



**Asia-Pacific  
Economic Cooperation**

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

**APEC Economic  
Policy Report 2016  
Annex B**

## 2016 AEPR Individual Economy Report (IER) Questionnaire: Structural Reform and Services

*The IERs provide an opportunity for economies to share experiences and lessons learned from implementing services sector structural reforms. The IERs will contribute to developing a broader narrative on structural reform and services in the region and identify good policies and practices APEC economies could adopt when reforming their services sectors.*

*Please limit responses to a maximum of 4 pages. Responses should focus on 1-2 services sector structural reforms undertaken in your economy in recent years (i.e. undertaken since 2000). To allow for comparability and analysis in the AEPR, economies should only limit responses to the specific sectors and reasons for reform outlined in question 2a.*

### 1. General overview

*Overview of services sectors in your economy (e.g. size, nature of sector, GDP, employment etc); to date, what reforms have impacted services sectors in your economy (e.g. whole of government deregulation agenda, national competition policy reform etc.)? What is the overall economic context in which these reforms were implemented?*

### 2. Context of structural reforms undertaken

- a. What specific services sector structural reforms are you addressing in this questionnaire? *To allow for cross-economy analysis, please limit responses to 1-2 sectors from the following list: professional services, distribution, energy, education, telecommunications, tourism, financial or transportation (or sub-sectors thereof).*
- b. Why this reform was necessary (e.g. enhance competition, investment, productivity; respond to technological, economic change etc.)

### 3. Reform measures

*What was the specific measure(s) undertaken? Were public consultations/other forms of public participation and regulatory impact analyses used? How were reforms/measures sequenced?*

### 4. Impact of reform(s)

- a. Quantitative and qualitative (including anecdotal) information to demonstrate the impact the reform(s) had on your economy, including flow-on effects to other sectors/the wider economy, unexpected consequences (both positive and negative)
- b. What effect has this reform(s) had on global value chains? (if relevant/possible; response can be anecdotal if necessary)

### 5. Challenges and lessons learned

*What were the challenges to introducing and implementing the reform(s)? In hindsight, what would you do differently (e.g. in terms of sequencing reforms, coordination between institutions, public consultations)?*

### 6. Next steps

*Are there any next steps in implementing this reform(s)? Is your economy planning to implement other services-related structural reform(s) in the near future?*

# AUSTRALIA

## 1. General overview

### Australian services sector

The Australian economy is largely driven by the services sector, with the diverse set of industries classified as ‘services’ accounting for around 80 per cent of employment and around 60 per cent of GDP. The services sector grew solidly in 2014–15 at 2.3 per cent, in line with all-industry growth. Within this headline figure, however, there was wide disparity across the sector: for example, professional, scientific and technical services experienced a contraction of 4 per cent compared to 2013-14, whereas information media and telecommunications (encompassing a large proportion of the ICT industry, along with media elements such as TV, radio, print and libraries) grew by 9.4 per cent over the same period.

After low or negative growth immediately following the Global Financial Crisis, service exports have made a full recovery, now reaching annual growth not seen since mid-2007 (5.8 per cent growth for 2014-15). Service exports currently make up around 20 per cent of Australia’s total exports, and recent improvements in global conditions coupled with favourable exchange rate conditions are expected to further benefit exporting services industries. Key components of service exports are travel (education, personal and business), business services, transport services, and financial services.

### Services sector reform

Prior to 1983, Australia’s economic regime was highly regulated, anti-competitive and redistributive. For most of the 20<sup>th</sup> century, the economic costs of this approach were masked by the performance of Australia’s broad-acre agricultural and mining industries; the terms of trade favoured primary commodities, and there had been a world-wide increase in demand following World War II. However, the 1970s saw the beginning of a deterioration in the terms of trade which exposed the underlying problem of Australia’s poor productivity performance (even in the post-war years Australia’s annual productivity growth averaged 2.5 per cent, compared to 3.5 per cent for OECD countries as a group). This sparked a deterioration in Australia’s comparative living standards: from 5<sup>th</sup> in the world in 1950 in terms of GDP per capita, to 9<sup>th</sup> in 1973 and then 15<sup>th</sup> in the late-1980s.

The services sector was impacted by a number of significant economic reforms in the 1980s and 1990s, including: the floating of the Australian dollar and the liberalisation of cross-border capital flows; the broadening of the income tax base; the introduction of labour market flexibility, so that enterprises could negotiate directly with their workforces on wages and work practices; the reduction to negligible levels of import tariffs; significant changes to government statutory monopolies in energy, communications, and transport, leading in many cases to privatisation; and the systematic review of restrictions on competition throughout the economy, resulting in an extensive list of reforms, including in agricultural marketing, domestic aviation, retail trading, and price and quantity controls.

