

**The Micro Foundations of East Asian Economic Integration**  
**February 26, 2007**

**Micro Policy Reform and Regional Integration: Perspectives**

Dr. Masahiro Kuroda

- This is an important opportunity to discuss issues for East Asian economic integration.
- It is important to create a network among academicians and policymakers in East Asian countries to deepen mutual understanding.
- The Bank of Japan has judged that the Japanese economy is likely to continue to enjoy moderate expansion and has therefore decided to make a slight hike in interest rates. However, personal consumption remains weak and deflation is not yet fully reasonable. In such conditions, it is important to pursue growth strategies, open markets and achieve better market efficiency by removing institutional rigidity. This requires deregulation.

Prof. Peter Drysdale

- This project has spent the last 9-10 months institutions examining ways to improve microeconomic performance in Asia and the Pacific from the viewpoint of strengthening the basis of economic integration. We are now in the latter stages.
- Institutional enhancements are not an objective, but a means to an end for improving economic growth and productivity.
- The most important dimension in this is getting our national houses in order by strengthening the environment for good performance in domestic economies.
- Our other purpose is to look for ways to share experiences, and this meeting is a valuable forum for frank discussion and experience-sharing.
- One of the important outcomes of this process has been to develop better ways to think about institutions and their role in good economic performance. This question is not often explored, particularly in its application to particular policy challenges.
- We have economies coming from different starting points and at different stages of development. By examining them we hope to identify common issues that can be addressed with respect to getting institutions right in a way that will enhance policymaking performance.

## **Institutional Foundations of Economic Reform and Integration**

### Dr. Philippa Dee

- The region is moving from first-generation to second-generation reforms. First-generation reforms take place at the border of each country; second-generation, move behind the border.
- Border reforms can use trade negotiations to work on political economy questions; behind-the-border reforms are at the domestic level.
- The two challenges are to figure out what to do and how to get there. Players may have divergent interests, and one of the key political economy dimensions is the impact of reform on incumbent producers, consumers and government.
- There are two roles for institutions in the process: helping implement better policies (what to do?), and supporting the policymaking process (how do we get there?).
- There are three main impediments to getting there: 1) Ignorance (governments do not know what to do); solution is to assist governments to identify necessary reforms (policy reviews, experience-sharing). 2) Resistance from vested interests; solution is to marshal countervailing interests and share experiences and about managing vested interests. 3) Governments know what to do but do not want to do it; solution is for outside institutions to carry out policy reviews and evaluations and publicize them to help marshal countervailing interests.
- In each case, there is a role for policy reviews, but the roles differ slightly. One role is to identify policy options (to counteract ignorance). Policy reviews can also be a strategy to deal with vested interests, marshal countervailing interests and build a coalition for reform.
- There must be programs in place that allow some form of ordination across different government departments. Policy reviews can do this, identify any implementation problems and hold government departments to account.
- To help with the policy review process, institutions must have independence, economy-wide views and transparent processes.

### Dr. He Fan

- I will speak on lessons to be learned from China's economic reforms and the challenges faced now.
- China did not follow common neoclassical prescriptions for reform. Most of the arguments for those reforms are theoretically incorrect, but nonetheless China now realizes that market economies are more complicated than just price liberalization and privatization. There

should be more supporting institutions for the political, social and cultural sides.

- The sequencing of China's economic reforms was also very different and does not follow neoclassical doctrine that calls for public finance to be fixed in first before moving on to enterprises. China did the opposite. It began with reform in the agricultural sector and then moved on to state-owned enterprises. It is currently reforming its banking system, but still has a long way to go to reform its public finance system.
- To pursue reform, it is often necessary to tolerate suboptimal institutional arrangements. In China in the 1980s and 1990s the town and village enterprises did not have a clear definition of ownership or state-of-the-art technology, but they did perform very well and provide jobs for surplus labor in rural areas.
- China did not design its reform. At the early stages, the government did not have a clear vision of where it was headed. To a great extent, Chinese reform relied upon the creativity of the people. All the government did was to endorse what was already happening and sell successful policies to other parts of the country. It is not so much that China is taking a "gradual approach," as that its reform is "experimental," a process of trial and error.
- China believes that most problems should be "grown out of." Hyper economic growth is therefore very important. China cannot halt economic growth to address other problems; indeed, if economic growth slows, all of the problems will turn into disasters.
- A fourth important experience is globalization. Without this, China could not provide enough job opportunities for its huge pool of surplus labor in rural areas. Globalization can be used to introduce competition and gain new momentum for market-oriented reform. This is the real benefit of joining the WTO, not just trade.
- We need to elaborate on the term "second generation of reform" and be able to tell policymakers how it differs from the first generation. Aside from the differences in players, there are also differences in leadership (overcoming ideology in the first generation, overcoming technical difficulties in the second).
- As time goes on, reform becomes trickier. In the early stages of a closed economy, if a reform fails, you can go back and restart, but that is no longer possible when the economy is open. Reform must be undertaken as an entire package, and internationalization and regionalism are important in this because we can learn lessons from other countries and utilize them to persuade the government to adopt better agendas for reform.

