learning occurs through prior experience rather than via formal or specialist channels (Small Business Council 2019). Informal networks and interactions are typically the source of SME knowledge. Practically, this often means that SMEs learn through frequent, informal interactions with other SMEs operating in the same or similar markets (Coetzer, Kock, and Wallo 2017). A recent study of SME learning behaviours in New Zealand found that, among other factors, social connections with other SMEs are crucial for accessing new knowledge (O'Hare 2022). In other words, networks, punctuated by social relationships, are a central mechanism for SME learning. As such, stimulating the establishment of new SMEs through market liberalisation can increase the learning opportunities available to SMEs and thereby improve aggregate innovation performance.

Technological development and economic growth

Innovation is the invention, development and diffusion of new goods, services or production processes through which growth, efficiencies and improved living standards are realised (OECD 2019b). It encompasses many of the activities undertaken by a business or other economic entity, including government agencies. However, the capacity for new products, processes or ideas to engender positive economic outcomes is contingent on their degree of implementation. For example, an idea or process that is not fully implemented will be limited in its ability to stimulate growth or efficiencies. Innovation is beneficial for developed and emerging market economies as it can promote economic growth and higher living standards through improved efficiencies in the use of labour and capital; advance technological development by directing investment toward advanced equipment and knowledge-based capital such as research and development (R&D) and software (OECD 2019b); and diversify

the economy by reducing their overall reliance on less sustainable industries such as agriculture or forestry.

Barriers to innovation

Market failure

The new knowledge embedded in innovations includes significant externalities (Bryan and Williams 2021). New knowledge is costly to produce, yet cheap and easy to reproduce, so it spills over and benefits others; the positive externality is a quasi-public good. As a result, it can be difficult for businesses to fully realise and internalise the returns from their investment in innovation. Consequently, there is a market failure: firms may underinvest in innovation activities (Dechezleprêtre, Martin, and Mohnen 2014).

The investments of businesses alone may be insufficient for generating sustained innovation, especially in emerging markets. In addition the presence of externalities can mean that firms are not always incentivised to develop socially beneficial innovations or green innovations (Rodrik 2020). The well-recognised market failures inherent in the production of new knowledge mean that government intervention and support is required to increase overall investment in innovation (OECD 2020c). In fact, major innovations such as the internet, global positioning system (GPS) technology and human genetic sequencing were the result of government intervention and funding (Mazzucato 2013, 2021).

Policy settings

Inarguably, governments play a central role in creating an environment conducive to innovation activity (OECD 2019b). Domains of governmental responsibility can include education policy that stimulates the creation of a skilled and well-educated workforce; regulatory policy such as intellectual property law that protects the returns on innovation and that enables businesses to experiment with new processes, technologies, systems and ideas; and innovation policies that fund, or co-fund, R&D activities through grants, tax credits or tax relief.

If governments are weak in these domains, businesses may be unable to innovate, due to the lack of the requisite skills and capabilities, incentives (due to weak regulatory settings) or financial resources for R&D. Resource limitations alone are not necessarily an innovation constraint for SMEs, and may actually foster certain types of innovation (Woschke, Haase, and Kratzer 2017), as SMEs navigate challenging environments. However, without sound regulatory settings, such as intellectual property protection, innovation can be disincentivised.

The innovation performance of economies can be measured by the World Intellectual Property Organization's Global Innovation Index. It measures innovation based on criteria ('pillars of innovation') that include institutions, human capital and research, infrastructure, market sophistication, business sophistication, knowledge and technology outputs, and creative outputs. The 2022 index shows that the top-performing APEC economies are the US (highest); Korea; and Singapore (see Appendix A, Table A.18; Dutta 2020). Globally, Switzerland (highest); the US; and Sweden lead the rankings, with China nudging the top 10. The index shows that the US performs better on innovation inputs such as investment and institutions than on innovation outputs, whereas China performs better on innovation outputs than inputs, lagging the global top 10 on institutions. The indicators suggest that Brunei Darussalam and

Indonesia both face challenges in business sophistication and that Indonesia is also hampered by lack of human capital and research.

Internal capabilities of firms

Understanding barriers to innovation, especially in an SME context, requires a holistic view of policy settings, market conditions and the internal capabilities of firms. Policy and market environments have a significant impact on the propensity, incentives and rationale for businesses to innovate. However, it is the internal characteristics, capabilities and resources of the businesses that will determine its ability to innovate and the types of innovation produced. Firms that have greater depth and breadth in their product portfolio also gain more from their radical innovations (Sorescu, Chandy, and Prabhu 2003).

SMEs are typically less resource-endowed than their larger counterparts, in terms of finances, management and human capital (Welsh and White 1981; van Burg et al. 2012). This affects innovation performance in different ways. On the one hand, resource constraints inhibit the ability of an SME to develop and capitalise on innovation opportunities (Agarwal, Sarkar, and Echambadi 2002).

However, it has been found SME owners frequently have the ability to identify opportunities stemming from their areas of limitation (van Burg et al. 2012). In other words, resource constraints experienced by SMEs can foster the right conditions for informing decision making, capitalising on opportunities, and innovation. However, Woschke, Haase, and Kratzer (2017) argue this is only accurate for incremental innovation, and not radical innovation. This is likely because radical innovation tends to require high levels of capital investment (Sorescu, Chandy, and Prabhu 2003).

Policies to support innovation

Promoting innovation does not necessarily require direct intervention via innovation policy. Innovation performance can instead be enhanced through harmonisation with other policy areas. In fact, it is especially important that structural reform policies achieve coherence in areas like competition policy and regulation to provide the framework conditions for innovation.

At a high level, policy settings should be configured in such a way that they create an environment that supports innovators and is conducive to innovation to not only produce innovations, but to implement, develop and scale them for commercial purposes (Jänicke and Lindemann 2010; OECD 2012; Miedzinski et al. 2021).

Policy measures to support innovation may include:

- provision of *funding/subsidies for research* and business-level investment in innovation activities (see Box 4.7)
- targeted *funding for radical and transformational innovations*, such as low-carbon infrastructure (Elkerbout et al. 2020)
- *long-term funding* that provides innovators with the confidence required for substantial investments in research and technological development (OECD 2020c)

- *environmental regulations* to directly encourage forms of green innovation (OECD 2011; Veugelers 2012)
- *public-sector procurement* levers to encourage green innovation by essentially creating a market for technologies that do not have adequate cost advantages to be produced by private businesses (APEC CTI 2013)
- provision of a *regulatory framework for innovation* that is in alignment with policies in areas that affect the rate and nature of innovation activity, including skills, education, competition and suitable intellectual property regulation.

Box 4.7. Supporting SME innovation in Hong Kong, China

To assist small and medium enterprises (SMEs) to adopt technology in their business process, Hong Kong, China launched the Technology Voucher Programme in 2016. Currently, under this programme, subsidies are given to local enterprises/organisations that use technological services and solutions to improve productivity, or to upgrade or transform their business processes. The programme provides subsidies for projects on a 3 (government) to 1 (enterprise/organisation) matching basis.

In addition, Hong Kong, China's 2023–2024 Budget has earmarked HKD 500 million to launch a Digital Transformation Support Pilot Programme. This programme would provide subsidies on a one-to-one matching basis for SMEs in the retail and food & beverages industries to apply ready-to-use basic digital solutions.

A free one-stop Digital DIY Portal has also been introduced by the Hong Kong Productivity Council. This portal aims to assist local enterprises embarking on digital transformation by bringing together relevant solutions, information and successful cases.

Source: Hong, Kong, China IER.

CONCLUDING REMARKS

Core structural reform policies (competition policy and law; strengthening economic and legal infrastructure; ease of doing business; regulatory reform; public sector governance; corporate law and governance) to improve the functioning of markets can contribute to an enabling environment for firms to innovate, be resilient, sustainable and inclusive through their impact on market competition and business dynamism. Nevertheless, as discussed in this chapter, there can be important market failures that limit firms' contributions in these areas.

Addressing the various market failures and barriers to achieving sustainability, innovation inclusion and resilience in each APEC economy will likely require a carefully considered, coordinated and targeted policy approach. It may not be necessary to develop specific policy to separately address sustainability, innovation, inclusion and resilience. Rather, policy that addresses a multitude of issues simultaneously may be leveraged to manage market failures, particularly in an SME environment, in an efficient way. The precise nature of such policy will need to reflect the features and characteristics of the economies that seek to apply them. In other words, there is no one-size-fits-all policy approach to manage market failures across the entirety of APEC.

5. SUSTAINABILITY PERFORMANCE OF STRUCTURAL REFORMS

Monitoring and assessment of structural reforms is crucial to understanding their impacts and to designing and implementing further structural changes. Typically, this occurs at the macro, economy-wide level and focuses on the impact on productivity and economic growth (see, for example, Rodrik 2005; Acemoglu, Gallego, and Robinson 2014). This report has shown that such monitoring should be expanded to the issues of sustainability, inclusion and resilience, especially at the firm level and for small and medium enterprises (SMEs). It substantiates the proposal by APEC to add to the set of indicators to be used in reviewing the Enhanced APEC Agenda for Structural Reform (EAASR) (Wirjo, Calizo, and Carranceja 2022).

Government moves to measure sustainability progress at the micro or firm level include requiring firms to report on their emissions. These measures complement firms' own incentives to report on their sustainability initiatives. This chapter discusses how the sustainability impacts of structural reform might be monitored, noting the challenges of measurement and attribution. It also surveys the use of mandatory sustainability reporting by governments to monitor the sustainability impacts of firms.

MEASURING STRUCTURAL REFORMS AND SUSTAINABILITY

Successful structural reform is dynamic and can change course based on the initial impacts the reforms have on the economy. As with any policy or intervention, the ability to change the course of reform relies on effective and timely monitoring of the initial impacts of any reform on the outcomes of interest. Monitoring the impacts allows governments to develop flexible and forward-looking policy responses that account for what has happened between the implementation of change and the current state (Waterman and Wood 1993).

Box 5.1. SME Big Data Platform in Korea

In the absence of a dedicated tool for evaluating the implementation of the structural reforms to facilitate inclusive, resilient and sustainable businesses, Korea is taking steps to establish a more comprehensive platform known as the SME Big Data Platform.

The platform aims to gather together information related to small and medium enterprises (SMEs) from various government ministries and agencies, including details on the diverse programmes implemented by the Korean government. This platform would allow the Korean government to assess the effectiveness and success of these programmes.

Source: Korea individual economy report (IER).

It is important that the monitoring encompasses all levels of the economy, both to ensure the robustness of a policy response and to gain information on the distribution of the reform's impacts. This means that monitoring should include the impact on SMEs, including very small or young companies as well as mid-sized companies, which are often not considered and therefore do not have their perspectives accounted for in the iterative development of reform and policy responses (OECD 2020e). However, there are well-recognised difficulties in capturing information on SMEs that can limit this approach (IFC 2011b). To address these difficulties, Korea has initiated an SME Big Data platform, as described in Box 5.1.

Effective monitoring would also require a precise and previously determined definition of the aim and scope of what will be monitored (i.e., inputs, outputs and/or outcomes) and how it will be monitored as well as provisions for identifying data sources and ensuring the information is of high quality (Monga and Standaert 2019; Rančić and Šušteršič 2022; see Box 5.2)

Box 5.2. Measuring policy implementation in Brunei Darussalam

Brunei Darussalam has introduced a number of tools to measure policy implementation.

The Online Business Reporting Portal streamlines all business data collection from various government systems. Information on all companies from various government systems is channelled to the portal and companies are required to submit their business data and performance report through the portal.

The Annual Census of Enterprise is conducted annually and provides up-to-date information on the profile of private sector businesses to assist in planning, research and policymaking related to the development of the private sector in contributing toward the economy's economic growth.

The Economic Census of Enterprise collects information pertaining to the growth, contribution, composition and distribution of economic activities undertaken by private sector enterprises. The data is used to determine the contribution of the private sector to GDP and assists the development of policies and strategies.

Source: Brunei Darussalam IER.

Measuring structural reforms

Measuring the effects of structural reform is essential to determine if the reform has been successful and delivered on key objectives. Measurement forms the basis of monitoring and allows for structural reform to be retargeted if it appears there are unintended policy consequences, or the objectives of the reform move or change.

Ensuring effective measurement

Measuring the impacts and success of structural reform requires good policy indicators that are easily interpretable and repeatable to allow comparison against a baseline and keep government accountable (Claeys 2016). These indicators or measures should show the extent to which the policy actions taken during the reform have reduced or removed impediments to the efficient allocation of resources and whether they have addressed other key objectives of the reform, such as inclusion (in the employment of women and other groups with untapped economic potential, such as Indigenous peoples, people with disabilities, and those from remote and rural communities). To be able to show this relationship clearly (and without confounding influence) requires distinguishing between indicators that track outcomes and those that track the policy environment (Monga and Standaert 2019).

Measurements of the impacts of any structural reform should consider input, output and impact indicators, such as the allocated budget, the direct output for the beneficiaries of the reform and the overall impact on the economy (Monga and Standaert 2019; Rančić and Šušteršič 2022).

Ideally, the measures used should allow for comparison across economies by explicitly controlling for confounding factors such as level of development or other relevant economic characteristics such as geographical position or an economy's resource endowment (Monga and Standaert 2019).

Measurement challenges

In general, it is very difficult to measure the impacts and outcomes of structural reforms across different economies and over time in a consistent and objective manner for a number of reasons. Changes to policies and institutions create attribution difficulties: it is hard to definitively link any impacts observed to a policy (Acemoglu, Johnson, and Robinson 2005).

Also, some evidence is based on the reform of only one aspect of an economy and/or the impacts and outcomes in one economy. Very few papers study multiple reforms in more than one economy over time. In part, this is because regions as diverse as Latin America, the economies of the Organisation for Economic Co-operation and Development (OECD) or the transition economies differ in the dimensions of the reforms implemented (Campos, Grauwe, and Ji 2018).

Another challenge is the uneven availability of data across economies, from no data at all, to imperfect data and data of varying quality (Prati, Onorato, and Papageorgiou 2013). In order to avoid reducing the data set to only a handful of economies, multiple imputation is often necessary (Monga and Standaert 2019). Yet another issue that has been observed is that results using existing measures of reform tend to be inconclusive (Babecký and Campos 2011).

The gauges of the impact of structural reform are not as readily available as those for other policy change. For example, when measuring the impact of macroeconomic policies, we can turn to interest rates, liquidity measures or budgetary balance as readily available quantifiable indicators (Ostry, Berg, and Kothari 2021). The same types of measures do not exist for the impacts of structural reform such as sustainability, inclusion and resilience.

Advantages of using indicators

Since economies and the environment are very complex, and there are challenges both in measuring structural reforms and their impacts, indicators provide a practical way to condense salient information for measuring economic and sustainability performance, rather than tracking every possible variable.

Indicators are developed based on quantitative measurements or statistics on the state of the economy, society or the environment that are tracked over time. The indicators are often aggregated into an easy-to-use index to provide a simple measure of the outcome of interest. For example, the Heritage Foundation's Index of Economic Freedom²⁶ (Appendix A, Table A.19; Kim 2023) and the Fraser Institute's Economic Freedom of the World Index²⁷ (Appendix A, Table A.20; Gwartney et al. 2022) seek to identify the quality of market institutions.

Indicators provide a way to spot problems, set targets, track trends, understand outcomes and identify best policy practices. They can be used to track progress over time, and also provide

²⁶ <https://www.heritage.org/index/download>

²⁷ <https://www.fraserinstitute.org/economic-freedom/dataset?geozone=world&year=2020&page=dataset&min-year=2&max-year=0&filter=0&sort-field=regulation&sort-reversed=0>

comparisons between economies. Indicators can thus be used to inform policymakers and help them refine their policy agendas, and facilitate communications with key stakeholders. The choice of indicators varies with the dimensions that are of most interest, their measurability and their comparability across jurisdictions. As a result, different indices are made up of different indicators.

Indicators/indices and findings

The literature tends to turn to the impact of structural reforms on the growth of the economy/economies as a primary measure of success, focusing on aggregate outcomes and using various reform indicators as explanatory variables (Prati, Onorato, and Papageorgiou 2013). The indicators typically measure the inferred outcomes of the reforms, such as the quality of institutions, rather than the reforms themselves. However, a study by Jacobs (2017) used a survey of APEC member economies to identify the adoption of good regulatory practice (GRP) as shown in Table 5.1.

Table 5.1. Adoption of GRPs, 2011–2016: APEC economies

Good regulatory practice (GRP)	% change 2011–2016	% of APEC economies adopting this GRP in 2011	% of APEC economies adopting this GRP by 2016
Ability to manage regulatory reform			
Adoption of economy-wide regulatory strategy	33	57	76
Institutions tasked with managing a government-wide programme of regulatory reform	27	52	67
Adoption of good regulatory principles across government	46	62	90
Publication of an annual regulatory/legislative plan	30	48	62
Systemic review of regulations for cost and effectiveness	0	100	100
Adoption of regulatory impact assessment (RIA)			
Is there a mandatory RIA process?	8	57	62
Does the government use any form of RIA?	75	38	67
Are trade and competition principles integrated into regulatory review and analysis?	NA*	NA*	43
Public consultation and transparency mechanisms			
Are draft legal documents and RIAs published for comment before adoption?	50	38	57
Publication is done on a central web portal rather than on individual ministry websites?	75	38	67
Does the government use social media tools to notify stakeholders of regulatory activities or to consult?	NA*	NA*	67
Is feedback given to stakeholders after consultation is completed?	20	48	57
Is there a single online location for regulatory information across the whole of government?	NA*	NA*	62

Note: *This question was not included in the 2011 survey (APEC 2011).

Source: McLeod (2020) drawn from Jacobs (2017).

In addition to indicators of the quality of specific policy dimensions such as the World Bank's Doing Business indicators²⁸ (see Appendix A, Table A.1; World Bank 2020), a number of indicators seek to measure the quality of economy-wide institutions that support the effectiveness and efficiency of markets. Broadly speaking, indicators of competitiveness focus on the dimensions of each economy that contribute to its competitive advantage, while indicators of economic freedom focus on factors that contribute to freedom to trade.

The World Economic Forum's Global Competitiveness Index²⁹ shown in Appendix A, Table A.3 measures the overall enabling environment, human capital, markets and the innovation ecosystem (Schwab and Zahidi 2020). The structure of the measures is shown in Appendix A, Figure A.3. The top-ranked APEC economies on this indicator are Singapore (highest); the US; and Hong Kong, China, reflecting their strength in macroeconomic stability and financial systems. Health is also a competitive advantage for Hong Kong, China and for Singapore. Peru; the Philippines; and Viet Nam are all challenged by a lack of innovative capacity.

The International Institute for Management Development's World Competitiveness Ranking³⁰ shows each economy's global ranking in terms of economic performance, government efficiency, business efficiency and infrastructure as shown in Appendix A, Table A.4 (IMD 2023). The structure of the ranking is shown in Appendix A, Figure A.4. The top-ranked APEC economies on this indicator are Singapore (highest); Hong Kong, China; and Chinese Taipei. The lowest ranked are the Philippines; Peru; and Mexico (lowest).

The Heritage Foundation's Index of Economic Freedom,³¹ shown in Appendix A, Table A.19 measures property rights, judicial effectiveness, government integrity, the tax burden, government spending, fiscal health, business freedom, labour freedom, monetary freedom, trade freedom, investment freedom and financial freedom (Kim 2023). The top-ranked APEC economies are Singapore (highest); Chinese Taipei and New Zealand. According to the index, these economies tend to score highly on all the measures but face challenges in some areas such as judicial effectiveness (Singapore), financial freedom (Chinese Taipei) and government spending (New Zealand).

The Fraser Institute's Economic Freedom of the World Index³² measures the size of government, the legal system and property rights, sound money, the freedom to trade internationally and regulation, as shown in Appendix A, Table A.20 (Gwartney et al. 2022). The structure of the measures is shown in Appendix A, Figure A.11. The top-ranked APEC economies are Hong Kong, China (highest); Singapore; and New Zealand, all of which display strength in sound money, with Singapore and New Zealand scoring less well on size of government. Of the lowest ranked economies, Papua New Guinea and Viet Nam score lowest in terms of their legal systems and China on size of government. The sub-index for business regulation is shown in Appendix A, Table A.21. On this measure the top-ranked APEC economies are Hong Kong, China; Canada; and Singapore.

²⁸ <https://www.doingbusiness.org/content/dam/doingBusiness/excel/db2020/Historical-data---COMPLETE-dataset-with-scores.xlsx>

²⁹ <https://www.weforum.org/reports/the-global-competitiveness-report-2020/>

³⁰ <https://worldcompetitiveness.imd.org/>

³¹ <https://www.heritage.org/index/>

³² <https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2022-annual-report>

Although there are differences between the indicators in what they measure, the pattern of ranking displays some consistency. If an economy ranks higher (or lower) across an indicator, it also tends to rank higher (or lower) across all other indicators.

Measuring sustainability

Dimensions of sustainability

Sustainability is difficult to quantify. However, a set of indicators can be used to encapsulate its environmental, social and economic dimensions. There are multiple ways of measuring sustainability at an aggregate economy level (sustainability reporting at the firm level is discussed in the next section).

In 2015, the United Nations General Assembly formulated 17 sustainable development goals (SDGs)³³ as a global development framework that reflects the interconnected environmental, social and economic aspects of sustainability. The SDGs have specific targets (most to be achieved by 2030) and indicators to measure progress.

The SDGs are: no poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice, and strong institutions; and partnerships for the goals. Each goal comprises a number of sub-goals as shown in Appendix A, Figure A.7.

Meeting these goals is underpinned by six major societal transformations, namely, education and skills; health and well-being; clean energy and industry; sustainable land use; sustainable cities; and digital technologies. These six major societal transformations provide the impetus for government ministries, businesses and civil society to act (Sachs et al. 2022). They are guided by two principles: ‘leave no one behind’ and ‘ensure circularity and decoupling’ (Sachs et al. 2019, 3).

Indicators/indices and findings

There are a number of indices that can be used to measure progress on sustainability. The SDG Index³⁴ tracks the progress of the SDGs against the goals for all UN members (see Appendix A, Table A.12 and Table A.13; Sachs et al. 2023) In 2023 the top-ranked APEC economies were Japan (which has achieved the goals of quality education; and industry, innovation and infrastructure); Canada (which has achieved the goals of no poverty and quality education); and New Zealand.

The MIT Green Future Index³⁵ is an annual comparative ranking of 76 economies on their ability to develop a sustainable, low-carbon future, based on five pillars: carbon emissions, energy transitions, green society, clean innovation and climate policy (see Appendix, Table A.14; O’Brien 2023). The top-ranked APEC economies in 2023 were Korea; Canada; and the United States.

³³ <https://sdgs.un.org/goals>

³⁴ <https://www.sdgindex.org/>

³⁵ <https://www.technologyreview.com/2023/04/05/1070581/the-green-future-index-2023/>

The Green Growth Index³⁶ from the Global Green Growth Institute measures the performance of economies in achieving their sustainability targets, including the SDGs (see Appendix A, Table A.15; Acosta et al. 2022). It consists of four green growth dimensions: efficient and sustainable resource use; natural capital protection; green economic opportunities; and social inclusion. Each dimension is underpinned by a number of pillars as shown in Appendix A, Figure A.8. The top ranked APEC economy in 2023 was Singapore, followed by Hong Kong, China and Canada at joint second.

The Environmental Performance Index³⁷ developed by Yale University and Columbia University summarises the state of sustainability around the world on the objectives of climate change performance, environmental health, and ecosystem vitality (see Appendix A, Table A.16; Wolf et al. 2022). The objectives are underpinned by 40 indicators as shown in Appendix A, Figure A.9. In 2022, the top-ranked APEC economies were Australia (highest); Japan; and New Zealand.