As the economic reforms undertaken from 1983 onwards began to take effect, Australia’s GDP per capita ranking has risen steadily, and since the early 1990s

Australia has experienced 23 consecutive years of positive economic growth, including through the Asian and Global Financial Crises—unique among OECD countries over this period. More importantly, per capita incomes have also increased in most years, and all income groups have generally shared in the benefits (even if not equally).

The 1980s and 1990s were transformative years for the Australian economy as a whole, and for the services sector in particular. There have been very few successful (i.e. both lasting and beneficial) national structural reforms undertaken in this sector in recent times. This will no doubt change in the near future, as recommendations from the 2015 Competition Policy Review – which had a strong focus on the services sector, including human services, transport, and retail – are addressed.

## **2. Context of structural reforms undertaken**

- a. *What specific services sector structural reforms are you addressing in this questionnaire?*

In this questionnaire we are addressing structural reforms in the Australian electricity sector. Under Australia's federal system, electricity supply is the responsibility of individual state and territory governments; as a result, this questionnaire presents the experience of the state of Victoria, which was one of the first states to introduce full retail contestability in the electricity sector, in 2002, and the first state to implement full electricity price deregulation, in 2009.

- b. *Why this reform was necessary*

These reforms were seen as measures that would lead to providers offering competitive pricing of electricity and improving the efficiency in service delivery. The reforms would also give customers wider choice and therefore create competitive pressure in the retail electricity market

## **3. Reform measures**

### Background

The Council of Australian Governments decided in the early 1990s to commence work on the development of a competitive electricity market. This decision was a response to an Industry Commission report which found that potentially significant increases in growth (equivalent to 1.25 per cent of GDP) could be realised by: restructuring the electricity supply industry; introducing competition into electricity generation and retail; progressively selling publicly owned electricity generation, transmission and distribution assets to the private sector; and enhancing and extending the interconnected systems of south eastern Australia.

The first step in this process was the creation of a National Grid Management Council in 1991, followed by the development of a National Electricity Code in 1994. In 1996 a National Electricity Law was passed, and a National Electricity Code Administrator and National Electricity Market Management Company were created. The National Electricity Market (NEM) commenced in 1998 as Australia's first wholesale electricity market and associated synchronous electricity transmission grid.

### Electricity sector in Victoria

The Victorian Government had undertaken a process of restructuring and corporatizing government-owned energy assets and businesses during the early 1990s, and as part of this process five corporatized electricity retail businesses had been established. These electricity retail arms were subsequently privatised in 1995, with each retailer operating as a franchised monopoly retailer – or ‘host’ retailer – in a designated distribution area. The price of electricity – the standing offer – was regulated by the state government.

Retail contestability was introduced via a staged process, based on the size of customers’ annual energy consumption. At the outset, only the largest industrial and commercial energy users could choose between host retailers and new entrant energy suppliers; over time, this was progressively extended to more and more customers, but by December 2001 only approximately 2 per cent of customers were covered. Full retail contestability was introduced into the Victorian electricity sector in January 2002, enabling the remaining 98 per cent of customers (2.1 million subscribers) to choose for the first time their preferred electricity supplier.

Initially, electricity retail prices remained under regulatory control. Although all retailers were able to offer new pricing arrangements – known as market offers – to customers, host retailers were also obliged to offer a standing offer price, which was still set by the state regulator. Customers who did not switch to a market offer remained by default on the standing offer price.

Full price deregulation was implemented in 2009, based on a recommendation by the Australian Energy Market Commission (AEMC) which found that competition in Victoria was fully effective. However, standing offer contracts remained the default arrangement for customers who did not request a market contract, with retailers now able to set their own standing offer prices.

#### **4. Impact of reform(s)**

Two years after the introduction of full retail contestability, in 2004, the Victorian Essential Services Commission (ESC) conducted an initial review of its effectiveness. The ESC found that in addition to the three host retailers (reduced from five due to a series of acquisitions), there were seven new entrants into the retail market, all of which were active in contacting customers and making market offers. Nevertheless, active marketing by retailers tended to focus on the larger end of the retail market, leading the ESC to suggest that while competition had been fully effective in constraining prices and delivering other benefits to the larger retail customer segment, it was at that point less than fully effective for smaller retail customers.

In 2007 the AEMC conducted a review of the Victorian electricity retail market and found that: the number of retailers in the Victorian electricity market had risen to 13; barriers to entry into electricity retailing were quite low; and economies of scale were modest and diminishing (reducing the competitive advantage of larger incumbents). In addition, 50 per cent of residential customers and 70 per cent of small businesses had switched to a market contract, and there was no evidence to suggest that any particular customer group had been precluded from participation in the market.