### Dr. Dionisius Narjoko

- During the first half of the Megawati administration, Indonesia was able to restore the macroeconomic stability, but microeconomic performance was dismal. Indonesia is the only crisis-affected economy in which investment has not really recovered.
- The challenge for SBY was to increase private investment. The institutional setting was different and policy decision-making became fragmented as a result, which led to high levels of policy uncertainty.
- The Indonesian government had two major initiatives to increase investment. The first, “infrastructure summits,” failed because the coordinating minister did not have a clear strategy and because he did not have enough authority and capacity to force the technical ministry to tackle problems.
- The second attempt was an investment package that included substantive sector reforms, clear timetables and clear responsibilities, spanning investment policies, customs, taxation, labor and small and medium enterprises. This attempt also failed because there were no clear mechanisms to evaluate progress, no clear incentives and the coordinating minister did not have enough authority.
- The [lack of] success of reform is a result of the interplay between the determinants of why policy is not implemented and the actors involved. Determinants include regulators not knowing best practices, the political resistance from vested interests inside and outside the government and lack of resources, capacity and/or authority to implement reforms.
- The SBY reforms failed because the actors within the government who knew best practices did not have sufficient authority. Meanwhile, the technical ministries and other interest groups did not know the best practices, derived considerable rents from bad policies and also had strong authority.
- The issue to be addressed is how to resolve the coordination problem so the good policies can go forward in the future.

### Dr. Shankaran Nambiar

- The idea underlying this analysis is that the competition must be protected, not competitors. This is often not the way things work in Malaysia. The government does recognize the importance of competition, but does not take all of the steps that are necessary to foster it at higher levels. Other considerations include natural monopolies, health and safety standards, income inequalities and regional disparities.
- Good regulation implies transparency, public input, costs and benefits, performance criteria and processes and organizational flow. Not all of

this has been done in the Malaysian case. There is little transparency because the Official Secrets Act is used to avoid answering questions. Costs and benefits are not presented in advance and there is no follow-up analysis published.

- Malaysia had an unsatisfactory experience in its privatization of telecommunications. The government had undue influence over the process, acting as the decision-maker and the arbitrator in deciding the number of competitors. The minister had extensive powers and acted on recommendations made by MCMC, a commission which is hand-picked by the minister himself.
- Another unsatisfactory experience was the privatization of Hospital Support Services. The regulator had only eight staff, which was inadequate to monitor 124 government hospitals. It outsourced the work to another company instead, but the quality of that staff is unknown.
- Malaysia has made very little progress on competition policy, in spite of working on it for 10 years.
- Government procurement is an even more intractable area. The government hides behind the argument that if government procurement is made more transparent, it would hinder national priorities and stand in the way of development. Hopefully, the FTAs under negotiation will help to change that.
- One way forward is to use APEC as an instrument for institutional reform. Malaysia can also benefit from the experience of developed countries and other developing countries.
- Possible APEC initiatives would include exposure, capacity-building and training for government institutions as well as training and exchange programs for NGOs and think tanks.

#### Dr. Mitsuo Hosen

- The Koizumi and Abe administrations have accelerated structural reform in areas such as nonperforming loans, privatization of Japan Post and deregulation. This has contributed to economic recovery.
- Cumulative consumer benefits between the beginning of the 1990s and FY 2002 were estimated at approximately 3% of GDP, the sector-wise TFP growth accelerated by 0.1-0.4% on average annually between 1995 and 2002.
- Important factors behind the acceleration include the creation of the Council on Economic and Fiscal Policy (CEFP), strong personal commitment from the prime ministers and the enthusiasm of Ministers of State for Economic and Fiscal Policy.