Structural reform and sustainability

Quality of institutions

Structural reforms create or change institutions that provide an enabling environment for business and promote the efficient operation of markets. Institutions, through the incentives they create for firms, serve as a fundamental link between public policy and the businesses that directly or indirectly use environmental resources. Robust policies and appropriate institutional arrangements are essential to achieving sustainable development. Environmental problems are rooted in failed markets and their resolution requires government taking some kind of action, for example, to establish property rights, set standards of liability, apply polluter-pays taxes, or regulate, as discussed in Chapter 4 (Sharp 2002).

A number of studies find that economies with a strong institutional framework are more likely to contribute to mitigating carbon dioxide (CO₂) emissions and greenhouse gases, addressing climate change and improving environmental quality (see, for example, Ibrahim and Law 2016; Ahmed et al. 2020; Déés 2020; Ntow-Gyamfi et al. 2020; Khan and Rana 2021; Sah 2021; Azam et al. 2022). Ali et al. (2019) analyse the impact of institutional quality on CO₂ emissions across 47 developing economies, including Indonesia; Mexico; the Philippines and Thailand. They find that institutional quality reduces CO₂ emissions and hence the level of environmental degradation in the economies analysed. On the other hand, Alola et al. (2022) find that economic freedom is detrimental to environmental quality in G20 economies. Rapsikevičius et al. (2022) find no significant relationship using trend analysis between economic freedom and environmental performance in European Union (EU) economies.

Nevertheless, the studies concur that appropriate institutional frameworks and decision-making mechanisms are crucial for addressing environmental issues. They emphasise the importance of strengthening institutions, with appropriate and effective regulations, laws, property rights and corruption controls, to mitigate negative environmental effects (Ali et al. 2019; Salman et al. 2019; Prasetyo and Kistanti 2020; Xaisongkham and Liu 2022). Structural reform programmes should include environmental concerns to enhance their effectiveness (Abaza 1996).

³⁶ <https://greengrowthindex.gggi.org/>

³⁷ <https://epi.yale.edu/>

CORPORATE REPORTING ON SUSTAINABILITY

Corporate sustainability, or the drive to create long-term value by pursuing responsible environmental, social and economic strategies, falls under the broader term ‘environmental, social and governance’ (ESG). ESG is specifically about providing long-term value for stakeholders without compromising people, the planet or the economy.

Competitiveness and sustainability reporting

Businesses benefit from their sustainability activities. Voluntary adherence to sustainability standards, such as labelling schemes for fair trade and organic products, can cater to consumer and investor demands and contribute to a firm’s competitiveness. Such reporting standards harmonise reporting practices among companies so the information is readily accessible for stakeholders (Christensen, Hail, and Leuz 2021).

Sustainable business practices and reporting can benefit firms’ bottom lines by reducing operating costs, improving brand reputation and delivering competitive advantages (Gianfrate, Schoenmaker, and Wasama 2019). For example, a study of European agribusiness finds that disclosure of strictly environmental and social information improves profitability (Conca et al. 2020). As a result, firms are increasingly making use of ESG frameworks that explicitly take environmental and social factors, such as inclusion, into account in their decision making, as discussed in Chapter 3.

There is growing demand among consumers for sustainable products and services, and ESG considerations have become increasingly important for investment decisions by institutional investors, making sustainability reporting more and more unavoidable for businesses wanting to maintain their competitiveness (Amran and Keat Ooi 2014; Bernow et al. 2019). In addition, global value chains are increasingly governed by sustainability standards, some of which are set by corporations and others by governments. At the same time, stock exchanges are producing guidelines to help firms enhance the quality of their ESG disclosures (see, for example, Bursa Malaysia 2022).

Sustainability reporting enables companies to record, assess and publish their progress against economy and individual criteria to help investors, civil society organisations, consumers and other stakeholders evaluate the sustainability performance of companies.

Sustainability reporting refers to the information companies provide about their performance with respect to sustainability practices, such as energy use, waste reduction, and ethical sourcing of inputs and products. The reporting is typically regular, consistent and structured to allow for comparison over time. What is reported on may be narrow (e.g., on environmental sustainability) or may incorporate wider social and governance issues (i.e., ESG).

There are a number of sustainability reporting frameworks and standards available for firms to use (Rogmans and El-Jisr 2022) and they are evolving fast worldwide (PRI 2022; KPMG 2023a; 2023b). These frameworks and standards vary in the scope of information they capture. For example, some look only at greenhouse gas emissions, while others look at the company more holistically and how they meet objectives such as the UN SDGs. The frameworks and standards also vary based on their target audience. Some focus solely on providing relevant information for investors, while others take a broader lens and report on information that would

be relevant for customers, employees and society more generally. A matrix showing common frameworks according to their intended audience and scope is shown in Figure 5.1.

Figure 5.1. Audience and scope of sustainability reporting frameworks

BROAD Multiple Stakeholders NARROW Investors	Audience	CDP Carbon Disclosure Project (https://www.cdp.net/en)	GRI Global Reporting Initiative (https://www.globalreporting.org) WEF-IBC World Economic Forum and International Business Council (https://esgthereport.com) CoP UN Global Compact – Communication on Progress (https://unglobalcompact.org/participation/report/cop)
	Scope of Reporting	NARROW Climate/Environment	BROAD Sustainable Development Goals/ Corporate Social Responsibility

Source: Rogmans and El-Jisr (2022).

The diversity of disclosure types (whether mandatory or voluntary), reporting requirements (results to disclose) and metrics between economies vary, suggesting that harmonisation and international cooperation could enhance the value of disclosure, as discussed below.

Barriers affecting sustainability reporting

A range of barriers make voluntary sustainability reporting difficult. A systematic review of the literature on challenges in sustainability reporting finds that the barriers identified were similar across developed and emerging economies (Jain and Tripathi 2022). However, the barriers may be more pronounced in emerging economies that have less developed accounting and reporting systems and frameworks (UNCTAD 2021).

The internal barriers include lack of understanding and awareness; high costs of reporting compared to perceived benefits; lack of resources and time; difficulties in measuring the impact and issues in data collection; reporting not perceived as important; possible harm of reporting to company reputation; lack of trained staff; reluctance to report sensitive information; lack of support from senior managers; lack of impact on companies’ performance and sales;

identifying the material issues to be included; organisational structure or culture that does not support sustainability reporting; lack of guidance on best practices; the need for development of an information system; conflict between performance for short-term gains and long-term sustainability; having few people accountable for reporting; reporting sustainability through other mediums; and identifying appropriate content for forward-looking statements (Jain and Tripathi 2022).

External barriers include the lack of a mandatory requirement to report; lack of stakeholder demand; informal and religious beliefs and norms; and lack of government initiatives (Jain and Tripathi 2022).

Another study of sustainability reporting challenges in emerging economies finds that training, legislation, issuing of guidance, stakeholder pressure, awareness campaigns, and market and public pressure are some of the determinants of sustainability reporting, though the efforts by the Global Reporting Initiative (GRI) to increase sustainability reporting in emerging economies has had limited impact (Tauringana 2020). The GRI is discussed in more detail below.

Rise of mandatory reporting requirements

To address the unmet demand for ESG information by institutional investors in particular, more economies are adopting mandatory ESG disclosure legislation. Most of the new legislation applies to financial institutions, state-owned enterprises (SOEs) and large, listed companies. Although typically exempt, SMEs face pressure from in-scope financial institutions and companies to disclose their ESG performance. The German Act on Due Diligence in Supply Chains (introduced January 2023) and the proposed European Union (EU) Corporate Sustainability Due Diligence Directive are both examples of a growing global drive to require (mostly larger) companies to scrutinise their business operations and supply chains to ensure that they comply with human rights and environmental standards. Companies must show that they have identified actual or potential risks to people and the environment and that they have taken steps to address violations (if there are any).

In the EU, large and publicly listed companies are required by rule to regularly report on the social and environmental risks they face, as well as how their business operations impact people and the environment. The EU's Corporate Sustainability Reporting Directive (introduced in January 2023) further strengthens and modernises the rules around what companies need to report in terms of social and environmental information. These rules are in place to ensure investors and other stakeholders can readily access the information to make judgements on investment risks that may arise from climate change or other sustainability issues, as well as improve transparency about companies' impacts on people and the environment. The European Commission also states that the introduction of the rules will reduce reporting costs for companies over the medium- to long-term through the harmonisation of information to be provided (European Commission 2023). The experiences of APEC economies in mandatory reporting are discussed below.

Stock exchanges are also requiring climate-related disclosures. For example, the Corporate Governance Code of New Zealand's Exchange (NZX) requires publicly listed companies to publish information about the environmental, economic and social sustainability risks the company might face. The Korea Stock Exchange (KOSPI) has announced that certain-sized companies listed on KOSPI will be required to report on sustainability from 2025. This will be

extended to include all companies by 2030 (KPMG 2022). Stock exchanges in most APEC economies provide guidance to firms on sustainability reporting as shown Appendix B, Table B.1.

A study of the characteristics of corporations that provide high-quality sustainability reports suggests that those located in Europe, and/or in the energy or production sector, and/or those with higher profit margins were the most likely to produce high-quality sustainability reports (Dilling 2010).

Rise in sustainability reporting

The 2022 KPMG survey of sustainability reporting among the world's 250 leading companies, finds that ESG reporting is increasing, with 96 percent of the firms reporting on their sustainability, up from around 35 percent in the early 2000s. A worldwide sample of the top 100 companies shows high levels of ESG reporting among APEC economies including Canada (94 percent); Japan (100 percent); Korea (99 percent); Malaysia (99 percent); Singapore (100 percent); Chinese Taipei (94 percent); Thailand (97 percent); and the US (100 percent) (KPMG 2022).

The GRI is the most commonly used reporting standard worldwide. In APEC, it is used by Chile; Singapore; and Chinese Taipei. Malaysia uses stock exchange guidelines, while firms in Canada and the US use the Sustainability Accounting Standards Board (SASB) framework (KPMG 2022). Although most sustainability reporting currently uses voluntary frameworks such as the GRI and SASB standards, this is likely to change in the future with the increasing adoption of mandatory reporting across economies.

Reporting in APEC economies

Multiple APEC economies now have regulatory requirements relating to firm-level sustainability reporting (see, for example, New Zealand's climate-related mandatory disclosure regime in Box 5.3). In Malaysia, ESG reporting has been mandatory for all public-listed companies since 2016, making it one of the first economies to introduce this kind of disclosure requirement. Canada has announced mandatory climate-related reporting for federally regulated banks and insurance companies since 2024, using the Task Force on Climate-related Financial Disclosures (TCFD) framework (Brightest 2023).

Box 5.3. Climate-related mandatory disclosure in New Zealand

New Zealand has introduced a number climate-related disclosure requirements at the firm-level for large entities, and also for government to lead by example.

The **Carbon Neutral Government Programme (CNGP)** was announced in December 2020. This is focused on measuring and reducing emissions in New Zealand's core government departments and Crown agencies (including public hospitals), with the intent of accelerating public sector emissions reductions. The CNGP requires departments and agencies to set emissions reductions targets (in line with a 1.5-degree pathway) and introduce a reduction plan. Departments and agencies must measure and regularly report their emissions, showing them relative to the targets and plan in their annual reports. CNGP participants are also required to provide this information to the Ministry for the Environment to ensure accountability and show progress over time.

The **Climate-related Disclosure (CRD) regime** was legislated in 2021. The goal of the CRD regime is to make sure climate change and its effects are a core consideration of business operation, investment and lending, and insurance underwriting decisions; provide climate reporting bodies with better visibility of business activities and lead to more efficient allocation of capital; and smooth the transition to a low-emissions and sustainable economy (Ministry for the Environment 2023). The CRD regime covers large Crown financial institutions, large banks, insurers, managers of investment schemes and publicly listed entities. Enforcement of the regime includes substantial penalties and criminal liability.

The **Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021** will come into force in New Zealand in 2023. It will require large financial-markets participants, including listed issuers, banks, insurers and investment scheme managers to disclose climate-related information. The purpose of the Act, like the CRD regime, is to develop a robust climate disclosure system that financial entities (which have regular reporting requirements under the Financial Markets Conduct Act 2013) must participate in, to ensure climate change considerations are central to business operation, investment and lending, and insurance underwriting. The first disclosures are expected to be made in early 2024. Other firms can voluntarily report their greenhouse gas emissions using the Ministry for the Environment’s guidance for measuring emissions (Ministry for the Environment 2022).

Source: New Zealand Ministry for the Environment.

APEC’s Bangkok Goals on Bio–Circular–Green Economy include ‘advancing concrete initiatives on responsible business conduct, environment, social and governance (ESG) industry practices’ (APEC Secretariat 2022). However, across APEC economies, there appear to be different ESG reporting and disclosure requirements. For most, it appears disclosure requirements apply to only large and/or publicly listed companies and/or regulated entities within each economy.

Table 5.2 summarises the reporting requirements for each of the APEC economies. Where possible, the level of reporting required is noted. For example, in some economies there is a comply-or-explain approach taken to disclosure, which is looser in nature than mandatory disclosure and leaves it to the market and stakeholders to enforce non-disclosure or deviation from the requirements. Appendix B, Table B.2 provides further detail and the sources that have informed this assessment.

Table 5.2. Mandatory reporting requirements: APEC economies

Economy	Is there a requirement to provide ESG information and for whom?	To what level, if specified?	Other notable disclosure requirements, if any
Australia	Publicly listed companies, and some others	Unclear	Disclosures required under different Acts regarding resource use, the environment and human rights
Brunei Darussalam	No	-	Mandatory GHG emissions reporting for all facilities and agents that emit and absorb GHGs (Ho 2020; US Department of State 2022)
Canada	Federally regulated financial institutions	Mandatory	Corporate diversity reporting and emissions disclosures for large emitters to the Canadian government (Brightest 2023)
Chile	Publicly listed companies	Comply or explain	Reporting requirements generally tied to right to public access of information (Bertrand-Galindo 2022)

Economy	Is there a requirement to provide ESG information and for whom?	To what level, if specified?	Other notable disclosure requirements, if any
China	No	-	Key pollutant discharging entities, those subject to review for clean production, publicly listed companies, bond and debt financing issuers and some others are legally required to disclose environmental information (Caixin Global 2022)
Hong Kong, China	Publicly listed companies	Mandatory for some elements, comply or explain for others	
Indonesia	Publicly listed companies	Unclear	
Japan	Publicly listed companies	Mandatory for some elements	
Korea	Large publicly listed companies	Unclear	Mandatory information protection disclosure required for those subject to the Act on the Promotion of Information Security Industry (Kim and Lee 2023)
Malaysia	Publicly listed companies	Mandatory	
Mexico	No	-	While it is not a listing requirement, the Mexican Securities Law requires issuers of securities and others in the securities market to publish annual reports that disclose environmental information and corporate governance (Escoto, Aceves, and Serrano 2023)
New Zealand	Large financial market participants	Mandatory	Additional requirements under the Carbon Neutral Government Programme for departments and agencies, and the Climate-Related Disclosure Regime for Crown financial institutions, large banks, insurers, investment schemes and publicly listed entities
Peru	Publicly listed companies	Comply or explain	
The Philippines	Publicly listed companies	Comply or explain, phasing to mandatory	
Russia	No	-	
Singapore	Publicly listed companies	Comply or explain, phasing to mandatory	
Chinese Taipei	Publicly listed companies	Mandatory for some elements, comply or explain for others	The disclosure of governance framework for promoting sustainable development, risk assessment of ESG issues, management policies, and climate-related information (TCFD framework, including Scope 1+2 GHG emissions) are mandatory. For other aspects, companies are guided to disclose significant environmental and social issues based on a “comply or explain” approach.
Thailand	Publicly listed companies	Unclear	
United States	No	-	
Viet Nam	Publicly listed companies	Unclear	

ESG=environmental, social and governance; GHG=greenhouse gas; TCFD=Task Force on Climate-related Financial Disclosures

Note: Data not available for all APEC economies.

International reporting standards

Differences across economies

At the global level, there is some confusion about what and how firms should be reporting with regard to their sustainability activities (UN DESA 2021) as well as differences in mandates and enforcement approaches for non-reporting.

The combination of these factors makes a cohesive reporting scheme challenging, both domestically and internationally. It also means stakeholders can experience ‘standards fatigue’ as they encounter confusion around differing guidelines, standards to adhere to and the necessary tools, which also imposes a cost burden on stakeholders who have to comply with multiple standards and frameworks (Robertson, Krasodomska, and Dyczkowska 2022). Given the number of reporting regimes and their differing requirements, stock exchanges provide guidance to firms as shown in Appendix B, Table B.1.

The UN Conference on Trade and Development (UNCTAD) recognises that economies with weaker accounting and reporting infrastructure need greater support to keep pace with the rapid global development in sustainability reporting standards and requirements (UNCTAD 2021). A focus for UNCTAD is therefore to boost the accounting and reporting skills in micro, small and medium enterprises (MSMEs) post-COVID-19.

Global Reporting Initiative (GRI) standards

The GRI is an independent international organisation founded in 1997 with the purpose of helping firms and other organisations with the reporting of their sustainability impacts (GRI 2023). The GRI has developed standards, and promotes their use by organisations around the world to ensure consistent, accurate and complete reporting of the environmental, social and economic impacts of firms’ operations. The GRI standards are the most widely used sustainability reporting standards globally, used by over 10,000 organisations in 100 economies (KPMG 2022).

GRI standards have developed and improved over time. The adoption and use of GRI occurred earlier and more rapidly in some markets, such as the energy sector, where there is greater risk to the environment and society because of firms’ operations, and where there is higher visibility in capital markets (Callan and Thomas 2009; del Mar Alonso-Almeida, Llach, and Marimon 2014). More recently, use of GRI and other reporting standards have expanded, with use being highest in Asia and Europe, followed by Latin America, Northern America and the Caribbean (Halkos and Nomikos 2021). In Europe, Oceania and Northern America, growth in the use of the standards by multinationals have slowed down, due to use reaching the full-grown stage (Halkos and Nomikos 2021).

GRI adoption for Asian and Northern and Latin American economies shows similar patterns. In 2011, the largest number of GRI reports for each region by sector were either in the energy or financial services sectors (del Mar Alonso-Almeida, Llach, and Marimon 2014). According to the KPMG Sustainability Reporting Survey in 2022, 75 percent of the companies it surveyed in the Americas and 68 percent in the Asia-Pacific used the GRI standards for sustainability reporting (KPMG 2022).

Despite its legitimacy and being the most commonly used reporting framework, like any framework, it is not perfect (Levy, Szejnwald Brown, and de Jong 2010). The 10,000 firms using the framework are a tiny fraction of the number of global firms. Also, only around 10 percent of reports in the GRI Sustainability Disclosure Database come from SMEs (defined as ≤ 250 employees) (Havrysh 2020) despite accounting for over 90 percent of firms. An additional critique is that meeting GRI standards does not mean enough being done for sustainability, and or being sustainable in practice, and in fact it rewards treating the symptoms of a problem, rather than the cause (Milne and Gray 2013).

B Lab standards

A relatively new player in sustainability standard setting and certification is B Lab, which certifies firms that meet a range of social, environmental and governance conditions as ‘B Corporations’. The rise of B Lab, and its B Corporation standards, has been touted as a challenge to incumbent and conventional sustainability reporting frameworks (Kim and Schifeling 2022).

To become certified, firms must first demonstrate high social and environmental performance on the B Impact Assessment scoring scale (B Lab 2023a). The score given to a firm is based on how the firm creates value for non-shareholding stakeholders, such as employees, local communities and the environment (Kim et al. 2016). Second, firms must make a legal commitment by changing their corporate governance structures to be accountable to all stakeholders (and not just shareholders). Finally, they have to allow their performance on the standards to be published on the B Lab website. The first lot of B Corporations was certified in 2007 (Kim et al. 2016); and as of this writing, there are 6,716 certified B Corporations globally (B Lab 2023c).

Compared to the GRI framework, the B Corporation framework goes a step further to evaluate a firm’s performance (B Lab 2023b). Despite some differences in purpose and content, the two frameworks can be used as complements, and information gathered for one could be used for the other, avoiding duplication of work (GRI and B Lab 2021).

Lessons learned and good practices

Supporting reporting by SMEs

Economies can encourage and incentivise SMEs to participate in reporting activities in various ways (Meech and Bayliss 2021), including:

- *Leading by example* and having the government and SOEs prepare and issue reports. Leading by example is important because it gives businesses tangible examples of how they can report appropriately and also normalises reporting as an activity, that is, it becomes business as usual. For example, in China, SOEs are required to release regular reports on their corporate social responsibility (CSR) performance (SASAC 2011).
- *Providing guidance and documentation* on the steps in the reporting process. The guidance should be easy to follow and provide all the relevant information to successfully report performance on a particular standard or level. Many APEC economies have some form of sustainability reporting guidance published by a range of parties. Examples include the Securities Exchange Commission in the Philippines (SEC Philippines 2019b); the Carbon Disclosure Project (CDP) and GRI in Indonesia (CDP and GRI 2022); the stock exchange in Malaysia (Bursa Malaysia 2022); and the stock exchange in Thailand (SET Thailand 2023a, 2023b).
- *Partnering with industry and SMEs directly* to help give direction and understand their issues. One example of what this might look like is the OECD Platform on Financing SMEs for Sustainability (OECD 2023b). It is a forum that brings together public and private financial institutions, governments, fintech companies, regulators, and SME representatives

to share knowledge and discuss SME sustainability and develop good practice that can be taken away from the forum and put in place by businesses and SMEs. The Industrial Bank of Korea in Korea is one of the members of the forum.

- *Reducing costs and barriers.* One way would be for governments to provide SMEs with the data and information required to be able to report on their sustainability, rather than relying on them to acquire the data themselves. For example, the Canadian Centre for Climate Analytics was established in 2019 to provide climate-related data to businesses to assist them with reporting (Government of Canada 2019).

Supporting reporting by developing economies

A study to better understand the issues and opportunities associated with sustainability reporting was commissioned by the UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and the Small Island Developing States (UN-OHRLLS) and released in 2019.

The study, undertaken by GRI, piloted a technical support programme with two firms, one in Asia and another in Africa (GRI 2019). The main findings are as follows:

- *Drivers for undertaking sustainability reporting.* Important drivers cited by the firms studied include supply chain pressure, capital market demands and opportunities to compete in niche markets.
- *Incremental approach in implementation.* Firms require data to make good decisions, but the development of an effective system for data gathering and reporting takes time. By starting with a smaller number of material disclosure items for firms, and increasing the ambition and scope slowly over time, firms will be better able to build robust and efficient systems.
- *Sustainability reporting as a feedback tool.* Sustainability reporting helps develop a better understanding of the context of the firm regarding sustainability and the materiality of its actions. It can help to identify where there are data gaps, professionalise practices, and inform the systems and processes within the firm. This helps firms to effectively manage, measure and disclose sustainability impacts and performance.
- *Timing the reporting cycle.* Aligning the sustainability reporting cycle to the commercial cycle of a firm is important. This is especially the case when there is high seasonal variation, like in agriculture.
- *Systems and processes for consistent, year-round reporting.* To be successful in implementing change, reporting needs to be done year-round. Putting in place the right systems and processes to allow for better reporting is more important than getting firms to complete their first report within a set timeframe.