In 2013 the ESC again reviewed the progress of electricity retail competition in Victoria and found that the combined market share of new entrants had increased to close to 30 per cent of all residential and small business market customers. In addition, the degree of customer switching – or churn – in order to obtain better terms and conditions of supply was approximately 17 per cent, which indicated competitive pressure being placed on retailers.

The *State of the Energy Market 2015* report, prepared by the Australian Energy Regulator, found that 88 per cent of Victorian electricity customers had a market contract, and switching rates in Victoria were the highest in Australia. In addition, market contracts in Victoria demonstrated the highest average annual discounts (17-18 percent) from standing offer rates.

Finally, the *2015 Retail Competition Review*, prepared by the AEMC, found that: competition in Victoria was continuing to evolve and should deliver further benefits for customers over time; market concentration was declining, with new entrants having a greater collective market share than any of the three host retailers; customer satisfaction, including assessment of value for money; was increasing; and there was evidence of strong rivalry between the 21 electricity retail brands operating in Victoria.

## **5. Challenges and lessons learned**

While the proliferation of contract, pricing and product structures available in the electricity market is a desirable outcome of competition and deregulation, it does mean that direct price comparisons are difficult; a report prepared for the ESC in 2013 found that it was getting more difficult for consumers to understand what they were being offered. For some customers in particular, their personal circumstances (e.g. socioeconomic status, age, level of education, disability) can restrict their ability to understand and therefore access the benefits of the competitive market.

Comprehensive disaggregated data is not publicly available, but it is likely that the removal of price controls in 2009 disproportionately affected customers who were least able to understand the significance of full deregulation. As mentioned previously, deregulation enabled retailers to independently set the pricing of their standing offers. As these prices increased, with significant increases in some cases, most customers chose to switch to market offers. However, with standing offers remaining the default option, a number of customers – who perhaps do not know how to change, or do not even know that they can change to a market offer – are still paying up to 27 per cent more than necessary for their electricity.

Improving the situation of these consumers largely requires policy-based solutions that address the root causes of issues such as financial hardship or the ability of people to participate in the market economy generally. These solutions require a complex mix of government policy and industry responses, and rest upon effective collaboration between all relevant sectors.

The difficulty in comparing options has been somewhat addressed by a number of websites (including the ESC) offering price comparison functionality. However, the time and effort involved in researching offers and products mean that the majority of domestic and small business customers do not generally initiate market search activity

on their own behalf. Instead, decisions to change retailer or contract tend to be more in response to the direct marketing initiatives of retailers.

This leads in turn to a reliance by retailers on door-to-door sales and telemarketing, sales channels which tend to lend themselves to unscrupulous sales behaviours: the Australian Competition and Consumer Commission was forced to take action against a number of energy retailers, including electricity retailers in Victoria, for engaging in misleading and deceptive conduct, and making false representations, both in door-to-door and telemarketing campaigns. As a result, the three Victorian host retailers decided in 2013 to withdraw from door-to-door marketing (and this in turn likely contributed to a significant reduction in complaints about marketing practices raised with retailers in 2014).

These examples illustrate the importance of a robust and proactive consumer protection framework covering both retail and marketing activities. They also demonstrate the importance of research and analysis into how different classes of consumers are interacting with the market. It is not enough for governments to simply implement reform and then let the market take care of itself.

# BRUNEI DARUSSALAM

## 1. General Overview

Being a nation with a small population, education plays a critical role in preparing students to become successful and responsible citizens who can contribute to the future social and economic progress of the community and the country. As we are in the 21st Century, new challenges are constantly emerging. Thus in 2009, Brunei Ministry of Education has introduced the National Education System for the 21st Century that brought about three main changes to ensure that our education system stays relevant and provides high quality education at all times.

The first major change is the **Education Structure** where the primary and secondary level have been renamed Year 1- Year 6 replacing Primary 1- Primary 6 and Year 7 - Year 11 replacing Form 1- Form 5 . This is to align with international standards and practices. In the previous system, the students were able to leave the general schooling system and proceed to vocational and technical institution after completing Secondary 3. In SPN 21, students would be able to leave the general schooling system and proceed to vocational and technical institution only after completing Year 10 (4 year General Secondary Education Programme) or 11 (5 year Secondary School). This provides students with better academic preparation before they further their studies or join the workforce. In addition, the 2007 Compulsory Education Order ensures that all children in Brunei Darussalam receive at least nine years of formal education between the ages of 6 and 15 years.

In the previous system, all students pursued five years of education, i.e. three years in lower secondary and two years in upper secondary. In SPN 21, students will complete the 4 year Secondary Education Programme or the 5 year Secondary Education Programme before the sit for BC GCE 'O' Level, GCSE, BTEC or other alternative qualification. Initially, all students will follow a common curriculum at Year 7 and Year 8. After Year 8, students will be channelled to the General Secondary Education Programme (4 year/5 year) or Applied Secondary Programme (5 years). This provides more options for the students in their pursuit for quality education.