- The CEFP is tasked with deliberating a wide variety of microeconomic, macroeconomic and fiscal policy issues. Its decisions become basic government policies through cabinet decisions.
- Membership includes the prime minister as chair, several government ministers, the BOJ governor and 4 private-sector members.
- The CEFP has been the successful because of its transparency, economy-wide view and integrated approach.
- Transparency: Minutes published in 3 days, press briefings by the Minister of State for Economic and Fiscal Policy immediately after meetings.
- Economy-wide view: Most of the CEFP member ministers have horizontal responsibilities rather than sector-specific responsibilities. Academic and business members also bring broad perspectives.
- Integrated approach: Coherent and consistent handling of economic and fiscal policy (primarily macroeconomic).
- During the post-bubble period, reform was reactive, but now that the economy has normalized, it is proactive and target enhancements to economic growth potential.

#### Discussion

- Supapol: Microeconomic reforms behind the border are necessary, but some of the papers also suggested that reforms beyond the border should not be neglected. Micro reforms cannot be expected to be the result of deliberate policies. Often they are market-driven. In China's case they are even experimental.
- De Brouwer: Transparency can be important because it is a way to engage with the public and influence public thinking, but can too much transparency of also be a danger? By signaling intentions do you give vested interests the opportunity to react?
- Dee: Can there be too much centralization and integration? There are some who feel that the CEFP in Japan is overwhelmed with work.
- Aswicahyono: Ideology can be a big problem in institutions. How did China manage the transition?
- Hosen: At this stage, the merits of transparency and integration overshadow the demerits for the Japanese policymaking process and particularly the council decision-making process. The CEFP generally makes all of its minutes public, but can choose topics and agendas for the meeting. Sensitive topics can be referred to other fora.
- Fan: In China, we didn't solve problems, we just forgot about them. "New ideas win because old professors die."

- Drysdale: We are not looking for formulas so much as principals so that we can think about processes for improving policy outcomes.

## **Institutional Foundations of Economic Reform and Integration**

### Dr. Pich Nitsmer

- Thailand has a top-down policy process. The National Economic and Social Development Board formulates five-year national plans for all ministries. However, incompetence and interference can sometimes lead to sub-optimal outcomes.
- The regulatory process is nonlinear and involves multiple agents. Conflicts of interest prevent the system from having adequate checks and balances. Problems include limited regulatory expertise, lack of inter-ministerial cooperation, resistance from vested interests and interference from rent-seeking public officials.
- There are risks to privatizing without having effective regulatory regimes, including continued government interference, unfair distributions and unregulated operations that result in economic and social imbalance. Competition is a precondition to privatization and the regulatory muscles must be strengthened regardless of privatization.
- This can be accomplished by separating regulation from operation and policy. Checks and balances can be strengthened by having impact assessments and requiring transparency and accountability. Regulation can be streamlined by relying less on regulation and more on stakeholders.
- Regional cooperation can have benefits in the form of capacity building an institution building. The Bangkok conference (2007) proposed the establishment of an ongoing APEC productivity and efficiency commission able to respond to requests for analysis of micro-policy and regulatory issues.

### Dr. Gilberto Llanto

- This presentation will focus on two aspects of supporting (as opposed to implementing) institutions: that of coordinating bodies and that of independent policy review.
- Examples of supporting institutions in the Philippines are the National Economic and Development Authority and the Department of Budget and Management. The Philippine Institute for Development Studies is an example of an independent policy review institution.
- NEDA has a tension between the technocrats and professionals who have their own worldview and agenda and the politicians and with their

own worldview and agendas. The challenge is how to fuse them together to a common agenda.

- DBM plays a better coordinating role. In public expenditure management reform, it has established a medium-term expenditure framework, organizational performance indicator framework and accountability, monitoring and evaluation framework. Logical frameworks have been completed for 20 departments and will be the basis for the allocation of resources.
- The main challenge to OPIF and MTEF are convincing Congress that good economics is good politics and improving the technical and political skills of coordinating bodies. Congress guards its budget making powers jealously.
- Communications will require linking with an independent policy review institution such as the Philippine Institute for Development Studies. Australian experience shows the benefits of good evaluations: pinpoint accountability, reduction of costs and good policy choices.
- The policy development process is not a disembodied phenomenon. It needs supporting institutions, a body that would provide independent review. The message and content of reform is important, but the medium of indications and supporting institutions is also important.