Developing sustainability reporting regulations

The United Nations Environment Programme (UNEP) and Group of Friends of Paragraph 47 (GoF47) have established a framework for evaluating public policy on sustainability reporting based on the case studies of the implementation of reporting standards across different economies (UNEP and GoF47 2015). They provide 16 recommendations for policymakers and regulators for developing sustainability reporting policy or regimes. These recommendations are broadly focused on the following:

- *Ensuring sufficient understanding of the current state of firm reporting.* This would help in determining whether new regulation will create reporting overlap, regulatory duplication or undue burden on firms. This includes focusing the reporting requirements on material issues.
- *Using international reporting frameworks.* Where possible, this should be encouraged, with harmonisation between standards to reduce the burden on firms.
- *Encouraging pragmatic design.* The reporting requirements should be designed to be as pragmatic as possible, recognising there are many sector- and size-specific differences between firms. This includes considering whether all reporting criteria need to be mandatory, or if some can be voluntary. This should be informed by the experience of and feedback from stakeholders and tested with them iteratively.
- *Considering the implementation and timing.* Offering gradual exposure to firms and more flexible participation (rather than a prescriptive and punitive approach) may help to increase uptake and acceptance.
- *Aligning with stock exchanges and financial disclosure requirements.* This would enhance the value of sustainability reporting and encourage firms to participate.
- *Providing guidance and information.* Reporting should be made as easy as possible for firms, with clear guidance and information on expectations (including around accountability for non-disclosure) and government leading by example.

Monitoring the effectiveness of sustainability reporting

The SME Policy Index was first developed in 2006 by the OECD in partnership with the European Commission, the European Bank for Reconstruction and Development and the European Training Foundation (OECD 2023c).

It is a benchmarking tool that allows emerging economies to monitor and evaluate policies that support MSMEs, focusing on strengths and weaknesses in policy design and implementation. There is a consistent set of policy dimensions for consideration, which allows for cross-economy comparison of policy effectiveness. The purpose of this index is to promote convergence of policy design across economies based on what is shown to be effective in supporting MSMEs.

The index covers productivity, technology and innovation; environmental policies; access to finance; access to market and internationalisation; the institutional framework; legislation,

regulation and tax; entrepreneurial education and skills; and social enterprises and inclusive SMEs (see Appendix A, Figure A.6). The 2018 results for the ASEAN members of APEC are shown in Appendix A, Table A.11 (ASEAN 2022).

Applying the SME Policy Index to Southeast Asia

Several insights into how the SME Policy Index is used in practice may be gleaned from a report by the OECD and the Economic Research Institute for ASEAN and East Asia (ERIA) (2018). The report uses the ASEAN SME Policy Index to look at ways to boost competitiveness and inclusive growth among SMEs in ASEAN economies. The findings show that most ASEAN economies are active in the SME policy space and employ a range of horizontal approaches (e.g., streamlining business registration and removing rules that act as barriers to business) and targeted approaches (e.g., enhancing productivity and access to finance) to increase competitiveness and inclusive growth. The report also highlights that there is variability in the intensity and extent of policy intervention based on the levels of institutional development.

The report makes the following recommendations:

- *Policy coherence.* SME policy should be coherent in what it is trying to achieve, and ensure objectives are not contradictory. For example, trade-offs need to be made between competitiveness and social policy objectives. This should be informed by firms and managed through ongoing dialogue between governments and business owners.
- *Data-driven and targeted policymaking.* SME policy should be well-evidenced and targeted, through systematically collecting information from firms.
- *Monitoring and evaluation.* More systematic monitoring and evaluation is essential to ensure SME policy is flexible and responds to firms' needs as the business environment changes over time. This also ensures that public resources are used efficiently.
- *Regional cooperation on SME development.* This, beyond just knowledge sharing, could create a more consistent and effective SME policy environment. As an example, the report suggests secondment of staff across the region to implement lessons learned and insights from elsewhere, and more formalised projects between SME agencies and institutions.
- *Recognition of the social contribution of SMEs.* This should be given greater attention in policymaking, as targeted measures for SMEs to green their business operations and be more inclusive could lead to greater social impacts than subsidies in other areas.

Harmonising reporting standards

There is increasing demand for sustainability disclosure that is reliable, consistent over time and comparable across jurisdictions to provide investors with the high-quality information that they need to price risk and allocate capital. In addition, reliable, consistent and comparable ESG data is essential to running a business today. As a result, there is now a movement toward more harmonised non-financial reporting based on common metrics.

There is an important distinction between harmonisation and standardisation. Harmonisation is about setting boundaries to possible variation, but does not require uniformity as in the case of standardisation (Aureli, Magnaghi, and Salvatori 2019). Harmonisation provides consistent underlying principles for reporting that aligns reporting frameworks but allows for pragmatism and flexibility within and across different types of firms and industries. Nevertheless, it should be noted that mandatory standards could, in addition to increasing the detail and breadth of disclosure, increase harmonisation and facilitate comparisons across firms and economies (Christensen, Hail, and Leuz 2021).

Harmonising at the global level

Harmonising standards, as noted earlier, has important advantages for firms, in terms of comparability, certainty and cost, for example. The OECD report on ESG trends in infrastructure investment in APEC showcases what could be done when you have common standards and indicators. The report finds that ESG practices have developed at different speeds across APEC economies (OECD 2022b). In addition, ESG performance across ratings and investment products varies widely. They conclude that greater efforts are needed to make ESG practices transparent and comparable at the regional and global level.

There are several initiatives that could contribute to harmonisation of elements of sustainability reporting at the global level. UNCTAD (2019) has published guidance on core indicators for reporting on SDG implementation. The document is designed to help firms meet the 2030 SDG agenda and give economies a model for developing metrics, without being too prescriptive. It provides underlying principles about what is to be measured and what data are to be used.

The World Economic Forum (WEF) and the International Business Council (IBC) have a joint project on developing baseline ESG metrics to enable members of the IBC to demonstrate their contribution to sustainable development (Hillyer 2021).

The International Sustainability Standards Board (ISSB) is developing a globally consistent baseline of reporting standards that jurisdictions can adopt and build on. For example, it is finalising requirements for disclosures about climate-related risks and opportunities. Under the proposal, firms would report on a full range of sustainability-related topics consistent with the framework by the TCFD. The standards are expected to take effect from 2024. Individual jurisdictions will decide when and how to adopt them, although firms can adopt them voluntarily (KPMG 2023a; 2023b).

Critiques of harmonisation efforts

Despite attempts to harmonise sustainability reporting standards and frameworks, not everyone agrees this is a good thing or that it is being done in an authentic way that respects and upholds double materiality and active consideration and response to firms' impacts on the environment, as well as the financial implications of doing so.

Adams and Abhayawansa (2022) argue that calls for harmonisation of standards are largely driven by a desire for the reporting process to be led by accounting standard-setters, rather than remain an active multistakeholder process. Harmonisation could result in a greater yet narrower focus on investors' needs in emphasising the effects on enterprise value and financial materiality and moving away from issues like the impacts of firms on the environment and society. The authors warn that harmonisation could negatively affect the environment and

society. A further study recognises that the majority of academics were opposed to the International Financial Reporting Standards (IFRS) proposals relating to sustainability standards, and particularly their slant toward investor perspective and focus (Adams and Mueller 2022).

Further, Afolabi, Ram, and Rimmel (2022) suggest that there are constraints on the extent to which different standards and frameworks can be harmonised. There is diversity in the overall objectives of the different reporting standards and frameworks and little desire for reporting bodies to renounce their perspective and orientation in favour of another.

CONCLUDING REMARKS

Most analyses of the impact of structural reforms focus on their impact on economic growth. Monitoring of structural reforms should be expanded to the issues of sustainability, inclusion and resilience, especially at the firm level and for SMEs. A broader perspective on the impacts of structural reform is consistent with a broader view of the role of firms in contributing to environmental and social outcomes alongside their pursuit of profit and the impact on economic growth. This aligns with the approach proposed to monitor progress on the Enhanced APEC Agenda for Structural Reform (EAASR).

Consumers and investors are increasingly demanding information on firms' sustainability performance, and firms in APEC are increasingly reporting on their activities using a range of frameworks. At the same time, economies are requiring or encouraging businesses, especially large and listed companies, to report on or disclose information related to their performance in a range of areas including sustainability.

6. SUMMARY AND POLICY RECOMMENDATIONS

This APEC Economic Policy Report examines the role of structural reform in promoting inclusion, resilience and environmental sustainability. It describes efforts by the APEC Economic Committee to build on its previous work on structural reform in the APEC region.³⁸ In line with the approach generally taken in the structural reform literature, this report takes a macro view of structural reform policy and its impact on the economy. What is new – and different – is that this report also incorporates the standpoint of the firm, particularly small and medium enterprises (SMEs).

There are at least two ways in which structural reform policies affect firms. The first relates to the role of structural reform in shaping the incentives for firms. Structural reforms could incentivise firms to be more innovative and efficient, which could promote inclusion and better use of firms' resources. The second relates to the changing consumer and investor expectations that are driving firms to be socially responsible, and to go beyond pursuing profitability to also consider wider impacts on people and the environment. This has made it more important for businesses to voluntarily report more than just financial performance. Added to this, governments are increasingly requiring firms to report on their climate-related activities. This report discusses these emerging business imperatives and presents perspectives on carrying out structural reform in a way that enables firms, particularly SMEs, to respond to them.

Structural reforms are a key element for achieving innovation, inclusion and sustainability through the incentives they create for firms

Structural reform encompasses a variety of measures to make the regulatory and institutional framework of an economy more supportive of markets and enhance the economy's productive capacity. Structural reform can do much to unleash new opportunities for firms to enter the market, grow and thrive, allowing economies to tap new sources of growth. Further, the economic growth stimulated by structural reform is seen as a prerequisite for improving human well-being (OECD, World Bank, and UN 2012). However, for structural reform policies to gain and retain political support, they need to be integrated with the wider environmental and social dimensions of quality of life, which emphasise not only economic growth, but also environmental sustainability. The benefits of the resulting economic growth also need to be shared equitably.

The private initiatives carried out by firms are crucial for achieving sustainability. Sustainability requires businesses to be productively, allocatively and dynamically efficient to ensure the optimal level of usage of natural resources. Structural reforms that make markets more competitive while setting price signals to account for environmental damage encourage businesses to produce sustainably, use scarce resources efficiently, and innovate and adopt more energy-efficient technologies, contributing to sustainability (Ilzkovitz and Dierx 2011; Malinauskaite 2022).

Competition also drives the private commitment of firms to sustainability. Consumers and investors value environmental sustainability, and competition incentivises businesses be more sustainable as a result. There is also rising pressure from industrial customers, who want to

³⁸ See, for example, APEC and OECD (2005); APEC CTI (2011); APEC Economic Committee (2017, 2018a, 2020, 2021a, 2021b, 2022); APEC (2017, 2020, 2021).

source from suppliers with a clean sustainability track record in order ensure their own sustainability.

Structural reforms can also help make growth more inclusive. Human capital investment, trade liberalisation and labour flexibility can create new opportunities for firms to employ workers. Active labour market policies and social protection can protect displaced workers by ensuring their income security and supporting them to find new jobs (APEC Economic Committee 2017, 2021b). This requires investing in skills and training, and facilitating access to quality jobs, particularly among vulnerable groups (OECD 2021a). Broad-based social safety nets, including income assistance during transitions, incentives for learning, and efforts to ensure access to work, would also be needed (OECD 2021). Structural reforms could also open up opportunities for women and vulnerable communities (Cohen and Rubin 2019). For example, laws to address biases could allow these groups greater access to financial products and employment opportunities.

Good regulatory practice can provide a predictable and enabling business environment for firms, particularly SMEs

The process of structural reform inevitably involves shifts in the business environment for firms and can result in profound changes in the way firms operate. A key challenge in the reform process is to ensure that regulations are proportionate, appropriate, necessary and cost effective, and that they serve the best interests of society, including businesses. Good regulatory practices (GRPs) are designed to produce regulations that are coherent, transparent, efficient, effective and equitable.

This report has discussed how GRPs can facilitate a stable, predictable and enabling regulatory environment for firms that can help boost investment, innovation, entrepreneurship and trade. GRPs are especially helpful for SMEs as they may find it challenging to comply with regulations or adapt to regulatory changes.

Structural reforms shape a dynamic business environment

The entry and exit of firms drive the process of creative destruction and reallocation that takes place in efficient markets. Well-functioning competitive markets are characterised by high levels of both firm entry and exit. The business environment determines the incentives for firms to enter, operate in or exit the market. Structural reform can involve removing the barriers that block new firms from entering the market and address the barriers (such as inefficient insolvency frameworks) that prevent failing firms from exiting the market.

The operation of firms in the market can also be impeded by an unsupportive business environment. Structural reforms to ease restrictions on labour and product markets and address issues such as difficulties in accessing infrastructure can expand the ability of firms to use resources more flexibly and to be more efficient and productive.

Recognising these issues, this report has examined the barriers in the business environment that impede the entry, operation and exit of firms, and also how structural reforms can affect firms' business decisions, and thus the efficient operation of the market.

Complementary policies can help address market failures and barriers

Market failures, such as incomplete information or the negative impacts of pollution not being priced in, could disincentivise businesses from operating sustainably. Similarly, upside market failures, such as the positive impacts of knowledge spillovers, could reduce the incentive for firms to invest in research and development (R&D).

Policy measures that complement core structural reforms could be used to address such market failures and barriers. Policies to address specific market failures such as a carbon tax could help reinforce structural reforms related to environmental issues. General policies, for example, support for R&D and innovation, and sector-oriented earmarked policies, such as a green industrial policy, could enhance the incentives for businesses to be more sustainable (see discussion in Chapter 4; also Marin and Mazzanti 2021; APEC Economic Committee 2022).

This report has discussed the role of complementary policies by examining a range of areas where structural reform policies interact with such measures to provide an enabling business environment for firms, particularly SMEs, to use more sustainable practices, support vulnerable groups and be more resilient.

Firms are increasingly reporting on their sustainability performance

Sustainable business practices can benefit bottom lines by reducing operating costs, improving brand reputation and delivering competitive advantages. Firms are increasingly using frameworks that explicitly take environmental and social factors, such as inclusion, into account in their decision making. At the same time, economies are encouraging, or requiring, businesses, especially large and listed companies, to report on or disclose information related to their performance in a range of areas including sustainability.

This report has discussed how firms are using sustainability reporting and how global rankings of key indicators can inform the understanding of the impact of structural reforms on economies and on sustainability.

Monitoring of structural reforms should be expanded to the issues of inclusion, resilience and sustainability, especially at the firm level and for SMEs

The monitoring and evaluation of structural reforms is important to understand their impact and incidence and to inform policy changes. Typically, this has occurred at the individual economy level, and featured how reforms affect productivity and economic growth. This report suggests that a broader perspective is needed, and that monitoring should be expanded to look at the relationship between structural reform and inclusion, resilience and sustainability. This is consistent with that the approach taken for the review of the Enhanced APEC Agenda for Structural Reform (EAASR), where additional indicators have been proposed (Wirjo, Calizo, and Carranceja 2022). At the same time, a focus on how structural reforms affect the business environment for firms, especially SMEs, and thus their business decisions, could provide deeper insights into how structural reforms translate into changes in inclusion, resilience and sustainability.

POLICY RECOMMENDATIONS

Where markets work: Let markets work.

Competitive markets are still the most effective institution developed by human society to allocate scarce resources efficiently and to incentivise technological innovation. The ‘creative destruction’ of competitive markets ensures that only the most efficient, flexible and technologically savvy firms survive. In this sense, the role of structural reform is to ensure that the business environment is conducive for market entry and exit, operations and innovation. The analyses in this report suggest several major areas where policy levers are needed and where they could be most effective:

- **Reduce cost of doing business and trading.** While paperwork and administrative processes are a necessary part of implementation and governance, there is no need to make this unnecessarily burdensome.

Administrative costs are especially burdensome for SMEs as they tend to have tighter cash flows and less flexibility in operations. Likewise, cumbersome procedures and requirements at the border are more likely to impact SMEs who have limited time and resources for trade paperwork.

A regulatory tiering system, tailoring regulatory requirements based on business size and complexity, could be considered where applicable. For example, lighter regulatory requirements could be applied for smaller and less complex SMEs, while gradually increasing obligations and reporting requirements for larger ones. Striking this balance not only reduces administrative burdens but also ensures that necessary protections and regulatory compliance are in place. Regular reviews and flexibility in the regulatory tiering system are also necessary, as they make room for adjustments to the evolving needs and business dynamics among SMEs.

Efforts at streamlining and digitalising business registration, tax administration, trade facilitation and regulatory compliance will not only make an economy competitive, they can also promote innovative activity and free resources for building resilience.

- **Promote inclusive access to finance.** Access to finance is a key enabler of business activity, and lack of access to finance has been repeatedly identified as a constraint for firm investment, expansion, innovation and resilience.

Access to finance is especially difficult for SMEs as they may lack the assets or turnover often required by traditional banks. Likewise, groups with untapped economic potential – such as women, Indigenous peoples, people with disabilities, and those from remote and rural communities – face constraints due to their background and not based on financial risk.

Structural barriers to finance are a barrier to economic activity and reduce an economy’s opportunities for growth. As such, structural reforms promoting financial inclusion and access to capital are essential not only for inclusion but economic growth as well.

- **Calibrate effective insolvency regimes.** Firms close for many reasons, including poor management, failure to innovate, lack of demand or even sheer bad luck. When firms shutter, insolvency regimes ensure resources are recirculated toward more productive uses in an economy. If insolvency regimes are too lenient, the economy runs the risk of resuscitating ‘zombie’ firms. If insolvency regimes are too harsh, firms may become too risk averse and avoid innovation.

Economies thus need to develop an effective insolvency regime that balances these forces. This will look different in each economy, due to variations in legal structures and risk appetites, but finding this balance will contribute toward building innovation and resilience in an economy.

- **Utilise goodwill for inclusion and sustainability goals.** Even the most profit-oriented firm needs to listen to its stakeholders – goodwill from the market is ultimately good for the bottom line. Voluntary efforts by firms toward inclusion and sustainability, such as corporate social responsibility activities, could be a potent complement (though not a substitute) to inclusive and sustainable policy action.

Genuine efforts at corporate social responsibility and sustainable operations need to be encouraged and emulated. Recognition through certification, awards and publicity can nudge firms toward socially responsible activities. Goodwill also demands transparency and accountability: in a social media environment where authenticity is at a premium, actions that amount to greenwashing or inclusion-washing could expect backlash from the market.

Where markets fail: Rectify, regulate and realign.

While markets are an important institution for economic exchange and innovation, they are not a panacea. Markets can and do fail when actions or decisions have unintended and uncounted consequences (positive or negative externalities), when costs and benefits are misaligned (public goods), when there are too many unknowns (incomplete information) and when market power is unavoidable (natural monopolies). In these situations, market competition alone will not lead to efficient and optimal economic outcomes. In the case of climate change, market failure has led humanity toward its most serious existential threat.

Moreover, even when markets are efficient, they do not (and cannot) address issues of equitable distribution and inclusion, especially in the presence of structural barriers to economic participation. In such cases, governments have a role to improve outcomes and ensure that economies are inclusive, sustainable and resilient. They would need to pay particular attention the following areas:

- **Get prices right.** Market failures do not always mean the end of markets. Competitive markets, when they work, are socially optimal because the price system fully reflects the costs of economic activity, that is, if a good is more resource-intensive then it will cost more. In the case of market failures like negative externalities, the price does not fully reflect these costs. For example, the price of petroleum reflects business costs such as extraction, refinement and logistics, but not environmental costs in terms of air pollution and climate change.

Policies that correct prices, such as carbon pricing, carbon offsets, or cap and trade, if done properly, compel producers and consumers to internalise the negative externalities of their decision, resulting in optimal market outcomes. A key qualifier here is *if done correctly*: the price adjustment must be scientific and accurate so that costs truly are internalised and market competition results in optimal and sustainable outcomes.

- ***Regulate, incentivise and subsidise where needed.*** Sometimes, no tweaking of prices can correct for market failure. In the case of public goods, there is no substitute for taxation and public provision. In the case of natural monopolies, there is no substitute to direct regulation. This report has cited many examples where direct government action is needed to achieve inclusion, sustainability and resilience objectives.

Indeed, governments need to consider direct action to catalyse market forces, incentivise actions that result in positive externalities or dissuade actions that result in negative externalities. In the area of research, public–private partnerships could leverage insights from both the government and the private sector and create a conducive and synergistic environment for innovation to flourish. Governments could also take an active role to catalyse SME-led innovation through public grants, tax relief and tax credits as well as government procurement policies. After all, technological and scientific leaps like the internet and human genome mapping came off the back of publicly funded research. Likewise, governments may need to assist and incentivise investments in economic and operational resilience considering the public good nature of these activities.

However, caution should be taken to avoid distorting markets and over-regulating industries. Safeguards should also be in place to ensure that grants, partnerships or incentive programmes are fit for purpose, with sufficient accountability and transparency. In this sense, the principles of GRP could provide proper pointers and guardrails to help policymakers strike policy and regulatory balance.

- ***Realign the economy toward inclusion.*** Structural barriers could prevent certain groups from fully participating and contributing to the economy, leading to a loss of opportunity for economic activity and innovation. While these structural barriers may not be explicitly stated, their impacts can be deduced from the opportunity and income inequalities that form along demographic characteristics.

Efforts at economic inclusion need to prioritise groups with untapped economic potential. Explicitly discriminatory laws and regulations need to be eliminated and reformed. Meanwhile, groups with untapped economic potential as seen in data on income inequality and human development, need to be supported through structural reform and policy. Inclusion also requires equitable access to basic services – such as healthcare, education, social protection and physical/digital infrastructure – to enable all people to develop their human capital, open up opportunities for innovation, and contribute to the economy.

Tracking progress: Measure, monitor and modify.

Measuring the impact of structural reforms is just as important as implementing them. The success of structural reforms hinges on the ability to monitor their impact and effectiveness, and, if needed, adjust policy to better achieve objectives. After all, what gets measured gets managed.

The iterative process of measuring, monitoring and modifying policies enables continuous improvement. This allows evidence-based policymaking: governments can objectively identify what works and what does not, and learn from experience. Policymakers can consider the following to embed evidence-based policymaking in achieving inclusive, sustainable and resilient economies:

- ***Facilitate ESG disclosure and reporting.*** Measuring and evaluating progress on corporate sustainability is important for identifying areas for improvement, driving responsible business conduct and fostering accountability. This makes the disclosure and reporting of environmental, social and governance (ESG) practices a vital enabler of private sector contribution to inclusion, sustainability and resilience.

Adopting ESG reporting standards, reducing costs of reporting, and setting ESG disclosure requirements are needed to encourage ESG reporting. Reporting and disclosure requirements must also be streamlined and administratively simple to enable SMEs to participate. The private sector is already providing solutions for ESG data and reporting to large corporations, but the cost of such solutions needs to go down to tap into the SME market. In addition, an incremental approach to implementation may be needed to ensure the effective integration of ESG data gathering and reporting ecosystems, allowing for gradual expansion and improvement over time.

- ***Gather data on SMEs regularly and consistently.*** Data is indispensable for understanding the impact of structural reforms on SMEs. This enables evidence-based decision making, identifies areas for improvement, measures SME contributions to the economy, and supports the development of informed policies.

SMEs need to be part of an economy's regular statistical reports, along with GDP, employment, balance of payments, and data on large corporations. Within economies, there is a need to establish standardised methods and regular SME data collection efforts to ensure consistency and comparability, facilitating a meaningful analysis of SME contribution to the economy. Likewise, streamlining data collection mechanisms by tapping into online portals or digital platforms should also be considered.

Moreover, as SMEs internationalise and engage in trade, it becomes valuable to have compatibility and interoperability of SME data across economies. Just as comparable data on trade in goods and services provide an empirical basis for trade cooperation, comparable data on SMEs will enable meaningful discussion on SME internationalisation and supply chain integration.