The second major change is on the **Curriculum and Assessment** where in comparison with the previous Curriculum and Assessment, the SPN 21 Curriculum and Assessment Framework sets out the foundation policy for learning and assessment in schools to bring in line with it the 21st Century demands and needs. This includes critical skills in Mathematics, Science, Language and ICT; Entrepreneurial Skills and Lifelong learning; and Study Skills and Value Education.

The previous "Penilaian Menengah Bawah (PMB)" has been replaced by Student Progress Assessment (SPA). SPA for core subject consists of two component which are School Based Assessment (SBA) and Student Progress Examination (SPE). SPA serves as the basis for selection to channel students to the General Secondary Education Programme (4 year/5 year) or Applied Secondary Programme (5 years). SBA will continuously assessed throughout Year 7 and Year 8 as SPE will take place at the end of Year 8.

Lastly the third major change is the **Technical and Vocational Education and Training (TVET)** where the infrastructure has expanded to include new schools, upgrading its current institution/school building, developing the curricula, and increasing the number of teaching and support staff. In addition, it offers multiple pathways to higher education and create a more



dynamic TVET system within the National Education System. This is to provide a variety of technical and vocational programmes that suits the capabilities of the students who have completed Year 10 or Year 11. The TVET levels has been aligned with the current needs of the industries more effectively to indicate the necessary specific skills and knowledge required by the job market.

## 2. Context of structural reforms undertake

### a. *What specifies services sectors structural reforms are you addressing in this questionnaires*

In this questionnaire we are addressing the SPN 21 as the Brunei Education System where the Ministry of Education is committed to improving education standards and the quality of schools and student outcomes. The actual implementation of SPN 21 commenced in 2009 involving Year 1 and Year 4 pupils. The full-fledged implementation of SPN 21 has been completed by 2015 and Brunei Education System is still undergoing improvements towards the education transformation in meeting the evolving demands of a high quality education system in the twenty-first century.

### b. *Why this reform is necessary*

To keep up with the fast changing world, Brunei Darussalam has reviewed and recommended changes to its current education system to one that prepares our students with the relevant knowledge, skills, values and attitudes to meet the changing needs of a forward looking economy, and is responsive to the needs of various stakeholders.

## 3. Reform Measures

The National Vision known as **Wawasan Brunei 2035** which aims to make Brunei Darussalam, by the year 2035, a nation widely recognised for the accomplishment of its educated and highly skilled people as measured by the highest international standards; a quality of life that is among the top 10 nations in the world; and a dynamic and sustainable economy with income per capita within the top 10 countries in the world.

The eight (8) **Policy Direction in the Education Strategy** of *Wawasan Brunei 2035* which are:

- i. Investing in early childhood education;
- ii. Adopting international best practices in teaching and learning;
- iii. Having first class secondary and tertiary education including vocational schools, that produce experts, professionals and technicians required in commerce and industry;
- iv. Strengthening the competency in info-communication technology (ICT) for students, teachers and educational administrators including integration of ICT in school curriculum;
- v. Devising programs that promote life-long learning and widen access to higher education;
- vi. Promoting research, development and innovation both in government-funded institutions and through public-private and international partnerships;
- vii. Adopting cost-effective methods of educating our people through the use of technology; and
- viii. Improving the management of all our educational institutions.

In addition, the education mission which is to 'provide holistic education to achieve fullest potential for all'; reference to the education systems and curricula of other countries indicate the need to emulate international best practices; improving students' achievement, mainly on the three core subjects namely English Language, Mathematics and Science; increasing the percentage of students' enrolment to Higher Education from 14% to 30%; sustaining and strengthening students' performance in *Bahasa Melayu*; and report from local researchers and special consultants from overseas which have identified room for improvement in the National Education System.

The SPN21 Implementation and Performance review has also been carried out to identify workable and practical solutions for overcoming the challenges met in the implementation of SPN 21 and to formulate action steps to enhance the system further.

#### 4. Impact of Reform

During the review process, the review committee benefited from experiences which gave essential and valuable insights into the workings of an extremely complex education network. Several noteworthy achievements became evident. These achievements have been realised in the past five years. The most encouraging are as follows:

1. Melayu Islam Beraja (MIB) and a value based education is developing at a good rate
2. Compulsory attendance in schools is strong and drop-out rates is low;
3. There is and remains a commitment to caring about the welfare of students;
4. Developments in technical vocational education is promising;
5. Early childhood care education is making good progress;
6. Literacy skill development programs have been introduced and students are showing good progress;
7. Changes have been made to the education structure and multiple pathways have been introduced;
8. The teaching profession has been recognised with the introduction of a teacher service scheme;
9. A school leadership programme is now in place;
10. There are new innovations in the education system such as in the use of ICT and pedagogy;
11. Parental satisfaction is high;
12. Our teachers have a deep passion for education

#### 5. Challenges and lessoned learned

The three major challenges that has been highlighted include the need for the **Curriculum** to be reviewed; the importance in the **Alignment of the Curriculum to the Assessment**; and further support needs to be given to enhance **capacity of Teachers**.