#### Dr. Naohiro Yashiro

- Japan is facing rapidly aging demographics and declining birth rates. The decision-making process must be accelerated in parallel.
- The productive population has been in decline since 1995.
- Partially because of demographic developments, Japan has experienced a serious stagnation since the year the 1990s, needs to increase average productivity by using information technology, improve the competitiveness of underdeveloped industries through mobilization, remove obstacles for new entrants into emerging markets in the aging society and move the labor force from non-productive to highly-productive industries and regions.
- Japan is divided between a highly-productive manufacturing sector and a low-productive, socialistic service sector. This requires realigning the labor force between the two sectors to increase overall productivity.
- Research and development will be a key factor. Japan is already good at producing R&D-driven products, but it has a very low return on its R&D investments. One factor is the lack of the researcher mobility between firms, research institutes and government. The low ratio of foreign researchers is also a factor.

- The gap between outward and inward foreign direct investment is widening.
- Health-care services are an example of a promising market, but there are problems: quality differences are not reflected in prices; information on quality is insufficient; restrictive rules limit the combination of public and private insurance.
- Japan has a highly protected from inefficient agricultural sector.
- The CEEP is focusing on a labor-market Big Bang. Flexibility is badly needed to move labor to highly-productive sectors.
- Special zones for regulatory reform were established in 2003, but the more a region depends on public investment, the less likely it is to propose special zones.
- The CEEP is part of the privatization of the government's economic decision-making policy.

#### Mr. Bernard Wonder

- Our task is to work regionally to develop national capacities.
- The Productivity Commission is the Australian government's principal review and advisory body on microeconomic policy and regulation.
- There are four areas for useful regional cooperation: sharing experiences, sharing institutional solutions, sharing priorities for reform agenda and focusing on particular priorities.
- Reviews of Australia's economic performance contain lessons about why it was constrained and how it reformed.
- The Productivity Commission model seeks well-informed policy decision-making and public understanding on matters related to productivity and the standards, based on independent and transparent analysis from a communitywide perspective. Under this mandate, it undertakes government-commissioned projects, performance reporting on a regulatory review, competitive neutrality complaints office functions and supporting research.
- The model works because it is independent, transparent and economy-wide; it provides impartial research and advice ; seeks extensive public input; publishes draft and final reports; gives governments an opportunity to respond; and promotes a wider awareness of the costs of existing policy and the benefits from reform.
- Addressing costly regulation is an example on how the region might work together.
- Regulatory problems identified include unclear or questionable objectives, failure to target the problem, undue prescription and complexity, overlapping, duplication and inconsistency, excessive

reporting paperwork, unwarranted differentiation from international standards.

- The product of a regional focus might include principles of good regulatory process, better understanding of regulatory analysis, compliance cost checklist, competition assessment checklist and the sharing of national approaches to regulatory assessment.

### Discussion

- Lee: There are striking similarities between Japanese and Korean economic problems. Cheju Island is an example of a Korean-style special regulatory zone.
- Drysdale: What do you consider to be the most important institutional reforms in Korea?
- Lee: In Korea, the Economic Planning Board made both economic and fiscal policy, but was later dismantled and the responsibilities divided among various government agencies. Today we lack the coordination in the government. Our self-assessment is that organizational reform was pursued on an ad hoc basis, without a long-term master plan and has therefore been a failure.
- Yap: I like the matrix used in the Indonesian presentation this morning. It is highly desirable that those with high levels of authority and influence have high degrees of knowledge of best practices. Those who derive rent from bad policies should have low levels of influence. The Philippines were one of the first in Southeast Asia to disseminate best practices from a neoclassical framework, but we have difficulty implementing them.
- Soesastro: Indonesia resembles Korea very much. Our Economic Planning Board is still in existence, but it does not have the same function. Now everything happens ad hoc. It would be desirable from the regional perspective if Korea and Japan put their priority on agricultural reform.
- Dee: I like the distinction between the coordination function of the policy review function. Policy review does not require authority, but ordination does.
- Fan: Why is there no counterpart to Australia's Productivity Commission in other OECD countries?
- Kuroda: Does the Productivity Commission have any responsibility for implementation or coordination?
- Wonder: Australia considered the Productivity Commission to be the best model to achieve those objectives. Think tanks and other

institutions would ultimately be captured by vested interests. The commission is only an adviser, not an implementor.