- ***Facilitate statistical capacity building on inclusion, sustainability and resilience.*** In the 1960s and 1970s, the world invested in gathering data on economic output, trade, financial transactions, and cross-border payments through the System of National Accounts. In the 1980s and 1990s, similar investments in statistical capacity building were done to gather

data on labour, skills and wages through the Labour Force Surveys (LFS). Today, consistent and comparable data on GDP, trade in goods and services, remittances, employment, productivity and others have enabled regional discussion, cooperation and progress on trade liberalisation, cross-border investment and regional economic integration. However, as economies turn their attention to issues of inclusion, sustainability and resilience, the publicly-available-data landscape is not up to the task. As this report noted, there is no internationally accepted measure of inclusive growth, sustainable growth or resilience.

As experience teaches us, gathering fit-for-purpose data and statistical capacity building are good investments. Enhancing statistical and analytical capabilities across relevant government agencies and offices enables policymakers to gain deeper insights into impacts (through evaluation) and progress (through monitoring), and allows for more informed decisions. This ensures that policies are grounded in reliable evidence, which would, in turn, increase the likelihood of achieving their intended outcomes. Ultimately, investing in capacity building empowers economic decision makers to navigate the intricacies of data analysis and leverage evidence to shape and modify policies that improve the welfare of society.

Synergising efforts: Cooperate across borders.

APEC is an interconnected and dynamic region, where economies are increasingly interdependent and linked through various channels. The challenges it faces transcend borders. In the context of structural reforms for SMEs, cooperation across borders is imperative to establish regional standards and harmonise ESG reporting frameworks, maximising the impact of sustainable, resilient and inclusive reform initiatives among APEC economies. Fostering collaboration enables policymakers to exchange valuable insights, experiences and best practices.

- ***Establish regional standards and harmonise ESG reporting.*** Establishing regional standards holds paramount importance as APEC economies strive to foster effective economic cooperation among each other. By embracing regional standards, economies can work on a unified framework pertaining to SMEs, ensuring SME data compatibility and interoperability, for example. A unified framework is important because it cultivates consistency, transparency and predictability, facilitating comparisons across firms and economies. This, in turn, improves the business environment and propels cross-border trade and investment across the region. Beyond establishing regional standards, there is a need to harmonise ESG reporting and align reporting frameworks, through applying consistent underlying principles for reporting that also allow for pragmatism and flexibility within and across different types of firms and industries. Harmonisation allows for requirements to be streamlined and for better comparability and understanding of the environmental and societal impacts of firms, allowing SMEs to adopt policies that promote sustainability, resilience and inclusion.
- ***Exchange experiences and best practices.*** Knowledge is a public good that benefits all. The facilitation and exchange of knowledge among policymakers across borders drive policy improvements in relation to structural reforms for SMEs. Collaborative discussions and exchanges enable officials from various government offices and agencies to learn from successful cases where structural reforms worked, explore diverse approaches and identify innovative solutions that could be tailored to the local context. This accelerates the

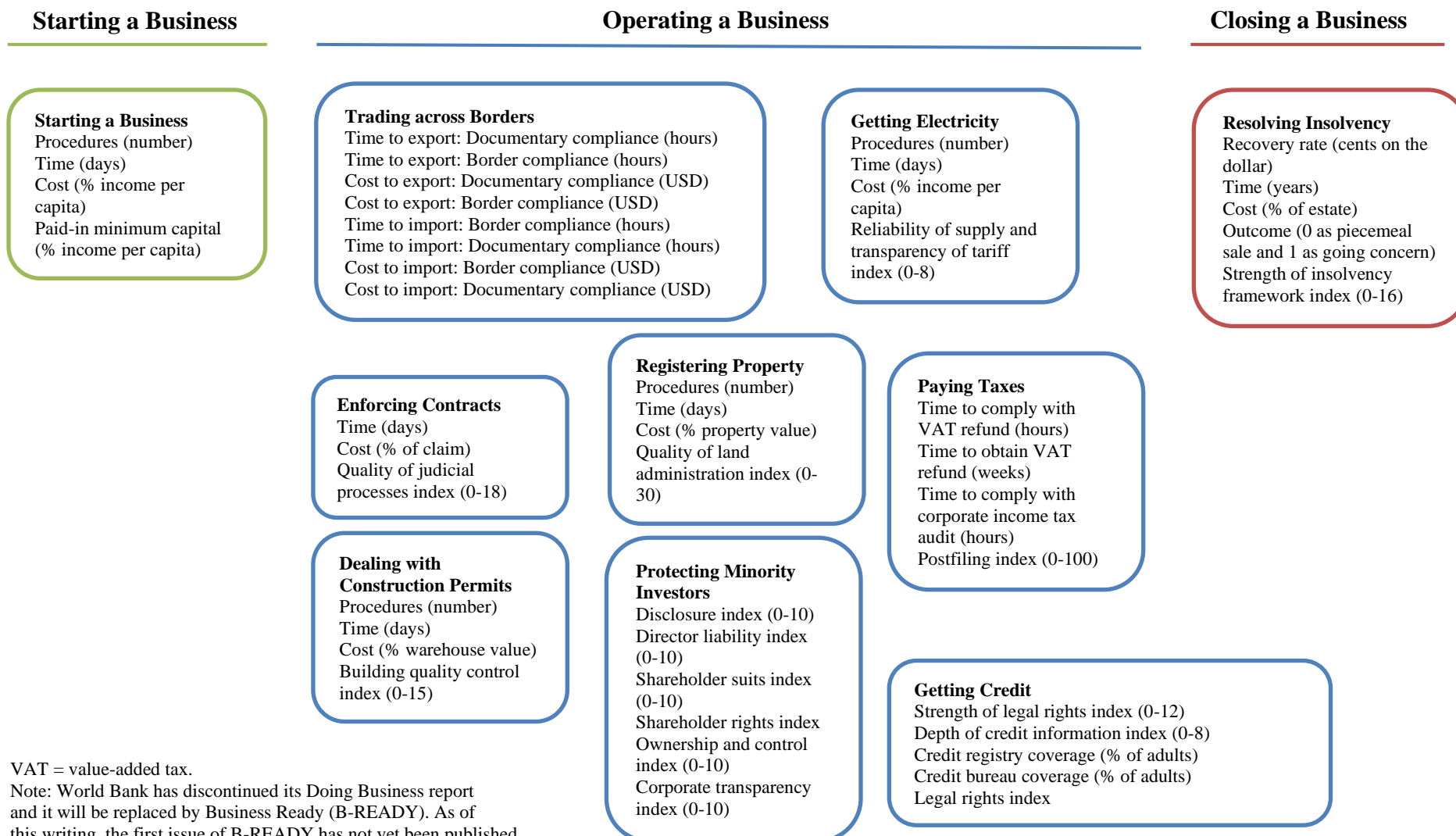
implementation of effective policies and promotes the adoption of successful strategies toward a sustainable, resilient and inclusive business environment. This collaboration becomes an avenue for a continuous learning process to refine policies, enhance evidence-based policymaking, and contribute toward sustainable and inclusive growth for SMEs within the APEC region.

- **Leverage regional fora like APEC.** APEC's role in providing an avenue for discussions and collaborations on structural reforms that promote an enabling business environment is more important than ever. The forum plays a crucial role in facilitating cross-border cooperation and driving the agenda for regional economic integration. Within the context of structural reforms for SMEs, APEC can serve as a catalyst for harmonising policies, promoting best practices and establishing common standards. By bringing 21 diverse economies together, the APEC forum facilitates constructive discussions, promotes the development of skills and knowledge, and enables the exchange of information among policymakers and economy representatives. This fosters a collaborative approach toward implementing sustainable, resilient and inclusive reforms. Through APEC's initiatives, platforms, committees, working groups and fora, APEC can push forward the agenda for cross-border cooperation, ensuring that the benefits of collaboration are harnessed to ensure the growth and success of SMEs in the APEC region and beyond.

APPENDICES

APPENDIX A. MEASURING STRUCTURAL REFORMS AND SUSTAINABILITY

Figure A.1. Structure of World Bank Doing Business indicators



VAT = value-added tax.

Note: World Bank has discontinued its Doing Business report and it will be replaced by Business Ready (B-READY). As of this writing, the first issue of B-READY has not yet been published.

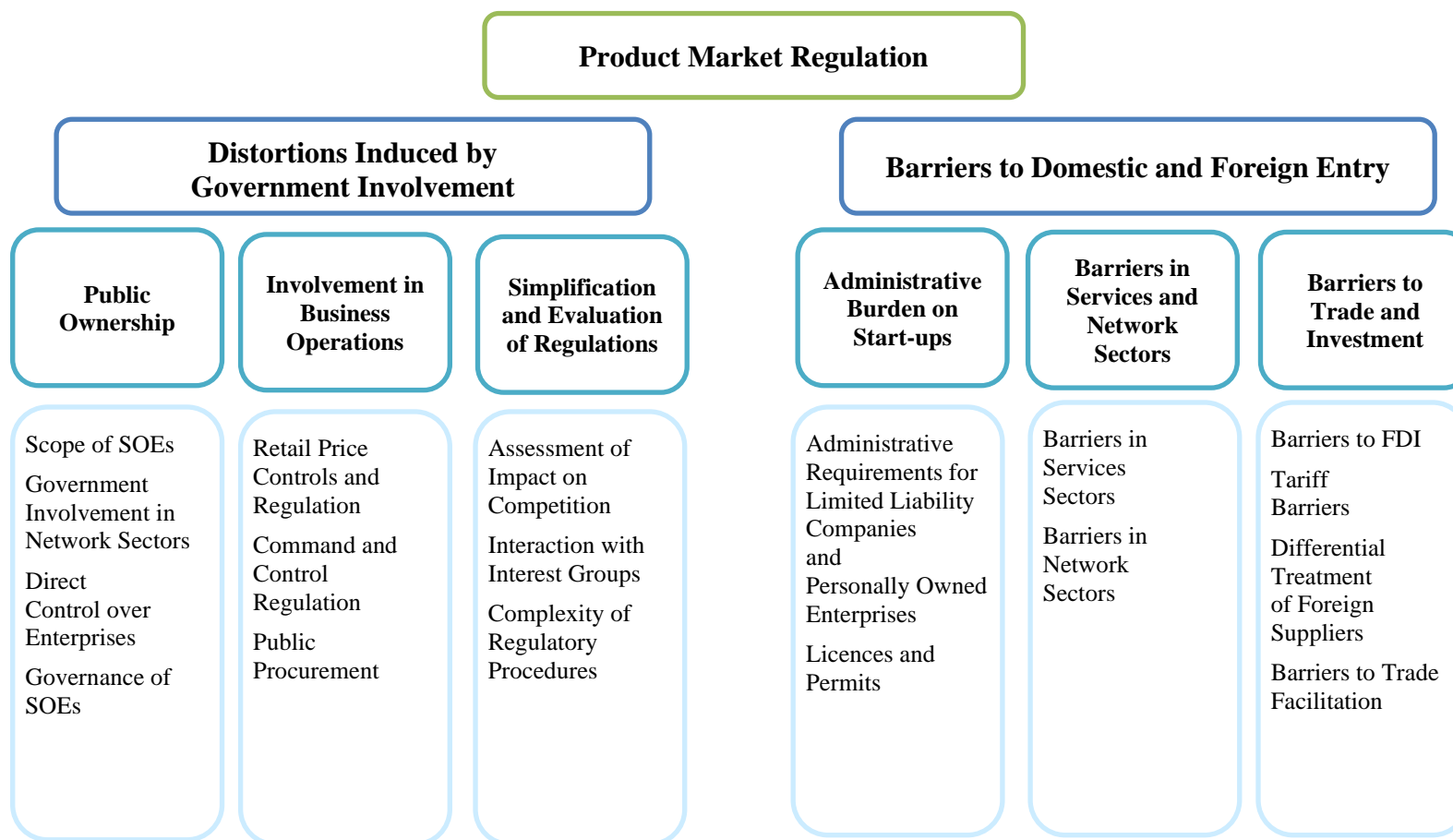
Source: World Bank (2020); <https://www.worldbank.org/en/businessready>

Table A.1. World Bank Doing Business indicators, 2020: APEC economies

Economy	Ease of Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency	Overall Ease of Doing Business		
	Score	Score	Score	Score	Score	Score	Score	Score	Score	Score	Score	Global Rank	APEC Rank
Australia	96.6	84.7	82.3	75.7	95.0	64.0	85.7	70.3	79.0	78.9	81.22	14	7
Brunei Darussalam	94.9	73.6	87.7	50.7	100.0	40.0	74.0	58.7	62.8	58.2	70.06	66	16
Canada	98.2	73.0	63.8	77.8	85.0	84.0	88.1	88.4	57.1	81.0	79.64	23	10
Chile	91.4	75.9	85.7	71.1	55.0	66.0	75.3	80.6	64.7	60.1	72.58	59	14
China	92.6	77.3	95.4	81.0	55.0	72.0	70.1	86.5	80.9	62.1	77.28	32	13
Hong Kong, China	98.2	93.5	99.3	73.6	75.0	84.0	99.7	95.0	69.1	65.7	85.32	3	3
Indonesia	81.2	66.8	87.3	60.0	70.0	70.0	75.8	67.5	49.1	68.1	69.58	73	18
Japan	86.1	83.1	93.2	75.6	55.0	64.0	81.6	85.9	65.3	90.2	78.00	30	12
Korea	93.4	84.4	99.9	76.3	65.0	74.0	87.4	92.5	84.1	82.9	84.00	5	4
Malaysia	83.3	89.9	99.3	79.5	75.0	88.0	76.0	88.5	68.2	67.0	81.47	12	6
Mexico	86.1	68.8	71.1	60.2	90.0	62.0	65.8	82.1	67.0	70.3	72.36	60	15
New Zealand	100.0	86.5	84.0	94.6	100.0	86.0	91.0	84.6	71.5	69.5	86.76	1	1
Papua New Guinea	80.1	64.5	65.5	56.2	70.0	60.0	67.2	65.8	36.2	32.2	59.77	120	21
Peru	82.1	72.5	74.5	72.1	75.0	68.0	65.8	71.3	59.1	46.6	68.70	76	19
The Philippines	71.3	70.0	87.4	57.6	40.0	60.0	72.6	68.4	46.0	55.1	62.83	95	20
Russia	93.1	78.9	97.5	88.6	80.0	60.0	80.5	71.8	72.2	59.1	78.16	29	11
Singapore	98.2	87.9	91.8	83.1	75.0	86.0	91.6	89.6	84.5	74.3	86.20	2	2
Chinese Taipei	94.4	87.1	96.3	83.9	50.0	76.0	84.3	84.9	75.1	77.1	80.92	15	8
Thailand	92.4	77.3	98.7	69.5	70.0	86.0	77.7	84.6	67.9	76.8	80.09	21	9
United States	91.6	80.0	82.2	76.9	95.0	71.6	86.8	92.0	73.4	90.5	84.00	6	5
Viet Nam	85.1	79.3	88.2	71.1	80.0	54.0	69.0	70.8	62.1	38.0	69.77	70	17

Source: World Bank (2020).

Figure A.2. Structure of OECD Product Market Regulation indicators



FDI=foreign direct investment; OECD=Organisation for Economic Co-operation and Development; SOE=state-owned enterprise
 Source: OECD (2018a).

Table A.2. OECD Product Market Regulation indicators, 2018: APEC economies

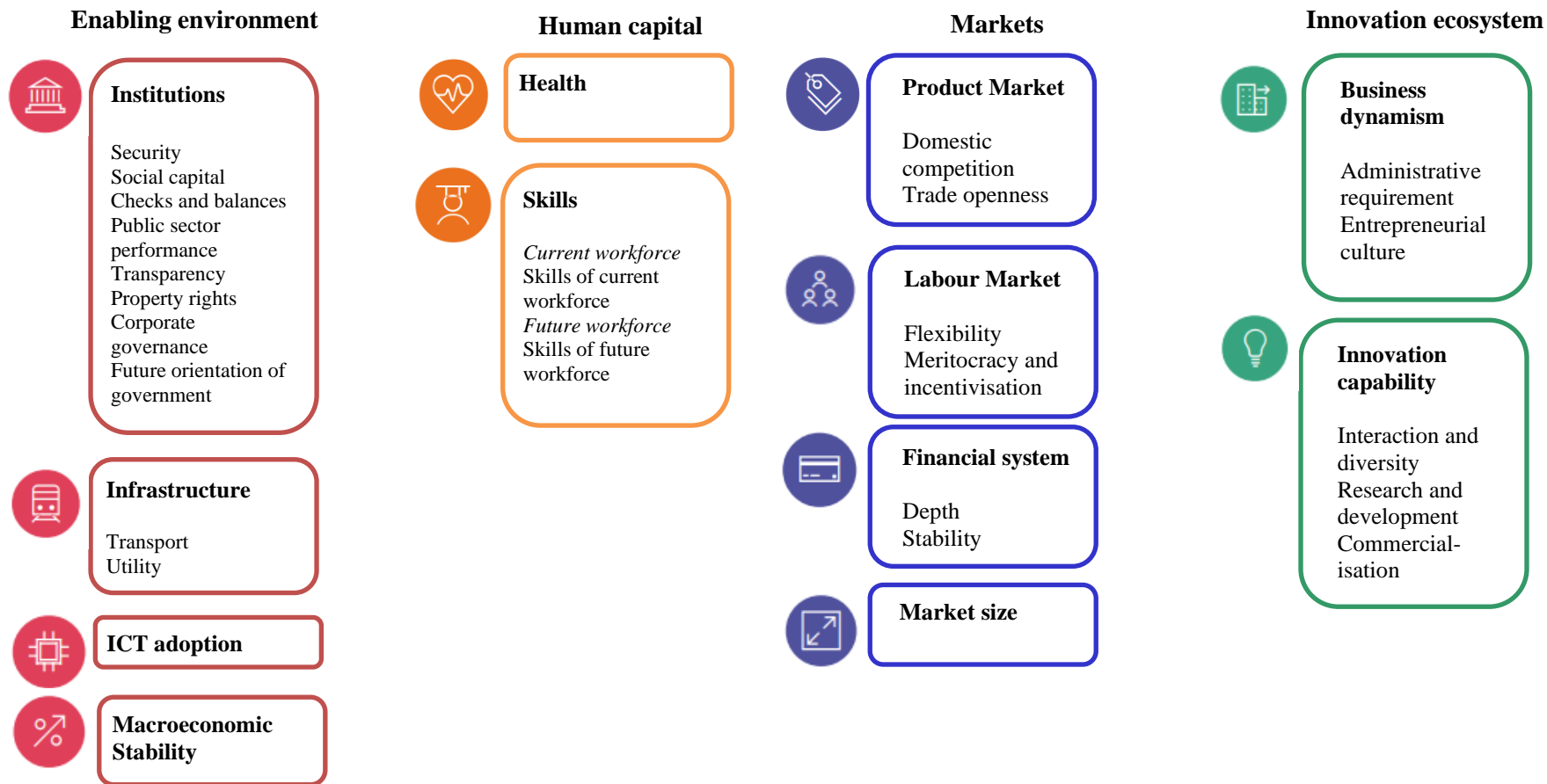
Economy	Distortions from Government Involvement										Barriers to Domestic and Foreign Entry								Product Market Regulation Indicator
	Public Ownership				Involvement in Business Operations			Simplification and Evaluation of Regulations			Administrative Burden on Start-ups		Barriers in Services and Network Sectors		Barriers to Trade and Investment				
	Scope of SOEs	Government Involvement in Network Sectors	Direct Control	Governance of SOEs	Price Controls	Command and Control Regulation	Public Procurement	Assessment of Impact on Competition	Interaction with Interest Groups	Complexity of Regulatory Procedures	Admin. Requirements for Limited Companies and Personally Owned Enterprises	Licences and Permits	Barriers in Services Sectors	Barriers in Network Sectors	Barriers to FDI	Tariff Barriers	Treatment of Foreign Suppliers	Barriers to Trade Facilitation	
Australia	2.44	0.75	1.71	2.25	0.67	1.41	0.75	0.75	2.32	1.20	0.19	2.00	1.39	0.62	0.88	0.00	1.29	0.75	1.16
Brunei Darussalam																			
Canada	3.04	1.00	0.94	3.90	1.37	1.31	3.75	0.75	1.64	0.67	0.00	4.00	3.22	1.07	0.97	0.00	1.93	1.13	1.76
Chile	1.13	0.79	1.17	2.10	1.12	0.55	1.71	1.88	2.18	2.60	0.38	1.67	1.71	1.48	0.34	1.00	1.93	1.52	1.41
China																			
Hong Kong, China																			
Indonesia	5.88	5.02	5.56	3.30	4.05	2.21	3.00	4.50	4.91	0.20	1.00	1.00	2.77	3.30	2.07	1.50	3.11	1.43	2.88
Japan	2.83	1.35	0.74	2.70	1.44	1.28	3.38	0.75	3.27	2.00	1.19	0.00	1.43	1.34	0.31	0.00	1.55	1.01	1.44
Korea	2.58	2.21	1.35	2.70	2.85	1.96	0.94	0.75	2.05	0.00	0.19	2.00	3.13	2.04	0.81	2.50	1.61	1.04	1.71
Malaysia																			
Mexico	2.79	1.66	0.69	3.60	1.90	1.10	2.06	1.50	1.91	0.70	1.00	0.33	2.21	1.34	1.13	1.50	3.43	1.79	1.61
New Zealand	3.75	2.30	1.85	2.55	0.67	0.78	0.75	1.50	2.18	1.67	0.00	1.00	0.79	1.48	1.39	0.00	0.25	1.03	1.24
Papua New Guinea																			
Peru																			
The Philippines																			
Russia	5.17	3.49	3.87	3.50	1.60	1.39	2.63	2.00	3.55	0.20	0.00	3.00	2.64	2.02	1.57	1.00	2.82	1.62	2.23
Singapore																			
Chinese Taipei																			
Thailand																			
United States	1.22	1.08	0.79	4.50	1.02	1.16	3.38	2.59	2.36	0.63	0.34	4.00	1.86	1.22	0.53	0.00	2.38	0.82	1.71
Viet Nam																			

FDI=foreign direct investment; OECD=Organisation for Economic Co-operation and Development; SOE=state-owned enterprise

Note: Data not available for all APEC economies.

Source: OECD (2018a).

Figure A.3. Structure of WEF Global Competitiveness Index indicators



ICT=information and communication technology; WEF=World Economic Forum
 Source: Schwab (2019).