Several recommendations has also been highlighted which are for the development of a **renewed master plan** to enhance the implementation of SPN 21 for the next five years. There needs to be efforts to foster a **data-driven culture** within the Ministry of Education and schools to better data utilisation. Data is key to ensure that objectives are met and plans are on-track and to identify patterns in performance. **Accountability** for performance is a fundamental issue at all levels of the system. It is recommended the Ministry of Education and schools remain focused on, and held accountable for, improved outcomes for students. School leaders will remain responsible for how schools are managed and will also be held accountable for students' achievements through a proposed performance-based management system, which is

based on quality standards and frameworks.

Restructuring of some aspects of the **organisation structure, roles and responsibilities** of Departments, Sections and Units of the Ministry of Education to bring it in line with newly formed SPN21 related functions. It is important that proper support and controls be provided to the schools through the renewed roles of Ministry of Education monitoring officers. As much as possible, these "new" role should build on aiding and accelerating school improvement and achieving SPN 21 aspirations. If the key implementers are clear about required behaviours and clear about objectives, then the education system will perform better.

The immediate appointment of a **Transformation Team or a Special Unit** to lead the transformation and monitoring of the SPN 21 education reform. This team will be dedicated to monitoring the changes, while the schools continue to provide critical service. The **type of leadership teachers** require, changes to their terms and conditions of service, their ongoing professional development and the need to stay focused on the goal of raising educational achievement. Thus strengthening support and capacity development for teachers.

## 6. Next Steps

The Brunei Education System is still undergoing a transformation where the reforms will better position Brunei Darussalam to meet the evolving demands of an education system in the twenty-first century. The Ministry of Education is committed to improving education standards and the quality of schools and student outcomes. The SPN 21 education reform agenda is being implemented with unprecedented levels in Brunei schools, and is working towards making sure that every student has the opportunity to learn and exit with favourable outcomes.

The major conviction of the SPN 21 Implementation and Performance review can best be expressed as 'implementation matters'; to identify workable and practical solutions for overcoming the challenges met in the implementation of SPN 21. To formulate action steps to aid future strategic implementation. In addition, The Ministry of Education continuous efforts to fulfil the needs and challenges of social and economic development of the 21st Century and develop the skills of the 21st Century amongst students in Brunei Darussalam is evident through the strengthening of the implementation of 21st Century Teaching and Learning.

The implementation of current education system is also determined through Brunei's participation with PISA in 2018 which will benchmark our students' competencies and standards compared to other countries. The readiness of our students will be determined through PISA-Based Test for Schools (PBTS) which will be held in 2016.

# CHILE

## 1. General overview

Services have an important participation on GDP in many economies, which varies depending on its development levels. In the case of developing economies, the service sector has a participation of 51% of total GDP, while in developed countries the figure reaches 70%. Particularly for Chile, services represent 72% of total real GDP; however, it represents a small portion of our exports.

## 2. Context of structural reforms undertaken

a. What specific services sector structural reforms are you addressing in this questionnaire?

The reform that allowed number portability in the mobile phone industry in Chile was introduced in January 2012. The objective that the government sought with the portability rule was to introduce more competition among incumbents and open the market to new entrants, especially to mobile virtual network operators (MVNO). The MVNO do not own the infrastructure they use, but rent it from one of the network operators. While the effect of the number portability on prices in Chile is largely disputed, MVNOs' market share is still changing leading to more competition due to the insertion of new players over the years.

b. Why this reform was necessary

Governments around the world have issued different regulations in the past decades with the broad aim of making the telecommunications industry more competitive. One of the leading reforms in the market for mobile phone service has been number portability. Chilean policy-makers considered that lower switching costs will force incumbent companies to charge lower prices by introducing more competition among them and by lifting barriers to entry to new operators. It was the case for the Chilean industry.

After finished the privatization process of the only firm in telecommunications (Entel) in 1992, several minor reforms had taken place in the industry ever since. From then, until before the MNP reform, the given market conditions has made the industry grow up to just 3 players. Certainly not enough to provide a competitive framework for the consumers to take considerable advantage, or to balance surplus between them and the producers.