## **Implications for Regional Cooperation in APEC**

### Dr. Hadi Soesastro

- It was almost a natural, instinctive feeling on the part of national governments in east Asia to look to regional cooperation to reinforce the message economic reforms. Some governments are trying to lock in their reforms by making regional commitments.
- The political economy was favorable to this interplay between economic reform and regional cooperation. ASEAN took the major step of forming an FTA.
- In APEC, we have used concerted unilateral liberalization, which works as long as member economies believe in it.
- In second-generation reforms, you have to deal with behind-the-border issues that manifest themselves as institutional and regulatory changes. The challenges are more complex to the political economy.
- Regional cooperation must be restructured in order to assist second-generation economic reforms. The agenda should be on improving capacity for policy development and implementation, which will manifest itself as policy and capacity building packages tailor-made to the needs of individual members. We should help member countries implement what they have committed to do. There are too many unimplemented declarations.
- The challenge for East Asia today is to maintain competitiveness, not just by opening up to trade and competition but also with a particular regulatory and structural architecture.
- APEC comes closest to being able to meet the demand to assist economies in undertaking second-generation reforms
- One option is to transform the voluntary APEC into a binding APEC summit that would require economies to implement what they have committed to do. But the voluntary nature of APC is not the problem; it is the inability or un-readiness of member economies to undertake second-generation reforms.
- I propose the following steps: 1) Strengthen the capacity of the APEC Economic Community to undertake policy reviews in some key areas by establishing an APEC Productivity and Efficiency Commission. 2) This commission should have the capacity to respond to requests from APEC and member economies. 3) It can draw on capacities and research networks were on the region. 4) A strengthened Economic Committee

should be coupled with provisions for ministerial-level direction and responsibility for follow-through. And 5) Leaders might commission research and analysis of costs and benefits of policy regimes, and ministerial subcommittees follow up.

- There are three essential elements: 1) arrangements to produce an independent analysis with transparency, reporting and discussion of results; 2) delivery mechanisms to assist in enhancing the capacity of member economies for policy development and implementation; and 3) follow-up mechanisms to ensure implementation by member economies.

#### Dr. Kyung-Tae Lee

- Economic integration does not mean merely eliminating trade barriers at the border. It also requires the harmonization of regulations and standards across member countries.
- Tariff rates have fallen significantly over the past decade in the APEC region. The remaining task in APEC is to pursue the behind-the-border task of eliminating remaining trade barriers, which is closely linked to the structural reform agenda.
- Successful structural reform will remove impediments to full and efficient use of resources, improving the functions of markets and achieving higher productivity and living standards. It will assist countries in realizing the full benefits of trade and investment liberalization and facilitation, which will promote further economic integration in the region.
- For developed countries, gaining more from trade liberalization comes from eliminating behind-the-border barriers rather than opening up. For developing countries, simultaneous efforts in structural reform and capacity building are required. They can learn from experiences of developed countries, including their failures.
- The sequencing is usually thought to be opening up first, followed by behind-the-border reform later. However, Japan and Korea went the opposite direction; China appears to move simultaneously. Among Southeast Asian countries, many opened the market's first and are now making more of an effort to restructure the domestic economies.
- Role of APEC: Develop guidelines to harmonize different regulations and standards, use European approach to regulations and standards; develop checklists for self-assessment of regulatory, competition and market openness policies, focus on consulting and coordination.
- East Asia is much less prepared for cooperation to facilitate structural reform. The institutional infrastructure is not yet in place. We need to

think about the new research institute proposed by Japan and the mandate for East Asian structural reform.

- The East Asian OECD idea should be investigated.

#### Prof. Gordon de Brouwer

- The biggest impediments to trade policy today are domestic economic structures in counterparty countries. From a macroeconomic stability point of view, having strong markets and regulations is very important to macro stability. Among trade experts and microeconomists there is a coincidence of interest on behind-the-border issues, and almost universally knowledge meant of their importance.
- There are several reasons for using APEC in this context.
- First, the general approach in APEC is a market-oriented, principals-based approach. APEC is not a directed approach, but aims to facilitate markets and get them working.
- Second, APEC is not a negotiating forum. It is voluntary and nonbinding.
- Third, the economies in APEC have a wide range of experiences and abilities to provide support and assistance. There is a nice mix of developed and developing economies.
- APEC is a useful mechanism for bringing in the best of international thinking, for example the World Bank and OECD. It operates under the principle of subsidiarity.
- The Economic Committee is unique in that the membership is not determined by ministries but by functions.
- Current APEC discussions relating to structural reform include : 1) how to mainstream structural reform in APEC? 2) how to shift the Economic Committee focus from research to policy; 3) how to provide institutional support for structural reform within APEC.

#### Dr. Bhasu Bhanich Supapol

- There is room for regional cooperation in the area of regulatory reform in financial markets.
- The sequencing question asks whether real sector regional integration should proceed financial sector integration or vice versa. There are two major and opposing lines of argument. The first contends that one needs a sufficiently high level of real sector integration to make entry into monetary cooperation feasible and sustainable. Economic structures must converge first before entering into monetary cooperation and creation of a single currency. An opposing line of argument contends that early entry into monetary cooperation can give impetus to real sector

integration. Monetary integration would prevent real sector integration from disintegrating.