Table A.3. WEF Global Competitiveness Index, 2019: APEC economies

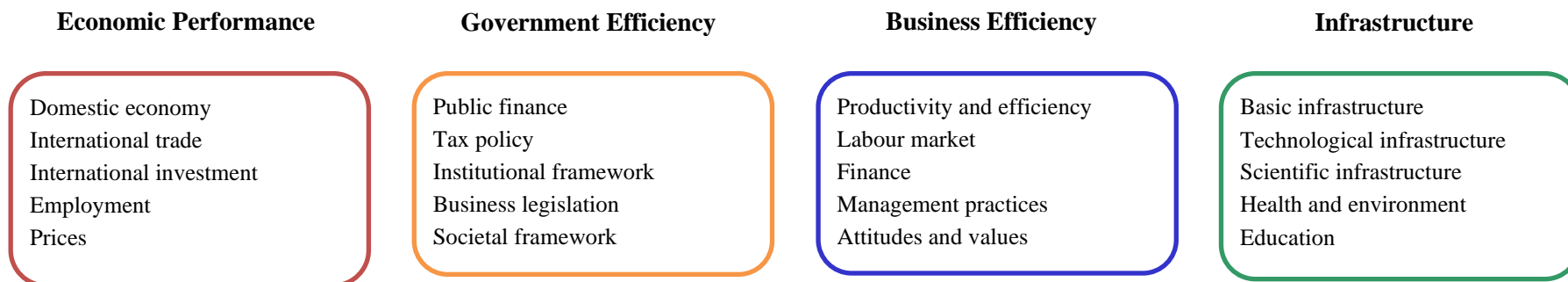
Economy	Enabling Environment				Human Capital		Product Market				Innovation Ecosystem		Global Competitiveness Index		
	Institutions	Infrastructure	ICT Adoption	Macro-economic Stability	Health	Skills	Product Market	Labour Market	Financial System	Market Size	Business Dynamism	Innovation Capability	Score	Global Rank	APEC Rank
Australia	72.9	79.2	73.6	100.0	94.9	80.6	71.4	69.1	85.9	72.6	75.3	69.5	78.7	16	8
Brunei Darussalam	58.3	70.1	75.4	74.3	81.8	67.0	60.4	67.0	55.1	38.2	61.8	43.8	62.8	56	17
Canada	74.1	80.8	70.3	100.0	95.3	81.1	63.8	75.2	87.1	76.9	76.5	74.0	79.6	14	7
Chile	63.9	76.3	63.1	100.0	89.7	69.8	68.0	62.8	82.0	63.2	65.3	42.5	70.5	33	12
China	56.8	77.9	78.5	98.8	87.8	64.1	57.6	59.2	75.0	100.0	66.4	64.8	73.9	28	11
Hong Kong, China	77.6	94.0	89.4	100.0	100.0	77.6	81.6	75.8	91.4	71.4	75.4	63.4	83.1	3	3
Indonesia	58.1	67.7	55.4	90.0	70.8	64.0	58.2	57.7	64.0	82.4	69.6	37.7	64.6	50	16
Japan	71.7	93.2	86.2	94.9	100.0	73.3	70.4	71.5	85.9	86.9	75.0	78.3	82.3	6	4
Korea	65.8	92.1	92.8	100.0	99.0	74.0	56.1	62.9	84.4	78.9	70.5	79.1	79.6	13	6
Malaysia	68.6	78.0	71.6	100.0	81.2	72.5	64.8	70.2	85.3	73.4	74.6	55.0	74.6	27	10
Mexico	48.3	72.4	55.0	97.8	82.0	58.3	57.7	55.8	61.8	80.8	65.8	43.6	64.9	48	15
New Zealand	78.8	75.5	77.7	100.0	90.8	82.1	72.0	76.7	76.7	54.2	75.8	60.6	76.7	19	9
Papua New Guinea															
Peru	48.9	62.3	45.7	100.0	94.6	60.2	57.1	59.0	61.4	62.2	55.8	32.7	61.7	65	19
The Philippines	50.0	57.8	49.7	90.0	65.6	63.7	57.8	64.9	68.3	71.0	65.7	38.0	61.9	64	18
Russia	52.6	73.8	77.0	90.0	69.2	68.3	52.9	61.0	55.7	84.2	63.1	52.9	66.7	43	14
Singapore	80.4	95.4	87.1	99.7	100.0	78.8	81.2	81.2	91.3	71.5	75.6	75.2	84.8	1	1
Chinese Taipei	68.6	86.7	82.3	100.0	93.5	76.2	66.3	72.7	88.4	74.7	73.1	80.2	80.2	12	5
Thailand	54.8	67.8	60.1	90.0	88.9	62.3	53.5	63.4	85.1	75.5	72.0	43.9	68.1	40	13
United States	71.2	87.9	74.3	99.8	83.0	82.5	68.6	78.0	91.0	99.5	84.2	84.1	83.7	2	2
Viet Nam	49.8	65.9	69.0	75.0	80.5	57.0	54.0	58.2	63.9	71.8	56.5	36.8	61.5	67	20

ICT=information and communication technology; WEF=World Economic Forum

Note: Data not available for all APEC economies.

Source: Schwab (2019)

Figure A.4. Structure of IMD World Competitiveness Ranking



IMD=International Institute for Management Development
Source: IMD (2023).

Table A.4. IMD World Competitiveness Ranking, 2023: APEC economies

Economy	Economic Performance						Government Efficiency						Business Efficiency						Infrastructure						Overall	
	Domestic Economy	International Trade	International Investment	Employment	Prices	Rank	Public Finance	Tax Policy	Institutional Framework	Business Legislation	Societal Framework	Rank	Productivity and Efficiency	Labour Market	Finance	Management Practices	Attitudes and Values	Rank	Basic Infrastructure	Technological Infrastructure	Scientific Infrastructure	Health and Environment	Education	Rank	Score	Global Rank
Australia	23	31	10	7	28	10	19	25	18	14	18	18	27	31	12	36	33	30	15	32	22	10	14	20	83.02	19
Brunei Darussalam																										
Canada	22	50	5	22	14	9	24	20	12	16	15	16	25	18	9	18	22	17	14	18	18	11	10	11	88.21	15
Chile	48	58	28	53	18	52	15	28	30	28	50	32	58	47	38	42	41	45	41	30	54	44	49	46	60.25	44
China	3	39	6	29	34	8	27	22	36	39	31	35	31	13	28	25	14	21	18	9	10	33	32	21	82.10	21
Hong Kong, China	56	5	3	45	64	36	8	3	11	1	28	2	12	24	13	6	11	11	11	5	24	16	9	13	92.05	7
Indonesia	28	49	34	31	12	29	21	9	39	46	44	31	42	1	31	15	12	20	26	35	49	58	57	51	70.75	34
Japan	27	57	12	5	57	26	62	38	28	38	26	42	54	44	17	62	51	47	36	33	8	8	35	23	67.84	35
Korea	11	42	32	4	41	14	40	26	33	53	33	38	41	39	36	35	18	33	23	23	2	29	26	16	75.71	28
Malaysia	16	14	29	21	1	7	33	10	29	45	39	29	36	30	32	31	34	32	8	16	31	42	45	35	75.75	27
Mexico	41	54	27	8	29	30	44	46	59	61	58	60	47	40	60	53	50	51	60	62	48	54	61	59	47.68	56
New Zealand	43	62	53	20	23	50	22	27	23	15	14	21	53	49	25	21	31	35	33	39	26	15	27	28	73.30	31
Papua New Guinea																										
Peru	54	59	42	26	19	53	32	24	54	48	59	50	61	36	54	47	49	53	54	61	61	57	55	60	48.10	55
The Philippines	30	60	46	9	39	40	55	14	56	57	53	52	52	21	44	41	32	40	58	48	57	60	62	58	54.14	52
Russia																										
Singapore	10	2	4	2	51	3	9	12	7	6	20	7	6	4	10	23	13	8	13	3	17	26	11	9	97.44	4
Chinese Taipei	9	45	37	35	10	20	6	7	10	22	17	6	7	25	6	3	7	4	37	8	5	24	17	12	93.11	6
Thailand	44	29	22	3	27	16	25	8	34	31	47	24	38	8	22	22	19	23	22	25	39	53	54	43	74.54	30
United States	5	32	1	15	60	2	48	17	20	23	41	25	10	19	1	14	30	14	20	12	1	17	13	6	91.14	9
Viet Nam																										

IMD=International Institute for Management Development

Note: Data not available for all APEC economies.

Source: (IMD 2023)

Table A.5. World Bank Doing Business indicators on ease of entry and exit, 2020: APEC economies

Economy	Starting a Business									Resolving Insolvency			
	Procedures (Men)	Time (Men)	Cost (Men)	Procedures (Women)	Time (Women)	Cost (Women)	Paid-in Minimum Capital	Score	Global Rank	Recovery Rate	Strength of Insolvency Framework	Score	Global Rank
	Number	Days	% Income per capita	Number	Days	% Income per capita	% Income per capita			Cents on the dollar	Index 0-16		
Australia	3.0	2.0	0.7	3.0	2.0	0.7	0	96.60	7	82.7	11.0	78.86	20
Brunei Darussalam	3.0	5.0	1.1	4.0	6.0	1.1	0	94.93	16	47.2	10.5	58.23	59
Canada	2.0	1.5	0.3	2.0	1.5	0.3	0	98.24	3	86.7	11.0	81.03	13
Chile	6.0	4.0	2.7	6.0	4.0	2.7	0	91.43	57	41.9	12.0	60.06	53
China	4.6	8.6	1.1	4.6	8.6	1.1	0	92.62	45	36.9	13.5	62.07	51
Hong Kong, China	2.0	1.5	0.5	2.0	1.5	0.5	0	98.22	5	87.2	6.0	65.67	45
Indonesia	11.2	12.6	5.7	11.2	12.6	5.7	0	81.21	140	65.5	10.5	68.07	38
Japan	8.0	11.2	7.5	8.0	11.2	7.5	0	86.10	106	92.1	13.0	90.22	3
Korea	3.0	8.0	14.6	3.0	8.0	14.6	0	93.36	32	84.3	12.0	82.88	11
Malaysia	8.0	17.0	11.1	9.0	18.0	11.1	0	83.32	126	81.0	7.5	67.04	40
Mexico	7.8	8.4	15.2	7.8	8.4	15.2	0	86.07	107	63.9	11.5	70.35	33
New Zealand	1.0	0.5	0.2	1.0	0.5	0.2	0	99.98	1	79.7	8.5	69.48	36
Papua New Guinea	6.0	41.0	18.6	6.0	41.0	18.6	0	80.15	142	24.9	6.0	32.16	144
Peru	8.0	26.0	9.4	8.0	26.0	9.4	0	82.13	133	31.3	9.5	46.56	90
The Philippines	13.0	33.0	23.3	13.0	33.0	23.3	0	71.28	171	21.1	14.0	55.08	65
Russia	4.0	10.1	1.0	4.0	10.1	1.0	0	93.06	39	43.0	11.5	59.10	57
Singapore	2.0	1.5	0.4	2.0	1.5	0.4	0	98.23	4	88.7	8.5	74.32	27
Chinese Taipei	3.0	10.0	1.9	3.0	10.0	1.9	0	94.44	21	82.2	10.5	77.06	23
Thailand	5.0	6.0	3.0	5.0	6.0	3.0	0	92.36	47	70.1	12.5	76.79	24
United States	6.0	4.2	1.0	6.0	4.2	1.0	0	91.59	55	81.0	15.0	90.48	2
Viet Nam	8.0	16.0	5.6	8.0	16.0	5.6	0	85.11	115	21.3	8.5	38.05	122

Source: World Bank (2020).

Table A.6. World Bank, number of registered companies with limited liability (or its equivalent): APEC economies

Economy	Adult population	Year	New Companies		Closed Companies		Total Companies	
			No. of New Companies	New Business Density Rate [#]	No. of Closed Companies	Closed Business Density Rate	Total No. of Companies	Total Business Density Rate
Australia	16,566,733	2020	236,447	14.27	143,810	8.68	2,807,351	169.46
Brunei Darussalam	315,451	2020	316	1.00	99	0.31	13,474	42.71
Canada**	15,118,981	2018	3,262	0.22				
Chile	13,098,161	2020	158,583	12.11	878	0.07	1,294,136 ⁺	99.51 ⁺
China***	27,035,300	2020	232,064	8.58	89,481	3.31	1,759,734	65.09
Hong Kong, China*	5,172,228	2020	99,405	19.22	92,135	17.81	1,387,919	268.34
Indonesia	175,878,309	2016	58,426	0.33				
Japan	74,437,254	2020	33,411	0.45	4,501	0.06	221,000	2.97
Korea	37,330,545	2019					748,732	20.06
Malaysia	22,451,709	2020	47,834	2.13			1,410,593	62.83
Mexico	85,800,403	2020	68,114	0.79			1,357,585	15.82
New Zealand	3,264,172	2020	58,375	17.88	30,848	9.45	668,268	204.73
Papua New Guinea								
Peru	21,953,512	2020	83,351	3.80	521	0.02	1,542,599	70.27
The Philippines*	70,620,268	2020	15,161	0.21			403,687	5.72
Russia	95,294,313	2020	214,895	2.26	509,280	5.34	2,727,921	28.63
Singapore*	4,227,243	2020	42,217	9.99	23,569	5.58	371,794	87.95
Chinese Taipei	16,810,525	2020	45,454	2.70	30,728	1.83	714,638	42.51
Thailand	49,201,842	2020	63,340	1.29				
United States								
Viet Nam	67,105,172	2020	111,477	1.66	13,664	0.20		

Note: Data not available for all APEC economies.

* This economy was included in the Eurostat List of offshore financial centres; ** For Canada, only the data for Quebec and Ontario were included; *** For China, only the data for Beijing and Shanghai were included.

⁺ Data for 2019

[#] Business density is defined as the number of newly registered corporations per 1,000 working-age people (those ages 15–64).

Source: World Bank (2021a).

Table A.7. World Bank Enterprise Survey on biggest obstacles for business: APEC economies

Economy	Percentage of firms reporting as biggest obstacle														
	Access to finance	Access to land	Business licensing and permits	Corruption	Courts	Crime, theft and disorder	Customs and trade regulations	Electricity	Inadequately educated workforce	Labour regulations	Political instability	Practices of the informal sector	Tax administration	Tax rates	Transportation
Australia															
Brunei Darussalam															
Canada															
Chile	11.8	1.3	1.1	2.6	0.8	6.7	0.5	7	22.1	23.8	0.3	8.4	3.7	1.5	8.3
China	22.4	5.6	0.2	1.2	2	0.3	1.8	4.8	13	1.9	0.8	19.6	4.2	15.1	7.2
Hong Kong, China															
Indonesia	6.3	1.2	6.8	2.5	1.3	4.3	6.2	0.8	1.7	1	12.8	36.7	1.2	14.3	2.9
Japan															
Korea															
Malaysia	10	3.3	5.8	1.9	0.1	9.9	2.3	10	10.2	6.4	8	16.3	0.4	12.7	2.7
Mexico	12.4	3.3	9	11.3	0.8	12.3	0.3	5.4	4.3	3.3	5.2	16	1.4	14.3	0.8
New Zealand															
Papua New Guinea	8.2	12.6	4.1	18	4.5	12.5	0	4.2	3.1	0	13.8	10.7	6	2.3	0
Peru	3.2	2	3.6	14.5	0.9	5.4	3.3	4.6	5.7	6.2	12.4	27.6	5.4	1.5	3.6
The Philippines	10.4	6	4.5	11.5	0.6	3.5	5	7.9	2.4	6.4	3.4	20	4.3	9	5.2
Russia	14.8	2	5.8	6.3	0.6	2.8	1.2	1.1	7.7	0.8	5.8	9.6	7.9	22.6	11.1
Singapore															
Chinese Taipei															
Thailand	4.6	0.9	1.5	2.3	0	1	0.5	19.8	2.6	8.8	20.3	5	1.7	15	16.1
United States															
Viet Nam	21.8	9.3	0.2	2.6	0.4	1.6	5	2.4	10.7	3.4	2.7	17	3.2	9.4	10.2

Note: Data not available for all APEC economies.

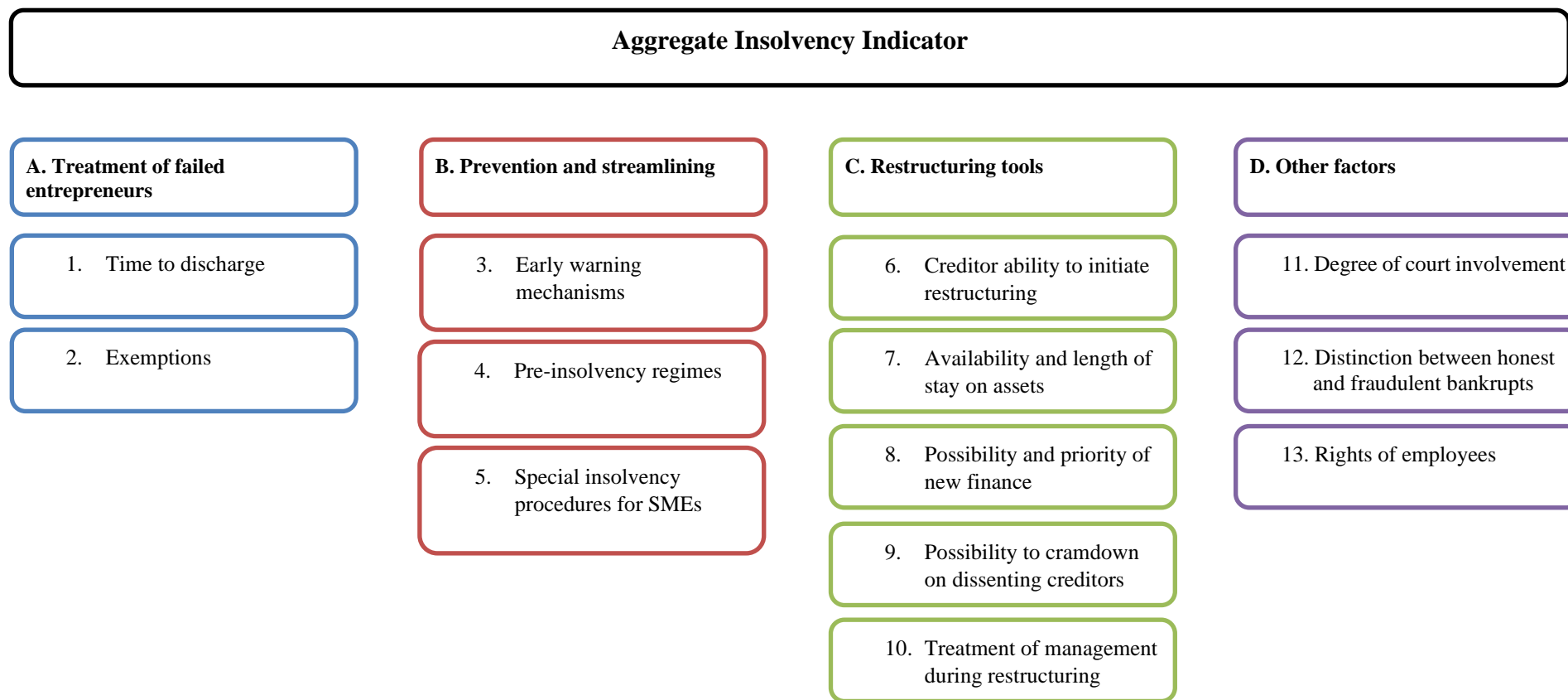
Source: World Bank Enterprise Survey, accessed 15 June 2023, <https://www.enterprisesurveys.org/en/enterprisesurveys>

Table A.8. World Bank Logistics Performance Index (LPI), 2023: APEC economies

Economy	Customs	Infrastructure	International Shipments	Logistics Quality and Competence	Timeliness	Tracking and Tracing	Overall Logistics Performance		
	Score	Score	Score	Score	Score	Score	Score	Global Rank	APEC Rank
Australia	3.7	4.1	3.1	3.9	3.6	4.1	3.7	19=	8=
Brunei Darussalam									
Canada	4.0	4.3	3.6	4.2	4.1	4.1	4.0	7=	2=
Chile	3.0	2.8	2.7	3.1	3.2	3.0	3.0	61=	15=
China	3.3	4.0	3.6	3.8	3.7	3.8	3.7	19=	8=
Hong Kong, China	3.8	4.0	4.0	4.0	4.1	4.2	4.0	7=	2=
Indonesia	2.8	2.9	3.0	2.9	3.3	3.0	3.0	61=	15=
Japan	3.9	4.2	3.3	4.1	4.0	4.0	3.9	13=	4=
Korea	3.9	4.1	3.4	3.8	3.8	3.8	3.8	17=	6=
Malaysia	3.3	3.6	3.7	3.7	3.7	3.7	3.6	26=	10=
Mexico	2.5	2.8	2.8	3.0	3.5	3.1	2.9	66=	18
New Zealand	3.4	3.8	3.2	3.7	3.8	3.8	3.6	26=	10=
Papua New Guinea	2.4	2.4	2.6	2.7	3.3	3.0	2.7	79=	19
Peru	2.6	2.5	3.1	2.7	3.4	3.4	3.0	61=	15=
The Philippines	2.8	3.2	3.1	3.3	3.9	3.3	3.3	43=	13=
Russia	2.4	2.7	2.3	2.6	2.9	2.5	2.6	88=	20
Singapore	4.2	4.6	4.0	4.4	4.3	4.4	4.3	1	1
Chinese Taipei	3.5	3.8	3.7	3.9	4.2	4.2	3.9	13=	4=
Thailand	3.3	3.7	3.5	3.5	3.5	3.6	3.5	34=	12
United States	3.7	3.9	3.4	3.9	3.8	4.2	3.8	17=	6=
Viet Nam	3.1	3.2	3.3	3.2	3.3	3.4	3.3	43=	13=

Source: World Bank (2023a).

Figure A.5. Structure of OECD Insolvency Indicators



OECD=Organisation for Economic Co-operation and Development;
 SME=small and medium enterprises
 Source: McGowan, Andrews, and Millot (2017c).

Table A.9. OECD Insolvency Indicators, 2022: APEC economies

Economy	Treatment of Failed Entrepreneurs		Prevention and Streamlining			Restructuring Tools					Other Factors			Aggregate Insolvency Indicator
	Time to Discharge	Exemptions	Early Warning	Pre-insolvency	SME Procedures	Initiation of Restructuring	Length of Stay	New Financing	Cram-down	Dismissal of Management	Court Involvement	Honest Fraudulent	Rights of employees	
Australia	0.5	0.5	1	1	0	0	0	0	0.5	1	0.4	1	0	0.45
Brunei Darussalam														
Canada	0	0	0	0	1	0	1	0.5	0.5	0	0.3	0	0	0.25
Chile	0.5	0.5	0	0	1	1	0	1	0.5	0	0.8	1	0.25	0.50
China														
Hong Kong, China														
Indonesia														
Japan	0	0.5	1	0	1	0	1	0	0	0	0.8	0	0	0.33
Korea	0.5	0.5	0	0	0	0	1	0	0	0	0.7	0	0.5	0.25
Malaysia														
Mexico	1	0	0	0	1	0	1	1	0	0	0.5	0	0.5	0.38
New Zealand	0.5	0.5	0	0	1	0	0	1	0.5	0	0.5	1	0.25	0.40
Papua New Guinea														
Peru														
The Philippines														
Russia														
Singapore														
Chinese Taipei														
Thailand														
United States	0	0	1	0	0	0	1	0.5	0	0	0.7	0	0	0.25
Viet Nam														

OECD=Organisation for Economic Co-operation and Development;

SME=small and medium enterprises

Note: Indicators are not available for all APEC economies.