### **3. Reform measures**

The law allowing mobile number portability in Chile was passed by the Congress on August 2010. On July 2011, the government decided that it would enter into effect on January 2012. Industry insiders claim that the operators only began to prepare commercially for the reform on the second half of 2011. Before number portability, customers typically were bound to the operator by contract for 18 months. In order to cancel the contract, they were required to pay a fee. The reform of number portability made possible for customers the cancellation of their service contract at any given time and also required the operator to unlock the handset of a customer upon request. Nevertheless, contract restrictions still apply for handsets purchases. As a result, when a customer purchases a handset from the operator after the reform, she can switch operator at any time, but still has to pay the handset to the original operator. Mobile phone payments are typically spread over 18 months.

### **4. Impact of reform(s)**

There have been several studies regarding the effect on price of the reform above mentioned, one of them<sup>1</sup> claims that the effect on average price is negative and significant. This study uses customer fixed effects, founding that number portability lowered average price by 7.2 percent.

The government claims that rates of the cheapest plans decreased by 20.0 to 25.0 percent, whereas the National Institute of Statistics of Chile found in consumer expenditure surveys a decrease of 0.1 percent for wireless service, but a decrease of 25.8 percent for handsets. Also, a market survey company found that while the price of voice-only plans dropped by 8 percent, the price of plans with data connection decreased only by 2.0 percent.

### **5. Challenges and lessons learned**

#### Challenges

One of the few challenges towards an integrated and balanced telecommunication industry aims to the possibility that by 2020, subscribers should have the option to port their number

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<sup>1</sup> “Switching Costs and Introductory Pricing in the Wireless Service Industry” Jorge Alé (2013)

between a land service and a mobile service if they desire. Also, Retail tariffs, wholesale termination rates and market developments must be monitored so that the target implementation date of 2020 can be adjusted according to national circumstances.

Operators/service providers will need to make the necessary adjustments to their systems to accommodate these developments. Before long, different hybrid fixed-mobile solutions are expected to continue to emerge on the market.

### Lessons learned

In recent years land and mobile wholesale termination fees have been declining. The corresponding impact of this trend on retail tariffs is very positive for consumers. As retail charges continue to decline the difference in cost between land and mobile calls may become negligible in the coming years. This trend, along with a consumer preference for mobile services over land services is likely to drive demand for service portability as the importance of tariff transparency in numbering ranges is diminished.

### **6. Next steps**

In order to complete the number portability goal, just in November of last year 2015, the Chilean government has announced the introduction of geographic land line number portability, allowing all land line users to keep their number when moving to any part of the country. The aim is that families who need to move to another region for work can now stay connected via their usual number, and small businesses that change location won't lose their contacts. The Chile's Department of Telecommunications, points out that the measure also affects VoIP<sup>2</sup>-based lines and would serve to boost the country's sluggish land telephony sector. In the last 12 months (land telephony) lines have grown by 1.9 percent. Geographic portability is looking to revitalise the market by providing the best options for those using their fixed line equipment for personal or professional reasons.

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<sup>2</sup> voice communications and multimedia sessions over Internet Protocol (IP)

# CHINA

## 1. General overview

### Service sector and China's economy

In China, the service sector has evolved into a key force in promoting stable and rapid economic development. It covers a broad range of services divided into producer services and customer services, wherein the former includes technical, transportation and warehousing, postal delivery, information, and financial services and the latter includes residents and family services, health care services, as well as culture and tourism services. In 2011, the service industry replaced the primary industry as the most employee-absorbing sector by providing 272.82 million jobs, accounting for 35.7% of the total of the three industries. In 2012, it overtook the secondary industry as the largest share holder in gross domestic product (GDP) with a share of 45.5%. In 2015, its share in GDP exceeded 50% for the first time; industrial added value grew faster than the national economy for 15 consecutive quarters; and service enterprises accounted for 80.6% of all the newly registered. Whether creating jobs or promoting growth, services have truly become China's largest sector.

As China's economy enters into the new normal state, the importance of the service sector becomes more prominent. In the first quarter of 2016, the added value of the service sector increased by 7.6% year on year to 9.0 trillion yuan, 0.9 percentage points (pps) higher than the GDP growth rate. Moreover, the share in GDP attained 56.9% and the contribution to the national economic growth reached 63.5%, 19.4 and 29.3 pps higher than the secondary industry respectively. Meanwhile, the spillover effects of services continue to appear. In particular, a large number of new models and new types of business, such as e-commerce and science and technology (S&T) services, have formed due to the accelerated integration with other industries with the wide application of information technology, such as the Internet, injecting a strong impetus to innovation-driven transformation and upgrading of the manufacturing sector. In addition, service trade witnesses development. Proportions of services in the country's foreign trade and global trade will increase year by year, and China's total import-export volume of services is expected to exceed 1 trillion US dollars in 2020.