- In East Asia, much of the progress in real economy integration has been market-driven. Where this has not been the case, public-sector policy designed to deliberately influence regional integration often does not seem to get very far.
- Financial sector regional integration, on the other hand, needs to be policy driven. That policy needs to be regionally oriented and market infrastructure oriented.
- One reason why financial markets and open economies have not developed in tandem with economic expansion is institutional. Our financial systems lack market discipline and proper supervision, leaving East Asia ill equipped to handle large inflows. Internal supervisory institutions and banking practices should be subject to continual revision.
- The region continues to remain threatened by globalization. There is tremendous international liquidity in fund flows, leading to worldwide speculation on oil prices and interest rates. Manufacturing and financial services sectors are equally vulnerable and need to readjust through productivity increases and intellectual property creation. Regional cooperation and integration can help in this.
- Policy should consider bank-based versus market-based financial systems. The credit market continues to substantially dominate the financial market for the region outside of South Korea. This represents the region's continued vulnerability. Accelerating the development of regional bond market would increase sources of long-term development funds for the private and public sectors.

### Discussion

- Dee: What is envisaged in regional mechanisms to help second-generation reforms? It was emphasized that mechanisms need to be nonintrusive, and that can be either very easy or very hard to achieve.
- Yap: Do you envisage some sort of peer review mechanism similar to what the finance ministers and central bank governors developed?
- Soesastro: The beauty of the concept of concerted unilateral liberalization introduced by APEC and developed by the committee on trade and investment was that it created a process under which member countries would come up with individual action plans. In the trade area, it appears to be working. I think that APEC should not just tell you what is good but help you to implement it. Once you agree on common principles and practices, people who want to undertake these reforms

can do so by having a discussion in their countries, which creates a national program, but APEC nonetheless helps and we can go back to an APEC meeting and say this is what we want to do, where can you help us? I am not sure that simply sharing analysis and information will lead to anything being accomplished.

- Drysdale: What you suggest implies a comprehensive sign-on. I do not hear any implication of a peer review process.
- Hosen: Structural reform in the region will enhance economic integration, and more fundamentally, improve living standards and productivity in our countries.
- Soesastro: What I envision is that economies would come back the next year and report on what they have done, with APEC assistance being conditional on demonstrating your accomplishments.
- De Brouwer: I can see why you would want countries to report back if they are receiving capacity building. My unease at this stage is that you may scare people off if you tell them they will be subject to review and scrutiny. You need to begin the discussion with a less frightening approach, where you just discuss what works and what does not. I am sympathetic to something like a soft peer review, but the process is just starting and I am not sure that it is feasible at this point.
- Dee: I can see a possible path here between the two approaches. When you are talking about extremely difficult reform areas where domestic politics has to have a role to play and domestic ownership has to be there, how do you hold a country accountable for assistance in this area? The Productivity Commission faces this problem all the time. All it does is make recommendations and then declares that it cannot be held accountable for outcomes because it does not get involved in the subsequent decision-making. All it can be held accountable for is its processes. Was consultation adequate? Was the report made public? Was it considered by government? Perhaps that is the nature of the ex-post review. We can hold people accountable for seriously considering the recommendations and putting them through a domestic political process. If they are then rejected, so what?
- Drysdale: I think the message is: 1) the idea of mainstreaming structural reform and the second-generation reform process in the regional cooperation process is an important idea in itself and when we began this project this idea was style not easily comprehended. This discussion and work have led to an easier way of communicating about these issues. 2) In delivering on that, the process of strengthening economic policy and domestic institutions will be important to progress on the structural reform agenda. 3) There is a consensus that APEC is well-placed to take the regional cooperation process forward and a structure should be put

in place within APEC to assist the organization and member economies to work on structural reform agendas. As a part of the first step, you can set up a cooperative working program that could ask the questions we have been asking here under ministerial or other leadership supervision. No one is suggesting an intrusive OECD-type peer-reviewed process.

- Lee: Structural reform is not a sub-level instrument for economic integration. Structural reform is itself a priority activity of APEC.

**Close**

Dr. Masahiro Kuroda

- At the beginning of 1990s, Japan experienced the productivity paradox. We invested in advanced technologies, but did not achieve any productivity gains. After that, we recognized that we needed to deregulate the markets in order to achieve gain from technology.