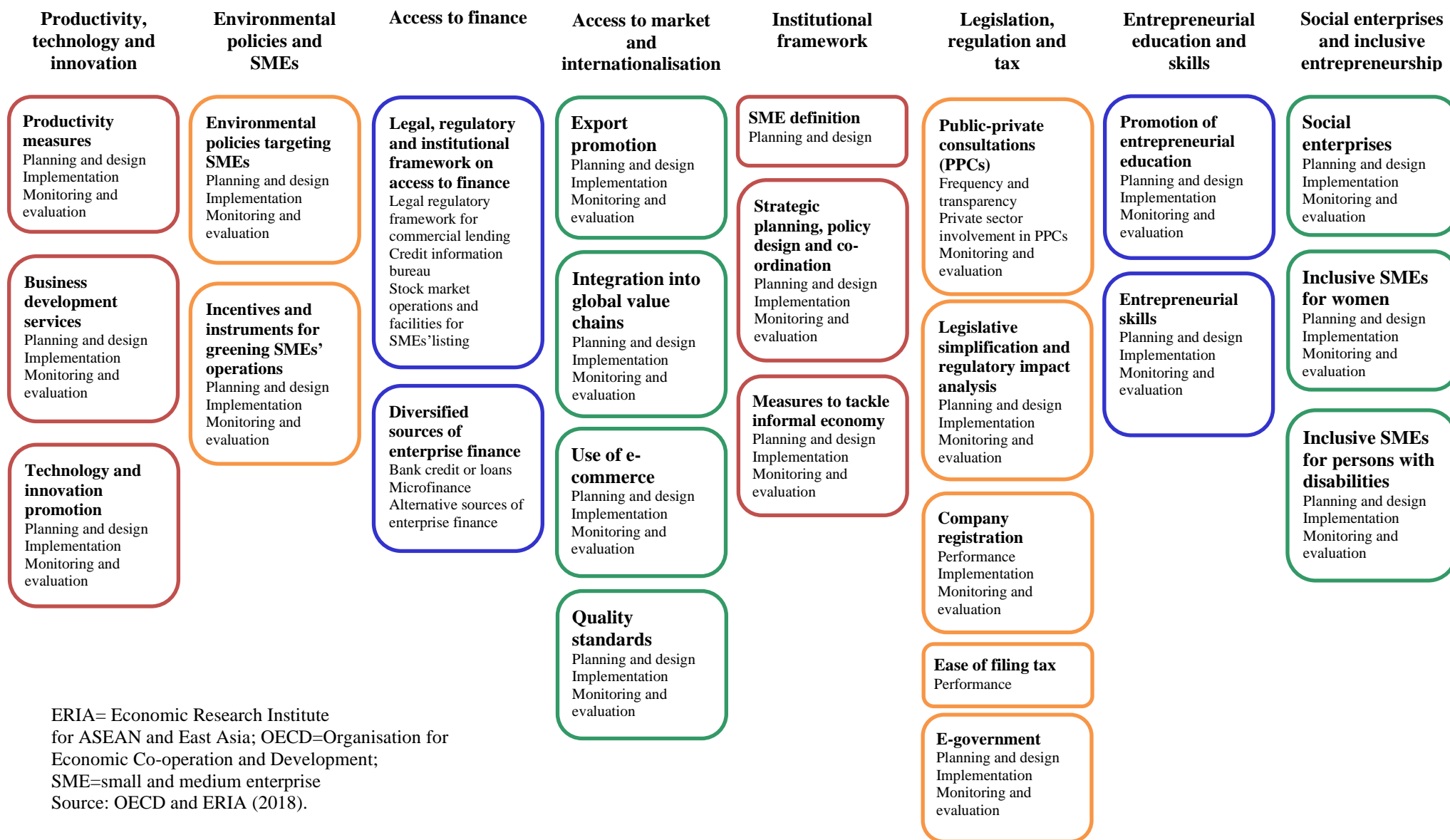
Source: Adalet McGowan and Andrews (2016, 2018); André and Demmou (2022); OECD (2022b).

Table A.10. World Bank principles for effective insolvency and creditor/debtor regimes

PART A. CREDITOR/DEBTOR RIGHTS
A1 Key Elements
A2 Security (Real Property)
A3 Security (Movable Property)
A4 Registry for Property and Security Rights over Immovable Assets
A5 Registry for Security Rights over Movable Assets
A6 Enforcement of Unsecured Debt
A7 Enforcement of Security Rights over Immovable Assets
A8 Enforcement of Security Rights over Movable Assets
PART B. RISK MANAGEMENT AND CORPORATE WORKOUT
B1 Credit Information Systems
B2 Directors' Obligations in the Period Approaching Insolvency
B3 Enabling Legislative Framework
B4 Informal Workout Procedures
B5 Regulation of Workout and Risk Management Practices
PART C. LEGAL FRAMEWORK FOR INSOLVENCY
C1 Key Objectives and Policies
C2 Due Process: Notification and Information
C3 Commencement: Eligibility
C4 Applicability and Accessibility
C5 Provisional Measures and Effects of Commencement
C6 Governance: Management
C7 Creditors and the Creditors Committee
C8 Administration: Collection, Preservation, Administration and Disposition of Assets
C9 Stabilizing and Sustaining Business Operations
C10 Treatment of Contractual Obligations
C11 Avoidable Transactions
C12 Claims and Claims Resolution Procedures: Treatment of Stakeholder Rights and Priorities
C13 Claims Resolution Procedures
C14 Reorganization Proceedings: Plan Formulation and Consideration; Plan Formulation and Consideration; Voting and Approval of Plan; Implementation and Amendment; Discharge and Binding Effects; Plan Revocation and Case Closure
C15 International and Group Assets: International Considerations
C16 Insolvency of Domestic Enterprise Groups
C17 Insolvency of International Enterprise Groups
C18 Insolvency of Micro and Small Enterprises (MSEs): Key Objectives and Policies
C19 Simplified Insolvency Proceedings
C20 Discharge
PART D. IMPLEMENTATION: INSTITUTIONAL & REGULATORY FRAMEWORKS
D1 Institutional Considerations: Role of Courts
D2 Judicial Selection, Qualification, Training and Performance
D3 Court Organization
D4 Transparency and Accountability
D5 Judicial Decision Making and Enforcement of Orders
D6 Integrity of the System
D7 Regulatory Considerations: Role of Regulatory or Supervisory Bodies
D8 Competence and Integrity of Insolvency Representatives

Source: World Bank (2021).

Figure A.6. Structure of OECD–ERIA ASEAN SME Policy Index 2018



ERIA= Economic Research Institute for ASEAN and East Asia; OECD=Organisation for Economic Co-operation and Development; SME=small and medium enterprise
 Source: OECD and ERIA (2018).

Table A.11. OECD–ERIA ASEAN SME Policy Index, 2018: APEC economies

Economy	Productivity, technology and innovation	Environmental policies and SMEs	Access to finance	Access to market and internationalisation	Institutional framework	Legislation, regulation and tax	Entrepreneurial education and skills	Social enterprises and inclusive entrepreneurship
Australia								
Brunei Darussalam	3.37	2.04	4.38	3.41	4.01	3.69	4.06	2.33
Canada								
Chile								
China								
Hong Kong, China								
Indonesia	4.14	3.28	4.58	5.21	4.35	3.49	4.52	3.22
Japan								
Korea								
Malaysia	5.06	5.08	5.35	5.43	5.86	4.71	4.58	4.00
Mexico								
New Zealand								
Papua New Guinea								
Peru								
The Philippines	4.08	3.75	3.93	4.95	4.44	3.36	4.50	3.65
Russia								
Singapore	5.84	5.30	5.69	5.94	5.85	5.52	5.36	3.96
Chinese Taipei								
Thailand	4.97	4.29	4.87	5.41	4.88	3.74	4.50	3.10
Viet Nam	3.48	3.63	3.81	4.15	4.05	3.32	2.87	2.43

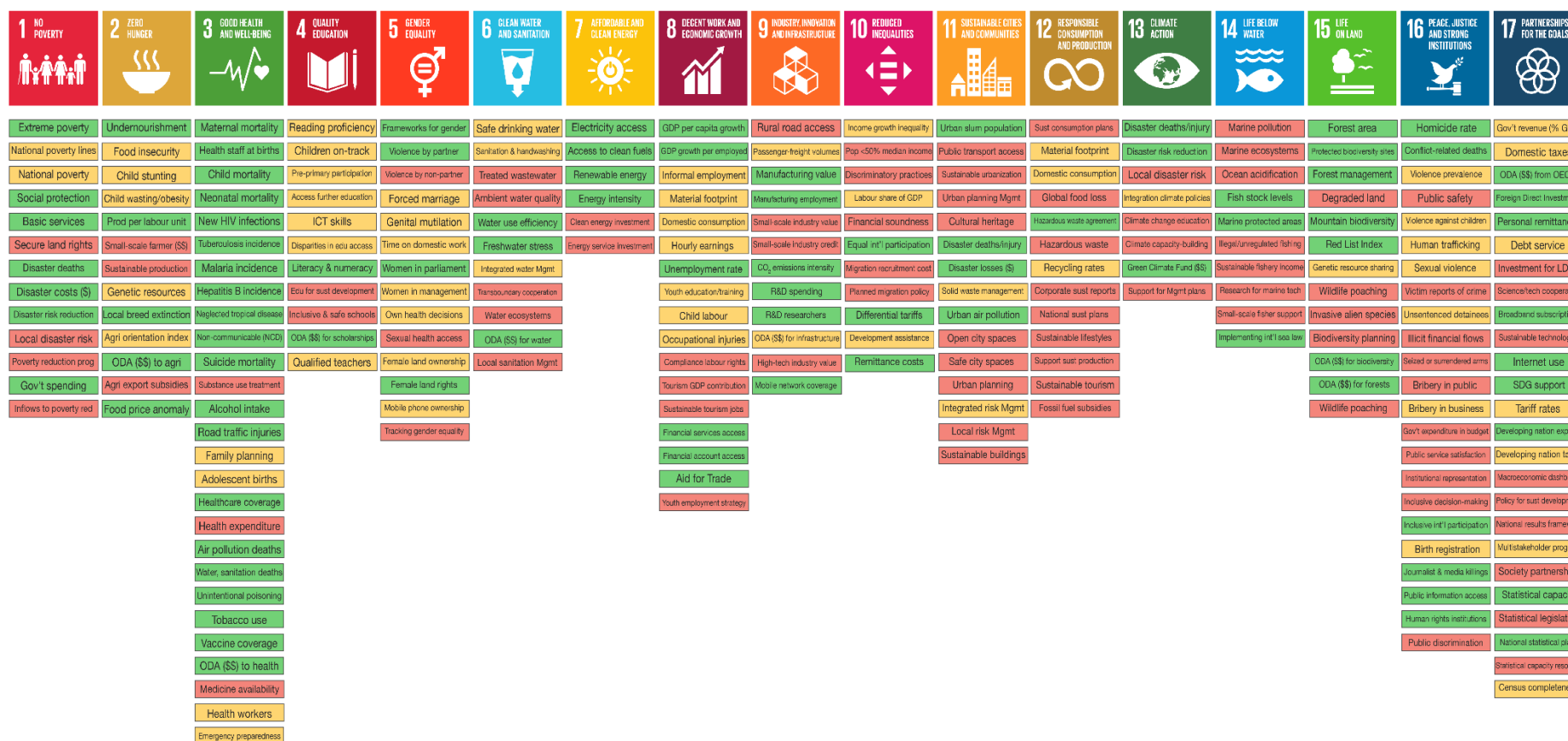
ERIA= Economic Research Institute for ASEAN and East Asia; OECD=Organisation for Economic Co-operation and Development;

SME=small and medium enterprise

Note: Data available only for ASEAN members of APEC.

Source: OECD and ERIA (2018).

Figure A.7. Structure of UN Sustainable Development Goals (SDG) Index



Source: Our World in Data, <https://ourworldindata.org/sdg-tracker-update>

Table A.12. UN Sustainable Development Goals (SDG) Index, progress summary, 2023: APEC economies

Economy	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	SDG Index		
	No Poverty	No Hunger	Good Health and Well-Being	Quality Education	Gender Equality	Clean Water and Sanitation	Affordable and Clean Energy	Decent Work and Economic Growth	Industry, Innovation and Infrastructure	Reduced Inequalities	Sustainable Cities and Communities	Responsible Consumption and Production	Climate Action	Life Below Water	Life on Land	Peace, Justice and Strong Institutions	Partnerships for the Goals	2023	Global Rank	APEC Rank
Australia	Challenges remain	Major challenges	Significant challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Challenges remain	Major challenges	Challenges remain	Challenges remain	75.9	40	7
Brunei Darussalam	Information unavailable	Major challenges	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Challenges remain	Challenges remain	Information unavailable	Challenges remain	Major challenges	Major challenges	Major challenges	Major challenges	Challenges remain	Information unavailable	65.7	102	18
Canada	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Major challenges	78.5	26	2
Chile	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Challenges remain	Challenges remain	Major challenges	Challenges remain	Major challenges	Challenges remain	Challenges remain	78.2	30	4
China	Goal achievement	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Challenges remain	Challenges remain	72.0	63	11
Hong Kong, China	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable			
Indonesia	Challenges remain	Major challenges	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Major challenges	70.2	75	14
Japan	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Major challenges	Challenges remain	Major challenges	79.4	21	1
Korea	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Challenges remain	Major challenges	78.1	31	5
Malaysia	Challenges remain	Major challenges	Major challenges	Challenges remain	Major challenges	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Challenges remain	Challenges remain	69.8	78	15
Mexico	Challenges remain	Major challenges	Major challenges	Challenges remain	Challenges remain	Major challenges	Challenges remain	Major challenges	Major challenges	Major challenges	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Challenges remain	69.7	80	16
New Zealand	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Major challenges	Challenges remain	Major challenges	78.4	27	3
Papua New Guinea	Major challenges	Major challenges	Major challenges	Major challenges	Major challenges	Major challenges	Major challenges	Major challenges	Major challenges	Major challenges	Challenges remain	Challenges remain	Challenges remain	Major challenges	Challenges remain	Major challenges	Major challenges	53.6	148	19
Peru	Challenges remain	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Challenges remain	71.7	65	13
The Philippines	Challenges remain	Major challenges	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Challenges remain	67.1	98	17
Russia	Goal achievement	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Challenges remain	73.8	49	9
Singapore	Goal achievement	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Information unavailable	Challenges remain	Major challenges	Major challenges	Major challenges	Major challenges	Challenges remain	Major challenges	71.8	64	12
Chinese Taipei	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable	Information unavailable			
Thailand	Goal achievement	Major challenges	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Major challenges	74.7	43	8
United States	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Challenges remain	Major challenges	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	75.9	39	6
Viet Nam	Challenges remain	Challenges remain	Major challenges	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Challenges remain	Major challenges	Major challenges	Major challenges	Challenges remain	73.3	55	10

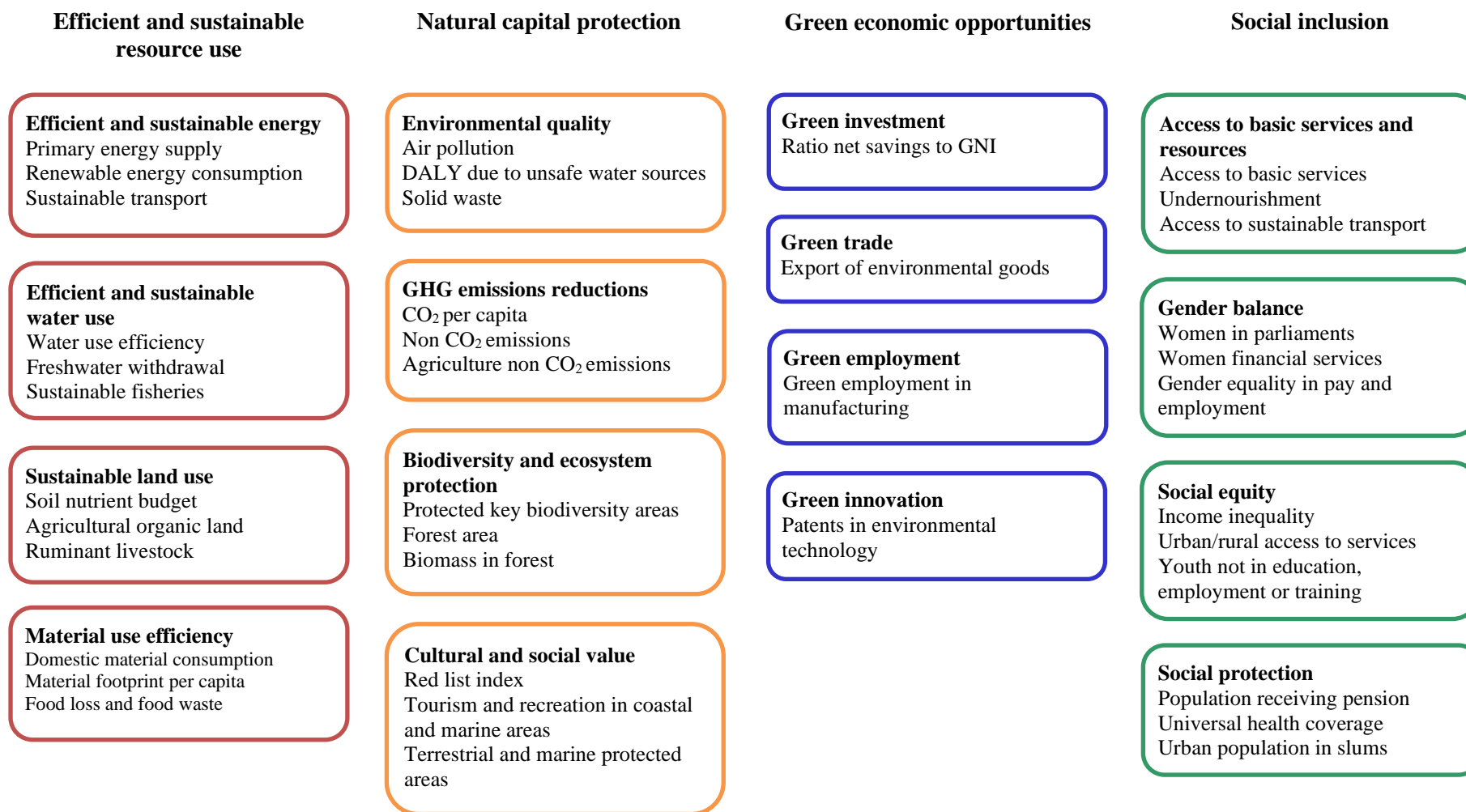
Source: Sachs et al. (2022).

Table A.13. UN Sustainable Development Goals (SDG) Index, 2023: APEC economies

Economy	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	SDG Index		
	No Poverty	No Hunger	Good Health and Well-Being	Quality Education	Gender Equality	Clean Water and Sanitation	Affordable and Clean Energy	Decent Work and Economic Growth	Industry, Innovation and Infrastructure	Reduced Inequalities	Sustainable Cities and Communities	Responsible Consumption and Production	Climate Action	Life below Water	Life on Land	Peace, Justice and Strong Institutions	Partnerships for the Goals	2023	Global Rank	APEC Rank
Australia	99.3	58.4	95.2	89.6	82.0	93.9	72.2	86.7	92.2	79.2	88.2	52.3	16.9	65.9	62.6	83.1	72.6	75.9	40	7
Brunei Darussalam		57.6	85.6	97.0	62.0	59.2	62.9	68.8	76.4	0.0	99.9	48.5	1.3	49.7	68.2	61.7	65.7	65.7	102	18
Canada	99.6	63.5	93.9	99.4	83.9	86.1	80.3	84.6	87.3	89.3	90.6	51.7	39.6	62.1	60.8	81.8	79.9	78.5	26	2
Chile	96.4	71.5	88.4	97.8	77.7	89.4	81.3	84.1	75.3	25.5	85.5	77.8	82.3	80.2	61.1	69.8	85.8	78.2	30	4
China	98.1	83.4	83.4	99.5	78.2	69.0	67.7	78.9	80.3	34.9	79.5	87.0	77.6	55.7	48.9	60.6	41.4	72.0	63	11
Hong Kong, China																				
Indonesia	86.1	66.6	64.8	92.2	63.8	70.1	64.5	77.4	50.7	60.9	75.3	89.7	92.5	69.8	51.4	64.7	52.4	70.2	75	14
Japan	99.3	75.2	94.6	93.9	61.7	84.9	72.6	88.2	94.4	80.5	84.2	66.1	73.5	55.8	63.1	86.3	75.6	79.4	21	1
Korea	99.5	82.9	92.8	92.3	66.3	74.0	70.6	85.5	99.1	82.6	87.0	73.1	69.7	55.4	54.1	77.9	64.1	78.1	31	5
Malaysia	98.9	49.4	80.1	88.0	58.3	76.3	68.3	78.0	81.0	47.4	81.8	78.2	77.9	68.2	38.4	59.9	57.3	69.8	78	15
Mexico	86.3	61.1	79.7	96.0	80.6	71.0	68.6	68.4	57.9	38.2	83.4	81.7	86.8	62.6	55.4	46.7	60.6	69.7	80	16
New Zealand		59.5	92.5	94.1	91.4	89.6	84.3	87.8	89.9	81.3	87.6	49.0	66.1	53.2	49.0	87.4	72.6	78.4	27	3
Papua New Guinea	30.8	33.9	43.2	53.9	48.4	42.5	37.0	76.9	9.7	43.7	71.8	96.5	95.2	72.1	64.1	52.1	39.6	53.6	148	19
Peru	86.0	71.4	80.8	98.8	74.9	78.0	74.4	74.6	44.8	33.8	70.5	87.8	93.5	78.7	55.3	54.3	60.7	71.7	65	13
The Philippines	80.5	68.8	58.2	78.5	64.3	70.4	59.0	69.2	44.4	42.2	73.5	92.2	95.4	74.9	58.6	51.9	59.4	67.1	98	17
Russia	98.8	59.1	80.3	97.1	67.3	75.1	64.4	81.6	75.9	79.0	83.4	80.6	69.9	53.4	66.1	47.8	74.6	73.8	49	9
Singapore	0.0	76.2	94.4	98.6	75.1	74.2	72.0	74.8	91.4		96.1	51.6	57.5	47.2	26.5	83.2	49.0	71.8	64	12
Chinese Taipei																				
Thailand	98.6	58.6	79.7	98.0	70.7	76.0	72.7	77.2	67.4	73.2	86.6	80.6	81.6	64.2	60.2	62.8	62.3	74.7	43	8
United States	98.9	68.6	88.7	93.9	76.8	83.6	73.5	81.9	97.8	57.5	89.3	59.9	52.5	65.7	60.4	68.6	72.9	75.9	39	6
Viet Nam	97.0	73.6	69.9	97.4	74.4	74.3	69.0	76.2	58.1	70.4	87.8	90.2	92.2	47.7	44.6	64.4	59.4	73.3	55	10

Source: Sachs et al. (2023).

Figure A.8. Structure of GGGI Green Growth Index



DALY=disability-adjusted life years; GGGI=Global Green Growth Institute; GNI=gross national income
 Source: Acosta et al. (2022).

Table A.14. MIT Green Future Index, 2023: APEC economies

Economy	Carbon emissions		Energy Transition		Green Society		Clean Innovation		Climate Policy		Green Future Index		
	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Global Rank	APEC Rank
Australia	6.29	29	3.06	40	6.34	21	4.08	70	4.00	45	4.57	42	10
Brunei Darussalam													
Canada	5.62	57	2.95	45	6.55	14	5.27	51	6.59	6	5.69	14	2
Chile	5.73	54	3.17	35	5.02	52	5.72	40	5.32	22	5.08	30	6
China	4.67	70	3.16	36	5.81	34	6.58	10	5.21	26	5.12	27	4
Hong Kong, China	7.28	4	3.78	18	6.21	25	5.60	41	3.65	48	4.89	33	8
Indonesia	5.75	52	2.76	52	4.87	58	5.22	55	3.76	47	4.29	49	14
Japan	6.11	44	2.86	50	5.67	38	6.52	11	4.82	32	5.10	28	5
Korea	6.04	45	4.30	10	7.37	2	6.88	7	5.78	17	6.00	8	1
Malaysia	4.86	69	2.71	55	6.06	29	2.65	74	3.08	54	3.67	68	18
Mexico	6.60	17	2.81	51	5.21	47	5.14	56	3.95	46	4.54	45	12
New Zealand	6.20	37	3.04	41	5.00	53	5.33	48	4.08	43	4.58	41	9
Papua New Guinea													
Peru	6.78	12	2.98	42	4.71	62	5.24	53	2.54	60	3.97	62	17
The Philippines	5.74	53	2.00	71	6.62	13	4.58	64	4.29	39	4.55	44	11
Russia	4.49	71	2.36	68	4.46	66	6.43	15	2.27	68	3.56	70	19
Singapore	6.18	39	1.45	76	7.06	4	7.32	4	4.12	42	4.96	32	7
Chinese Taipei	5.92	46	2.56	60	6.80	7	2.16	75	4.81	33	4.53	46	13
Thailand	5.82	50	3.77	19	6.32	22	5.35	47	2.32	64	4.12	55	16
United States	5.23	63	2.97	43	6.81	6	5.31	49	5.86	14	5.39	19	3
Viet Nam	3.83	76	3.30	30	5.75	36	5.86	37	3.29	51	4.14	53	15

Source: O'Brien (2023).