### Service sector reform in China

In China, the service sector reform can be traced back to 1992 when the Decision to Accelerate the Development of Tertiary Industry was issued by the State Council. According to that document, the state for the first time emphasized the service sector should grow faster than agricultural and industrial sectors and clearly put forward the gradual establishment of a unified socialist market system and an urban-rural integrated service system and social security system. China's service sector opens to foreign and domestic private investment in an orderly way while a variety of measures are taken, covering market access liberalization, market system improvement, statistical standards establishment, and property rights system reform of enterprises, with a large number of non-public enterprises entering into residential services and the capability to attract and utilize foreign capital continuing to increase.

In recent years, China witnessed comprehensive reform in service with accelerated pace. China promoted the Comprehensive Reform in Service Plan and the Pilots were carried out in 37 cities and districts at first since 2010, which achieved great success in forming regional service centers, establishing production services demonstration area, and optimizing the structure and layout of service. In 2013, the CPC Central Committee issued the Decision on Major Issues Concerning Comprehensively Deepening the Reform, proposing a series of reforms that cover SOEs and public institutions, administrative examination and approval, tax and price formation. Noticeably, the document explicitly called for the orderly liberalization of finance, education, culture, and health care services and relaxation of restrictions on foreign investment in such services as nursery and pension, architecture and design, accounting and auditing, business logistics, and e-commerce. Moreover, all of the above initiatives will come to critical fruition no later than 2020. In fact, lots of open measures had been implemented in China (Shanghai) Pilot Free Trade Zone since 2013, which will be replicated to other Pilot Free Trade Zone in the following years. In March 2016, China also announced to include more areas into the Comprehensive Reform in Service Plan in order to extend and deepen the open and reform in service sector. In addition, China has launched the tax reform in service from business tax to value added tax system successfully in May 2016, which will enhance the competitiveness of service sector by eliminating double taxation and attracting a variety of factors to be input in service. China's service industry is bound to usher in a new round of rapid development.

## **2. Context of structural reforms undertaken**

### *a. What specific services sector structural reforms are you addressing in this questionnaire?*

The Questionnaire mainly discusses the structural reforms of professional services, focusing on S&T services. Issued in 2014, the Major Opinions of the State Council on Accelerating the Development of Science and Technology Services made, for the first time, an all-round national deployment for S&T services by explicitly setting out the initiatives for reform, including orderly liberalization of market access, open access to resources, strengthened technology transfer incentives, institutional restructuring and reorganization, increased fiscal and tax support, and development of new types of business.

### *b. Why this reform was necessary*

S&T services cover research and development (R&D), technology transfer, inspection, testing and certification, business incubation, technology finance, technology consulting, and intellectual property rights (IPRs) related services. S&T service development in China encounters many problems, represented by immaturity of market entities, low level of specialization, lack of high-end service and well-known brands, shortage of interdisciplinary talents and unfavorable development environment. All these can be attributed to limitations in terms of institutions and mechanisms, such as high access threshold, cumbersome administrative examination and approval process, and inefficient allocation of resources. Measures for structural reforms will mobilize the enthusiasm of all kinds of social capital, promote industrial competition, and optimize resource allocation. While developing the S&T services, these initiatives are expected to expedite industrial upgrading through scientific and technological innovation.



### 3. Reform measures

In order to accelerate the development of S&T services, measures are taken in six aspects to fully promote structure reform.

*Orderly liberalization of market access.* By supporting partnership enterprises and encouraging social capital to invest in the SOEs reform, private capital will gain access to the inspection, testing, and certification, as well as technology finance, and foreign investment in S&T services will be boosted.

*Optimal integration of services resources.* Public institutions will share equipment with other institutions and firms and provide social services, in order to achieve efficient use of S&T service resources. Pilots will be carried out in ten universities and research institutes including Tsinghua University, three science and technology parks including Zhongguancun, and seven provinces and municipalities including Beijing.

*Enhancement of technology transfer incentives.* It is a move to guarantee the income or equity ratio of personnel, agencies and other stakeholders that make important contributions to the transfer and commercialization of scientific and technological achievements. It is clearly stipulated in the Law of the PRC on Promoting the Transformation of S&T Achievements that the major contributors in research, development and commercialization of scientific and technological achievements shall be entitled to no less than 50% of the total awarded incentives.

*Restructuring and reorganization of public institutions.* S&T service SOEs are required to implement reforms aiming at the establishment of a modern enterprise system and diversification of equity. Where conditions meet, inspection, testing, and certification should be decoupled from administrative departments and transformed into enterprises through cross-sectoral, cross-industry, and cross-level integration, mergers and acquisitions.

*Increase of fiscal and tax support.* On the one hand, S&T services are classified into high-tech services. Qualified S&T service enterprises enjoy a 15% reduction of corporate income tax rate, and a certain percentage of deductions of employee education expenditure occurred. S&T service enterprises are exempted from property tax and urban land use tax on real estate and land used by themselves or incubators and from business tax on venue and housing rental to incubators and income from incubation services. On the other hand, the tax burden will be reduced by applying a low VAT rate and expanding the tax-deductible scope in the transformation from business tax to value added tax (VAT).