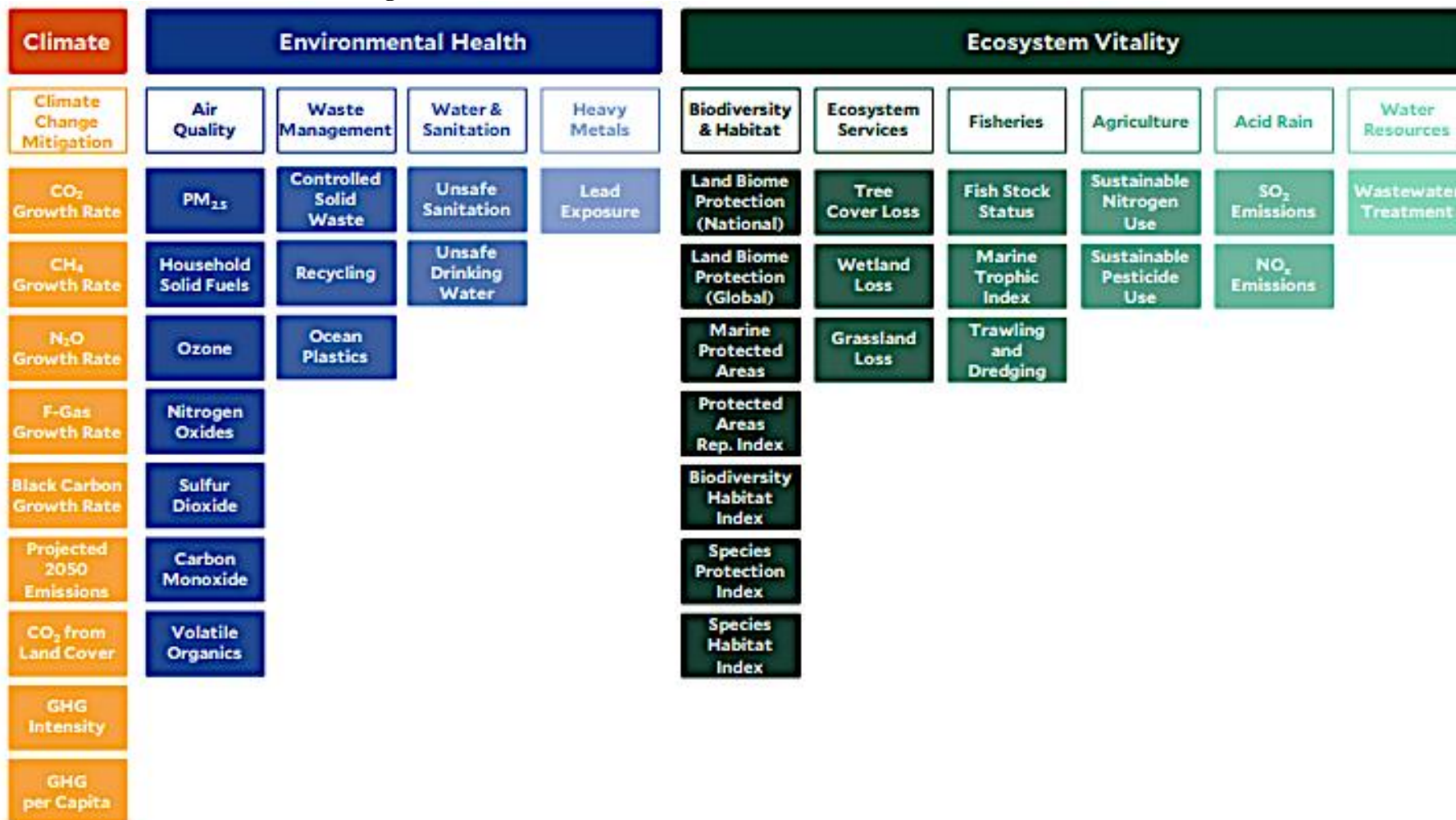
Table A.15. GGGI Green Growth Index, 2022: APEC economies

Economy	Efficient and Sustainable Resource Use					Natural Capital Protection					Green Economic Opportunities					Social Inclusion					Green Growth Index		
	Efficient and sustainable energy	Efficient and sustainable water use	Sustainable land use	Material use efficiency	Efficient and Sustainable Resource Use Score	Environmental quality	GHG emissions reductions	Biodiversity and ecosystem protection	Cultural and social value	Natural Capital Protection Score	Green investment	Green trade	Green employment	Green innovation	Green Economic Opportunities Score	Access to basic services and resources	Gender balance	Social equity	Social protection	Social Inclusion Score	Score	Global Rank	APEC Rank
Australia	51.21	65.78	92.30	60.94	65.98	86.55	21.39	59.33	76.22	53.79	50.45	8.99	52.25	6.9	20.11	82.50	86.35	91.70	91.11	87.84	60.04	43	6
Brunei Darussalam	28.03	51.72	40.22	56.86	42.67	87.73	38.85	66.76	54.30	59.29	93.74	6.37	36.97	28.62	28.20	81.75	47.12	82.02	79.84	70.87	52.61	89	18
Canada	51.64	39.46	67.35	64.34	54.51	83.14	39.96	51.49	66.04	57.97	49.40	25.94	69.67	8.36	29.39	78.81	84.80	89.61	92.47	86.26	59.91	45	7
Chile	57.94	35.32	48.64	64.89	50.41	86.38	82.44	63.02	64.51	73.35	52.07	3.44	39.66	15.20	18.13	74.01	73.33	81.66	78.95	76.91	57.81	59	11
China	47.09	37.05	66.04	83.64	55.71	76.83	76.18	42.16	67.19	63.81	68.82	37.23	49.01	5.52	28.85	72.13	58.30	93.15	87.73	76.56	59.77	46	8
Hong Kong, China	54.57		57.61	60.20	57.41				86.67			16.68	35.47	7.18	16.19	100.00	87.58	93.87		93.68			
Indonesia	53.50	34.89	62.74	82.42	55.74	83.19	81.99	57.52	45.51	65.00	61.94	10.58	25.30		25.50	69.92	72.21	92.89	46.29	68.26	57.36	63	13
Japan	55.17	49.85	56.57	87.17	60.68	91.30	81.45	64.10	53.42	71.04	47.61	58.36	45.24	8.77	32.41	85.65	57.03	95.69	89.76	80.48	65.03	26	1
Korea	42.69	11.24	50.40	89.92	38.40	84.91	66.75	55.13	35.71	57.80	72.02	49.81	73.93	10.80	41.13	89.96	53.49	97.36	91.11	80.83	54.65	81	16
Malaysia	42.40	43.49	66.19	52.96	50.42	86.18	69.66	61.49	59.22	68.38	35.24	29.28	34.14	4.62	20.09	78.95	60.04	86.51	43.37	64.94	54.36	84	17
Mexico	47.09	22.83	62.94	84.43	48.89	84.72	79.52	52.82	80.61	73.18	50.91	44.53	54.56	8.14	31.68	67.36	89.23	79.41	82.04	79.10	61.04	38	5
New Zealand	65.82	40.57	59.64	80.72	59.88	82.55	46.74	69.18	79.36	67.84	62.32	8.96	45.02	6.50	20.10	84.75	84.57	88.82	90.44	87.11	62.37	33	2
Papua New Guinea	58.12		73.38	85.78	71.52	78.82	82.88	48.92	27.76	54.57	46.22	3.85				30.99	13.38	87.70	16.10	27.66			
Peru	55.22	35.17	68.86	78.33	56.89	86.01	85.81	65.02	57.66	72.53	56.37	5.33	35.37	14.70	19.88	62.12	82.36	80.78	56.72	69.58	58.51	53	10
The Philippines	57.02	35.75	67.75	80.93	57.82	89.64	90.48	66.49	56.88	74.42	76.13	18.80	34.00	10.52	26.75	61.51	85.10	81.83	40.57	64.57	59.69	47	9
Russia	25.99	54.06	67.34	88.96	53.86	87.00	42.77	49.29	53.37	55.93	55.68	9.04	49.54	6.33	19.93	79.83	60.86	88.39	82.99	77.26	54.96	79	15
Singapore	52.47		39.36	62.24	50.47	88.78	57.95	46.46	50.27	58.88	90.85	31.00	52.14	6.32	31.03	90.88	74.07	95.87	57.32	77.99	57.37	62	12
Chinese Taipei						88.39																	
Thailand	55.84	35.96	63.04	83.37	57.00	82.55	73.64	64.27	75.53	73.71	64.50	30.20	46.40	8.97	30.01	67.33	53.99	87.60	86.29	72.40	62.04	34	3
United States	52.28	37.49	52.59	91.93	55.48	80.63	48.26	52.44	72.28	61.97	49.84	46.55	76.50	7.67	34.16	89.41	72.84	86.23	88.40	83.94	61.87	36	4
Viet Nam	49.89	38.12	55.22	83.03	54.34	89.00	84.71	50.90	39.00	62.20	54.76	9.83	30.98	12.38	21.32	70.06	67.99	89.11	64.88	72.44	56.17	73	14

GGGI=Global Green Growth Institute

Source: Acosta et al. (2022)

Figure A.9. Structure of CELP–CIESIN Environmental Performance Index



CELP=Center for Environmental Law and Policy; CIESIN= Center for International Earth Science Information Network
 Source: Wolf et al. (2022).

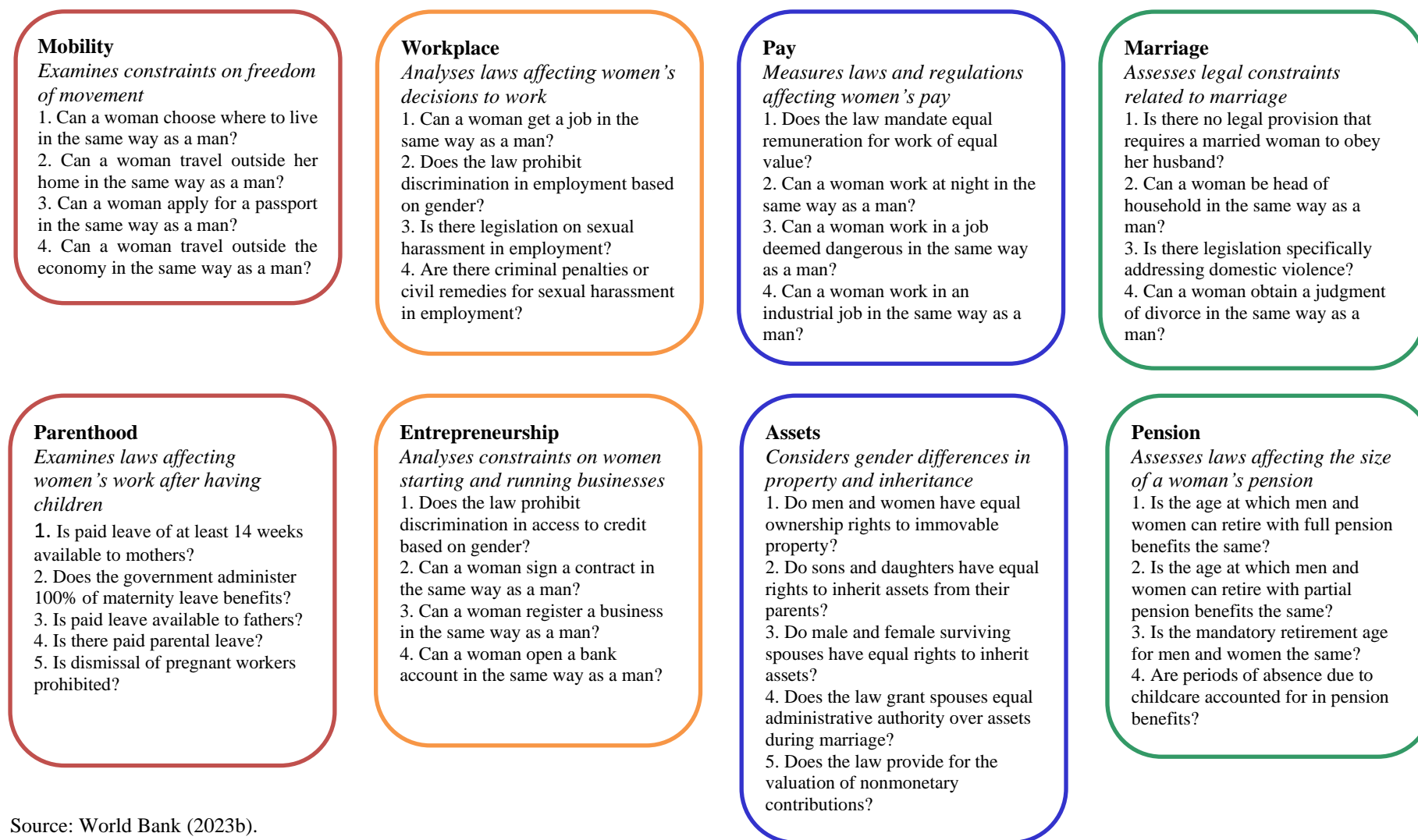
Table A.16. CELP–CIESIN Environmental Performance Index, 2022: APEC economies

Economy	Environmental Health					Ecosystem Vitality							Climate Change Policy Objective		Overall Environmental Performance Index		
	Overall Environmental Health	Air Quality	Sanitation and Drinking Water	Heavy Metals	Waste Management	Overall Ecosystem Vitality	Biodiversity and Habitat	Ecosystem Services	Fisheries	Acidification	Agriculture	Water Resources	Overall Climate Change Policy objective	Climate Change	Environmental Performance Index	Global Ranking	APEC Ranking
Australia	86.4	91.1	87.1	76.4	69.0	62.3	82.1	20.1	14.6	88.6	67.9	92.9	43.8	43.8	60.1	17	1
Brunei Darussalam	68.1	61.7	85.7	67.6	59.7	38.6	58.5	20.7	8.4	70.4	14.8	5.8	41.7	41.7	45.7	71	9
Canada	85.9	88	88.1	95.6	59.5	52.5	62.9	29.8	12.8	100	42.1	67.4	28.2	28.2	50.0	49	6
Chile	58.0	48.4	68.1	96.8	46.4	51.2	61.3	28.4	23.3	74.6	47.4	71.9	35.8	35.8	46.7	65	8
China	32.8	20.6	59.5	37.0	28.6	24.5	9.4	21.6	17.7	100	42.4	9.4	30.4	30.4	28.4	160	17
Hong Kong, China																	
Indonesia	25.3	21.5	28.5	34.0	29.5	34.1	51.2	13.6	16.3	43.9	36.7	0	23.2	23.2	28.2	164	18
Japan	82.5	78.9	95.1	100	52.8	59.6	80.8	26.8	15.6	100	33.4	74.8	41.2	41.2	57.2	25	2
Korea	73.3	62.9	90.8	88.4	72.0	48.8	61.0	17.7	12.8	84.3	44.1	76.8	30.9	30.9	46.9	63	7
Malaysia	48.0	43.7	57.6	61.4	33.8	36.0	51.9	2.6	14.3	71.0	40.5	12.6	27.2	27.2	35.0	130	15
Mexico	40.9	34.2	52.9	45.1	43.5	53.7	69.8	32.7	19.8	90.1	50.6	25.2	38.9	38.9	45.5	73	10
New Zealand	84.9	93.2	80.4	74.6	60.9	57.9	76.6	26.9	7.4	76.0	64.9	79.9	40.4	40.4	56.7	26	3
Papua New Guinea	29.9	31.7	15.6	59.6	25.8	21.9	16.3	31.4	35.5	33.7	15.6	0	25.4	25.4	24.8	175	19
Peru	43.1	41.5	43.1	67.4	27.7	45.2	54.5	27.6	45.2	56	30.7	41	32.2	32.2	39.8	101	12
The Philippines	31.1	25.9	39.0	47.4	23.4	38.6	54.2	26.7	34.8	34.8	29.6	0.8	16.9	16.9	28.9	158	16
Russia	50.6	48.8	55.5	71.3	27.7	39.0	44.4	18.7	13.7	91.9	48.9	18.5	29.1	29.1	37.5	112	14
Singapore	77.0	69.2	93.3	84.5	71.7	42.5	25.3	5.0	100.0	100.0	22.0	100.0	46.5	46.5	50.9	44	5
Chinese Taipei	56.7	46.2	72.4	72.8	59.2	46.4	58.0	28.1	25.3	100	33.8	6.5	38.1	38.1	45.3	74	11
Thailand	43.8	34.4	55.9	80.7	28.5	37.3	51.4	15.3	12.9	79.8	33.0	1.8	36.0	36.0	38.1	108	13
United States	76.8	77	86.1	75.1	54.3	51.4	60.6	20.1	17.2	100.0	61.4	58.9	37.2	37.2	51.1	43	4
Viet Nam	35.1	26.5	52.8	47.1	25.6	22.1	27.9	8.5	24.2	19.3	39.6	0.3	10.1	10.1	20.1	178	20

CELP=Center for Environmental Law and Policy; CIESIN= Center for International Earth Science Information Network

Source: Wolf et al. (2022).

Figure A.10. Structure of World Bank Women, Business and the Law indicators



Source: World Bank (2023b).

Table A.17. World Bank Women, Business and the Law indicators, 2023: APEC economies

Economy	Mobility	Workplace	Pay	Marriage	Parenthood	Entrepreneurship	Assets	Pension	WBL Index		
									Score	Global Rank	APEC Rank
Australia	100	100	100	100	100	100	100	75	96.9	20=	3
Brunei Darussalam	50	25	75	40	0	75	60	100	53.1	170	20
Canada	100	100	100	100	100	100	100	100	100.0	1=	1
Chile	100	75	75	80	100	75	60	75	80.0	96=	12
China	100	100	25	100	100	75	100	25	78.1	109=	15=
Hong Kong, China	100	100	75	100	60	100	100	100	91.9	35=	5
Indonesia	100	100	75	40	40	75	60	75	70.6	138=	18
Japan	100	50	25	80	100	75	100	100	78.8	104=	13=
Korea	100	100	25	100	80	75	100	100	85.0	65=	10
Malaysia	50	50	50	40	0	75	60	75	50.0	173=	21
Mexico	100	100	75	100	60	100	100	75	88.8	47=	8
New Zealand	100	100	100	100	80	100	100	100	97.5	15=	2
Papua New Guinea	75	50	25	100	0	75	80	75	60.0	158=	19
Peru	100	100	100	80	80	100	100	100	95.0	25=	4
The Philippines	75	100	100	60	60	100	60	75	78.8	104=	13=
Russia	100	50	50	80	80	75	100	50	73.1	132	17
Singapore	100	75	75	100	60	75	100	75	82.5	79=	11
Chinese Taipei	100	100	100	100	80	75	100	75	91.3	38=	6=
Thailand	100	100	75	80	20	75	100	75	78.1	109=	15=
United States	100	100	75	100	80	100	100	75	91.3	38=	6=
Viet Nam	100	100	100	100	80	100	100	25	88.1	51=	9

Source: World Bank (2023b).

Table A.18. WIPO Global Innovation Index, 2022: APEC economies

Economy	Innovation Pillars							Global Innovation Index		
	Institutions	Human capital and research	Infra-structure	Market sophistication	Business sophistication	Knowledge and technology outputs	Creative outputs	Score	Global Rank	APEC Rank
Australia	77.2	61.7	58.8	50.2	48.6	32.2	37.8	47.1	25	9
Brunei Darussalam	74.5	35.2	45.5	23.5	27.4	4.2	2.0	22.2	92	19
Canada	80.4	57.7	57.0	65.1	52.3	39.3	38.7	50.8	15	7
Chile	66.5	33.9	50.3	37.7	29.9	25.1	23.6	34.0	50	14
China	64.8	53.1	57.5	56.0	55.9	56.8	49.3	55.3	11	4
Hong Kong, China	82.5	57.4	63.7	76.3	46.7	23.2	53.2	51.8	14	6
Indonesia	55.1	22.4	43.4	41.7	22.1	19.0	18.6	27.9	75	18
Japan	75.8	52.7	61.3	59.0	58.1	52.6	38.9	53.6	13	5
Korea	70.5	66.4	60.3	48.0	58.0	54.7	55.1	57.8	6	2
Malaysia	68.8	41.0	48.6	45.3	36.3	31.5	27.4	38.7	36	10
Mexico	48.2	33.6	44.2	36.3	25.2	24.3	24.7	31.0	58	15
New Zealand	83.3	54.9	57.9	45.7	43.8	36.0	38.4	47.2	24	8
Papua New Guinea										
Peru	58.0	36.8	40.5	40.2	32.1	13.7	19.5	29.1	65	17
The Philippines	48.7	25.0	38.7	29.2	36.9	30.8	20.5	30.7	59	16
Russia	48.7	47.0	44.3	37.4	35.4	26.6	25.3	34.3	47	12
Singapore	95.9	61.5	61.4	68.4	65.7	49.3	38.5	57.3	7	3
Chinese Taipei										
Thailand	52.5	29.8	47.7	45.3	35.5	30.0	25.2	34.9	43	11
United States	80.9	59.9	58.7	80.8	64.5	60.8	48.4	61.8	2	1
Viet Nam	60.6	27.2	42.5	38.4	31.6	26.0	30.8	34.2	48	13

WIPO=World Intellectual Property Organization

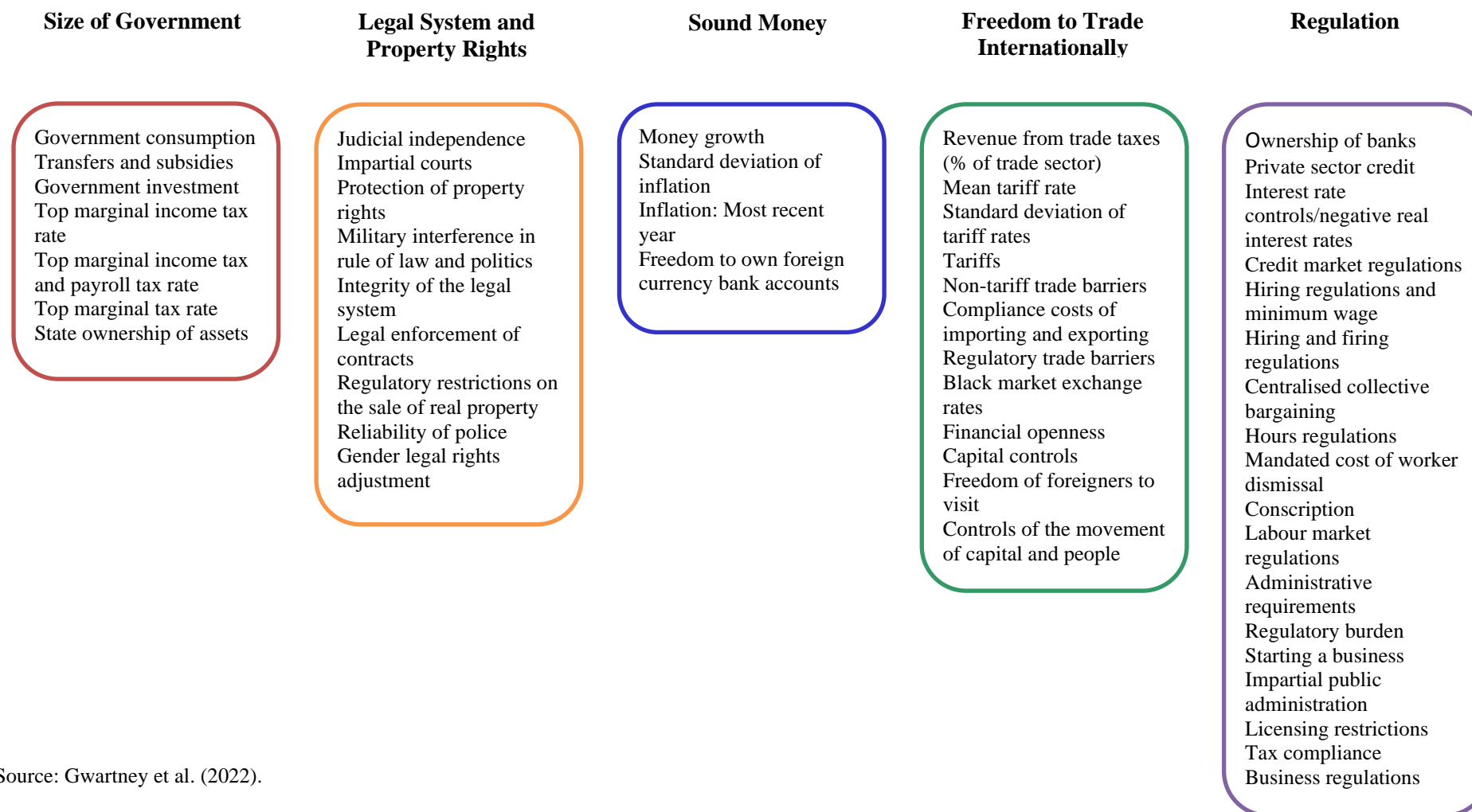
Note: Data not available for all APEC economies.

Source: Dutta et al. (2022).

Table A.19. Heritage Foundation Index of Economic Freedom, 2023: APEC economies

Economy	Property Rights	Judicial Effectiveness	Govt Integrity	Tax Burden	Govt Spending	Fiscal Health	Business Freedom	Labour Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom	2023 Score	Global Rank	APEC Rank
Australia	90.7	94.9	83.2	63.1	47.0	24.8	88.3	64.7	80.5	89.8	80	90	74.8	13	4
Brunei Darussalam	69.1	51.9	61.9	96.3	70.0	20.0	72.4	75.2	71.8	84.4	65	50	65.7	48	12
Canada	88.5	95.1	83.1	75.0	35.0	32.2	87.9	69.0	74.8	83.4	80	80	73.7	16	5
Chile	72.3	88.7	71.8	73.0	73.5	43.8	75.7	59.4	77.4	78.0	70	70	71.1	22	7
China	45.3	38.2	42.0	69.5	65.1	9.8	68.3	55.2	72.5	73.6	20	20	48.3	154	20
Hong Kong, China															
Indonesia	38.5	44.2	39.3	81.9	90.6	66.8	70.6	59.5	81.5	78.8	50	60	63.5	60	13
Japan	94.1	94.7	80.7	68.1	48.4	18.1	78.3	66.8	87.1	75.2	60	60	69.3	31	9
Korea	88.5	76.8	68.7	60.1	82.0	94.1	84.8	56.2	81.4	72.2	60	60	73.7	15	6
Malaysia	65.4	57.6	51.6	83.9	82.4	64.5	70.3	58.0	81.1	83.0	60	50	67.3	42	10
Mexico	47.8	40.0	30.8	75.5	77.8	73.6	72.4	57.7	70.9	76.8	75	60	63.2	61	14
New Zealand	87.8	94.7	96.8	66.6	49.7	72.2	88.8	71.5	78.7	90.4	70	80	78.9	5	3
Papua New Guinea	43.6	44.1	32.0	72.0	86.0	26.4	46.7	65.2	71.5	77.7	25	30	51.7	140	19
Peru	51.4	48.2	38.5	80.0	83.3	70.8	72.8	58.3	78.5	81.2	75	60	66.5	44	11
The Philippines	46.4	25.8	34.4	78.3	81.3	59.4	66.1	57.5	68.3	74.4	60	60	59.3	89	17
Russia	30.6	32.9	28.0	88.3	60.4	99.1	54.8	57.7	64.9	69.4	30	30	53.8	125	18
Singapore	94.0	58.3	91.2	90.6	89.0	78.0	86.9	77.3	81.9	95.0	85	80	83.9	1	1
Chinese Taipei	81.9	94.7	76.3	79.3	91.1	93.6	84.3	69.1	82.5	85.8	70	60	80.7	4	2
Thailand	44.2	35.1	37.7	81.0	81.5	65.2	66.6	56.6	73.4	70.8	55	60	60.6	80	16
United States	94.7	76.1	73.4	75.4	49.3	0.0	83.8	76.3	78.0	75.4	85	80	70.6	25	8
Viet Nam	48.7	35.1	36.4	78.6	86.5	88.7	73.4	54.1	70.5	79.4	40	50	61.8	72	15

Source: Kim (2023).

Figure A.11. Structure of Fraser Institute Economic Freedom Index indicators

Source: Gwartney et al. (2022).

Table A.20. Fraser Institute Economic Freedom Index, 2022: APEC economies

Economy	Size of Government	Legal System and Property Rights	Sound Money	Freedom to Trade Internationally	Regulation	Economic Freedom Index	Global Rank	APEC Rank
Australia	6.09	8.34	9.56	7.92	8.27	8.04	6	4
Brunei Darussalam	6.67	5.00	8.98	6.61	8.78	7.21	59	13
Canada	5.82	8.02	9.52	7.75	7.96	7.81	14	7
Chile	7.68	6.68	9.38	7.37	6.67	7.56	33	9
China	4.97	5.12	8.44	6.56	6.24	6.27	116	20
Hong Kong, China	8.24	7.50	9.65	8.73	8.84	8.59	1	8
Indonesia	7.91	4.90	9.58	6.60	6.46	7.09	66	1
Japan	5.65	7.71	9.82	7.78	8.12	7.82	12	15
Korea	6.34	6.65	9.65	7.16	7.32	7.42	43	6
Malaysia	7.12	5.88	8.32	6.97	8.47	7.35	49	11
Mexico	8.08	4.72	8.16	7.65	7.00	7.12	64	12
New Zealand	6.29	8.72	9.58	8.19	8.57	8.27	4	14
Papua New Guinea	5.64	4.63	6.86	6.60	7.12	6.17	122	3
Peru	7.56	5.35	9.71	7.86	7.02	7.50	37	21
The Philippines	7.92	4.44	9.58	6.21	7.31	7.09	66	10
Russia	5.70	5.13	9.09	6.53	6.65	6.62	94	16
Singapore	7.18	8.29	9.62	8.61	8.72	8.48	2	18
Chinese Taipei	7.63	7.16	9.58	6.31	7.71	7.68	24	2
Thailand	6.91	4.96	9.78	6.47	5.80	6.78	86	17
United States	6.79	7.56	9.63	7.77	8.11	7.97	7	5
Viet Nam	6.96	5.14	6.94	6.13	6.96	6.42	113	19

Source: Gwartney et al. (2022).

Table A.21. Fraser Institute Economic Freedom Index (Regulation), 2022: APEC economies

Economy	Ownership of banks	Private sector credit	Interest rate controls/negative real	Credit market regulations	Hiring regulations and minimum wage	Hiring and firing regulations	Centralised collective bargaining	Hours regulations	Mandated cost of worker dismissal	Conscription	Labour market regulations	Administrative requirements	Regulatory burden	Starting a business	Impartial public administration	Licensing restrictions	Tax compliance	Business regulations	Economic Freedom Index: Regulation	Global Rank	APEC Rank
Australia	10.0	6.4	10.0	8.8	8.9	3.9	6.1	10.0	7.9	10.0	7.8	4.0	8.0	9.9	9.6	9.0	8.8	8.2	8.3	7	6
Brunei Darussalam		8.7	10.0	9.3	10.0	4.9	7.8	10.0	10.0	10.0	8.8	3.9	8.4	9.8		9.6	9.4	8.2	8.8	2	2
Canada	10.0	4.2	10.0	8.1	8.9	6.1	7.2	8.0	8.3	10.0	8.1	4.8	7.6	10.0	8.6	6.9	8.5	7.7	8.0	19	9
Chile	8.0	8.6	7.0	7.9	5.6	3.4	8.3	10.0	2.5	0.0	5.0	4.0	7.3	9.8	7.5	7.7	6.7	7.2	6.7	110	17
China	2.0	7.5	10.0	6.5	8.9	5.8	6.1	10.0	2.5	0.0	5.5	5.6	3.6	9.7	3.7	9.1	8.5	6.7	6.2	132	20
Hong Kong, China	10.0	6.4	10.0	8.8	10.0	8.1	8.6	10.0	9.5	10.0	9.4	7.3	8.4	10.0	5.0	9.8	9.6	8.4	8.8	1	1
Indonesia	5.0	8.0	10.0	7.7	1.1	5.8	6.3	10.0	0.0	5.0	4.7	5.1	5.8	9.5	6.1	7.7	7.9	7.0	6.5	123	19
Japan	8.0	6.2	10.0	8.1	8.9	4.2	7.9	8.0	10.0	10.0	8.2	5.0	8.4	9.6	8.2	9.2	8.6	8.2	8.1	11	7
Korea	8.0	9.4	10.0	9.1	5.6	4.2	6.3	10.0	2.5	0.0	4.8	3.8	9.1	9.6	7.9	10.0	8.1	8.1	7.3	58	11
Malaysia	10.0	7.8	10.0	9.3	10.0	6.7	7.3	10.0	4.2	10.0	8.0	6.7	9.6	9.3	5.0	10.0	8.1	8.1	8.5	5	5
Mexico	8.0	8.1	10.0	8.7	6.7	4.1	7.0	8.0	4.8	3.0	5.6	3.1	5.8	9.6	4.9	9.6	7.3	6.7	7.0	82	15
New Zealand	10.0	6.7	9.0	8.6	8.9	5.3	7.6	10.0	10.0	10.0	8.6	5.2	8.4	10.0	9.7	9.4	8.4	8.5	8.6	4	4
Papua New Guinea	10.0	4.6	10.0	8.2	7.8	4.9	5.2	10.0	7.0	10.0	7.5	4.4	3.1	8.5	3.1	7.4	7.7	5.7	7.1	74	13
Peru	8.0	5.4	9.0	7.5	3.9	2.8	7.5	10.0	7.0	10.0	6.9	2.6	6.4	9.1	6.4	8.7	7.1	6.7	7.0	81	14
The Philippines	8.0	7.7	10.0	8.6	7.8	5.0	7.0	10.0	2.5	10.0	7.1	3.3	5.3	8.7	3.5	9.0	8.1	6.3	7.3	59	12
Russia	5.0	8.5	10.0	7.8	5.0	5.1	7.8	6.0	8.5	3.0	5.9	3.7	4.0	9.7	3.5	8.2	8.2	6.2	6.7	111	18
Singapore	10.0	7.8	10.0	9.3	10.0	7.7	8.4	10.0	10.0	0.0	7.7	7.4	9.8	10.0	8.8	10.0	9.3	9.2	8.7	3	3
Chinese Taipei	5.0	8.5	10.0	7.8	5.6	6.2	8.3	10.0	6.3	5.0	6.9	4.9	9.6	9.7	9.3	9.6	7.5	8.4	7.7	33	10
Thailand	8.0	0.0	10.0	6.0	5.6	5.6	5.6	10.0	1.4	0.0	4.7	4.6	6.7	9.8	2.7	9.1	7.4	6.7	5.8	148	21
United States	10.0	1.9	10.0	7.3	8.9	7.2	7.8	10.0	10.0	10.0	9.0	5.8	6.9	9.9	8.1	9.6	8.0	8.0	8.1	12	8
Viet Nam		8.3	10.0	9.2	7.8	5.5	6.5	10.0	2.5	0.0	5.4	4.0	6.2	9.4	4.4	8.2	5.7	6.3	7.0	88	16

Source: Gwartney et. al (2022).

APPENDIX B. GUIDANCE AND REQUIREMENTS FOR ESG DISCLOSURE

Table B.1. Sustainable Stock Exchanges Initiative (SSE) ESG disclosure guidance, 2023

Market	Stock Exchange	Year	ESG Guidance	GRI	SASB	TCFD	IIRC	CDSB	CDP
Australia	ASX	2015	ESG Reporting Guide for Australian Companies	●	●		●		●
Brunei Darussalam									
Canada	TMX Group	2020*	A Primer for Environmental and Social Disclosure	●	●	●			●
Chile	Bolsa de Comercio de Santiago	2021*	Guía De Reporte De Sostenibilidad	●	●	●	●	●	●
China	SSE	2008	Guidelines for Environmental Information Disclosure of Listed Companies in Shanghai Stock Exchange						
China	SZSE	2006	Social Responsibility Instructions to Listed Companies						
Hong Kong, China	HKEX	2020*	How to Prepare an ESG Report: A Step-by-Step Guide to ESG Reporting	●	●	●			
Hong Kong, China	HKEX	2021	Guidance on Climate Disclosures			●			
Indonesia	IDX	2017	Application of Sustainable Finance for Financial Services Institutions, Issuers and Public Companies						
Japan	JPX	2020	Practical Handbook for ESG Disclosure	●	●	●	●		
Korea									
Malaysia	Bursa Malaysia	2018*	Sustainability Reporting Guide	●	●	●	●		●
Mexico	BMV	2017	Sustainability Guide: Towards Sustainable Development of Companies in Mexico	●	●		●		●
New Zealand	NZX	2017	Environmental, Social and Governance: NZX Guidance Note	●	●	●	●		●
Papua New Guinea									
Peru	Grupo BVL	2017	Guía de Usuario para facilitar el llenado del Reporte de Sostenibilidad Corporativa	●	●				
The Philippines	PSE	2019	Sustainability Reporting Guidelines for Publicly Listed Companies	●	●	●	●		
Russia	MOEX	2022*	ESG Best Practice Guide	●	●	●	●		●
Singapore	SGX	2018*	Sustainability Reporting Guide	●	●	●			
Chinese Taipei	TWSE TPEX	2022	Rules Governing the Preparation and Filing of Sustainability Reports	●	●	●			
Thailand	SET	2012	Guidelines for the Preparation of Sustainability Reports	●			●		●

Market	Stock Exchange	Year	ESG Guidance	GRI	SASB	TCFD	IIRC	CDSB	CDP
United States	NASDAQ	2019	ESG Reporting Guide 2.0: A Support Resource for Companies	●	●	●	●		●
United States	NYSE	2021	Best Practices for Sustainability Reporting	●	●	●			
Viet Nam	HNX	2016	Environmental and Social Disclosure Guide	●					
Viet Nam	HOSE	2016	Environmental and Social Disclosure Guide	●					
Global total				67	56	45	52	22	49
APEC Total				16	14	12	10	1	9

CDP=Carbon Disclosure Project; CDSB=Climate Disclosure Standards Board; ESG=environmental, social and governance; GRI=Global Reporting Initiative; IIRC=International Integrated Reporting Council; SASB=Sustainability Accounting Standards Board; TCFD=Task Force on Climate-related Financial Disclosures
 Note: * Updated.
 Source: SSE (2023).

Table B.2. Climate-related disclosure requirements: APEC economies

Economy	Disclosure
Australia	Required for some aspects of environmental, social and governance (ESG) and for large firms; under the ASX listing rules as well (Frost 2007; WBCSD 2018; Cachia and Levine 2022). Other disclosures under the Climate Change Act 2022, National Greenhouse and Energy Reporting Act 2007, Modern Slavery Act 2018. Proposals for wider mandatory environmental sustainability reporting standards (The Treasury 2022).
Brunei Darussalam	Mandatory carbon reporting for all facilities and agents that emit and absorb greenhouse gases (GHGs), but not ESG or corporate social responsibility (CSR) disclosure (Ho 2020; US Department of State 2022).
Canada	In July 2023, the Canadian Securities Administrators announced that they intend to conduct further consultations to adopt climate disclosure standards based on International Sustainability Standards Board (ISSB) Standards, with modifications considered necessary and appropriate in the Canadian context (publicly traded). In March 2023, the Office of the Superintendent of Financial Institutions issued Guideline B-15, which sets out expectations for the management and disclosure of climate-related risks by federally regulated financial institutions (banks and insurers). Canada's GHG Reporting Program requires all facilities that emit the equivalent of 10,000 tonnes (10 kilotonnes) or more of GHGs (in carbon dioxide equivalent units) per year to submit a report to Environment and Climate Change Canada. Facilities with emissions below 10 kilotonnes per year can voluntarily report their GHG emissions.
Chile	Developed over years. General Regulation Nos. 385 and 386 encourage public limited companies to disclose their corporate governance practices on a 'comply or explain' basis (SSE 2017). ESG reporting required as a listing rule for Santiago Stock Exchange (SSE 2019a). In 2021, the Financial Market Commission (CMF), through General Rule No. 461, established the obligation for listed companies and other issuers of publicly offered securities to submit information regarding ESG (CMF 2021). Reporting requirements generally tied to right to public access of information (Bertrand-Galindo 2022).
China	Certain types of firms (the pollutant discharging, those subject to mandatory review for clean production, listed firms and their subsidiaries, those that issue bonds and debt financing instruments for non-financial enterprises, and other enterprises required to disclose environmental information under law) are required by China to disclose environmental information (Caixin Global 2022). Guidance has been published for ESG disclosure by enterprises, although such disclosure is not mandatory (Roberts, Hutchinson, and Ding 2022). There have been recent discussions about whether this will become mandatory for domestically listed firms in China and also the demand for it (WEF and PwC China 2021; Cao 2023).
Hong Kong, China	Two levels of disclosure obligations for publicly listed firms (mandatory; comply or explain). Firms under the Main Board Listing Rules must publish an ESG report annually, either in their annual report or separately. Mandatory elements include governance structure and oversight of ESG issues, reporting principles, and boundaries of reporting. Comply-or-explain includes emissions, use of resources, environment, climate change, employment and labour practices, health and safety, development and training, labour standards, supply chain management, product responsibility, anti-corruption, community investment (HKEX 2022; PwC China 2022). The SEHK released a public consultation in April 2023 on enhancement of climate-related reporting requirements for Hong Kong listed companies. The proposed new climate-related disclosure requirements are referenced against the International Financial Reporting Standards (IFRS) S2 Climate-related Disclosures Exposure Draft published by the ISSB in March 2022, as supplemented or modified by subsequent deliberations announced by the ISSB. The SEHK's consultation conclusions will take into account market feedback and the final standards published by the ISSB in June 2023.
Indonesia	Publicly listed companies are required to publish a sustainability report annually (Rudyanto 2021). The report must include, minimally, a statement on the sustainability strategy of the firm, overview of ESG aspects, profile of issuer or public company, explanation from the Board (Deloitte Indonesia 2021).
Japan	The Financial Instruments and Exchange Act amendments to include sustainability reporting within the securities reports that are required of publicly listed companies annually (Hattori, Miyashita, and Kaneko 2023). Focus of sustainability reporting is on governance, metrics and targets, strategies, and risk management using the framework by the Task Force on Climate-related Financial Disclosures (TCFD) (Fuminaga and Nagano 2022). Expected to be in place 2023.
Korea	Large, listed companies are required to disclose environment-related information and corporate governance reports (Kim and Lee 2023). Mandatory information protection disclosure for companies subject to the Act on the Promotion of Information Security Industry. Mandatory disclosure by publicly listed companies is set to expand to large companies by 2025, and for all by 2030 (Regulation Asia 2021).

Economy	Disclosure
Malaysia	Mandatory ESG reporting for all publicly listed companies from 2016, including on establishing equity, diversity and human rights policies; anti-bribery and anti-sexual harassment policies; sustainable development practices. Development over time to be more comprehensive including statement of management of ESG issues, TCFD climate change disclosures, a set of defined indicators, etc. (Bursa Malaysia 2022). Malaysian Code on Corporate Governance requires listed companies to disclose ESG practices in annual reports (Securities Commission Malaysia 2021).
Mexico	No specific mandate for ESG disclosure, but under the Mexican Securities Law, issuers of securities and others in the securities market must publish annual reports, and issuers must disclose their environmental policies, certificates of recognition, and projects for protection, defence, or restoration of the environment and natural resources, plus relevant impacts of climate change on business. Corporate governance, board of directors, management, diversity, etc. also have to be included. Although not a requirement for listing, there is legislation that requires firms to adhere to principles and best practices of corporate governance (Escoto, Aceves, and Serrano 2023)
New Zealand	The Financial Sector (Climate-related Disclosures and Other Matters) Act requires large financial market participants to disclose climate-related information. Additional requirements under the Carbon Neutral Government Programme for departments and agencies and the Climate-related Disclosure Regime for Crown financial institutions, large banks, insurers, investment schemes and publicly listed entities
Peru	Since 2015, companies listed on the Lima Stock Exchange must submit yearly sustainability reports on a comply-or-explain basis (Green Finance Platform 2015; Loza Adauí 2020; Merino et al. 2023). The Peruvian government has a Green Finance Roadmap, which has the development of ESG disclosure playing a key role (Climate & Company 2022).
The Philippines	The Securities and Exchange Commission imposed requirements on publicly listed companies to produce annual sustainability reports in 2019, to be published in 2020 (SEC Philippines 2019a). Comply-or-explain approach for first three years, so should now be mandatory and penalizable for non-completion.
Russia	No mandatory ESG reporting requirements (CASVI 2020). Some voluntary reporting from large Russian firms (Kudryashov 2023). The MOEX ESG Index, which reports on Russian firms' ESG performance, was introduced in 2019 – to be able to be measured, ESG activities and measures must be reported. In 2020 the Bank of Russia published the Guidance on Responsible Investment Principles – Stewardship Code for institutional investors. In 2021, the regulatory framework for green, social and sustainability bonds was adopted and it is required to disclose the information for each project specified in the bond prospectus. Furthermore, the Central Bank of Russia issued non-mandatory recommendations on the disclosure of factors related to the impact on the environment, as well as the way to incorporate these factors into project business models and development strategies.
Singapore	SGX is increasing its reporting requirements. For 2023 reporting, climate reporting is mandatory for all issuers on a comply-or-explain basis. For 2024 reporting, those in the financial industry, agriculture, food, and forest products industry, and energy industry will be required to produce full reports. Other issuers remain on a comply or explain basis. For 2025 reporting, the group extends to materials and buildings, and transportation, with all others on a comply or explain basis (SGX 2023). Reporting includes material ESG factors (subjective assessment), climate-related disclosures aligned with TCFD, policies, practices and performance, targets, sustainability reporting framework, board statement and associated governance structure for sustainability practices.
Chinese Taipei	Listed companies are required to disclose climate-related information in annual reports and sustainability reports. The disclosure items are based on the TCFD framework. And starting from 2023, listed companies are required to disclose GHG inventory and assurance information in stages based on their paid-in capital.
Thailand	All listed companies on the SET are required to produce sustainability reports under the Securities and Exchange Commission's Form 56-1 One Report (SEC Thailand 2021). This includes disclosure of policies, goals and ESG performance, GHG emissions, respect for human rights, etc. Members of the Thai Bankers' Association have agreed to develop monitoring and reporting systems for ESG in line with Thailand's regulation frameworks and global standards (Bank of Thailand 2022).

Economy	Disclosure
United States	No mandatory ESG disclosure requirements at the federal level in the US, not for NASDAQ nor for the NYSE, unless the information is material to investors (as with any other information held by a firm; no specific provisions for ESG). In 2022, the US Securities and Exchange Commission proposed that funds that focus on an ESG investment strategy should be more specific in disclosures about their ESG impacts (US SEC 2022).
Viet Nam	Publicly listed companies are required to report on ESG annually as a listing rule (SSE 2019b, 2019c).

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