*Development of new types of business.* New types of business are encouraged, such as management service outsourcing and project management outsourcing. Financial services will be extended to S&T services by introducing S&T insurance, S&T guarantees, and IPR pledge. The National Venture Capital Fund for Emerging Industries and the SME Development Fund, with a total size of over 100 billion yuan, will be created, and Scientific and Technological Achievement Commercialization Guide Fund will be set up, including three venture capital sub-funds. Efforts will be

made to explore and implement the investment-loan integrated financing model and the "incubator + venture" model.

By far, most of the measures have been put in place, among which the reform of SOEs, restructuring and reorganization of public institutions, and development of new business models, involving a wide range, advance in an orderly manner according to the unified deployment. In the reform process, the authorities have consulted widely enterprises, universities, research institutes and the public. Taking technology transfer for example, new provisions that take into account reform practice and public opinions were released in March 2016 based on the amendment to the Law of the People's Republic of China on Transformation of S&T Achievements in 2015, creating conditions for more effective commercialization of technological achievements.

#### **4. Impact of reform**

Structural reforms not only drive the fast growth of S&T services, but also contribute to the healthy development of related industries and macro-economy. (1) Owing to the business system reform, reduced access thresholds, and increased opportunities in related fields, significant improvements are seen in such indicators as number of new S&T service enterprises, incremental foreign investment, and profitability. For example, there were 240,000 new enterprises of information transmission software and information technology services in 2015 with an increase of 63.9% year on year. In the first quarter of 2016, the actually utilized foreign investment in information technology services and R&D and design services expanded by 195.3% and 41.6% respectively, much higher than the level of 7.9% in the service industry. According to the survey of service enterprises above the designated scale, the S&T service revenue grew by 8.6% year on year in 2015 and by 12.2% in the first quarter of 2016, keeping up the momentum for growth. (2) Positive results have been achieved in promoting equipment sharing and encouraging universities and research institutions to provide social services. A nationwide large-scale database of scientific instruments has been initially established, which helps the Central Government to reduce up to 3.2 billion yuan of expenditure on the repeated purchase of large equipment in 2015. For example, the Chinese Academy of Sciences (CAS) makes nearly 4,000 sets of large equipment from 90 institutes available for shared use, providing services for a total of 7.01 million hours, and a large number of enterprises thereby have access to high-end equipment and high quality professional services. (3) Tax burden on S&T service enterprises is much eased with the transformation to replace business tax with VAT. Given a VAT rate of 6% and a levy rate of 3%, there is a general tax deduction for enterprises in the upstream and downstream S&T service chain. With expansion of the tax-deductible scope, the increase of tax burden on a few enterprises is expected to last only a short term. (4) The number of incubators increase substantially, which benefit a large number of innovative manufacturing businesses. As of 2015, China had nearly 3,000 national S&T business incubators, covering an area of over 80 million square meters, and more than 2,300 co-working space platforms. Currently, there are more than 100,000 enterprises involving more than 1.5 million people in incubation and over 60,000 businesses have already graduated. (5) S&T financial services grow rapidly, represented by venture capital, private equity and angel investment. In 2014, the venture investment, with a total size of 127.07 billion US dollars, was 2.4 times that of 2008. Venture capital structure also exhibits positive changes, with a noticeable increase in the proportion of

investment in early and growing start-ups. In short, S&T services in accelerated development lay the basis for moving to the high-end global value chain, focusing on R&D and design activities.

## **5. Challenges and lessons learned**

The service sector reform implies that market-oriented reform based on deregulation and streamlined mechanisms can effectively stimulate market vitality and foster new economic momentum. While opening up entry channels for the private and foreign capital, structural reforms play a positive role in mechanisms for resource integration, technology commercialization, and business incubation. Meanwhile, the reform has also encountered many challenges. For example, some state-owned manufacturing enterprises and public institutions are reluctant to implement market-oriented reform or carry out reorganization. Some local institutions ignore the interest of technology transfer intermediaries and allocate more bonuses to the inventors. In addition, the regulatory and service system for technology finance lags behind, resulting in high financial risks incurred by innovation. To deal with these difficulties, administrative coordination and public participation need to be strengthened.

## **6. Next steps**

Structural reforms in S&T services will continue to focus on promoting streamlining administration and delegating more power to lower level government and enhancing fair competition. (1) Deepened reform of business system. Further simplify and/or cancel a one-third of pre-approval matters for business registration in 2016. In addition, social insurance registration and statistical registration will be integrated into the three-in-one certificate for commercial business license, organization code, and tax registration. (2) Expansion of the autonomy of universities and research institutes. Universities and research institutes will enjoy greater autonomy in the use of funds, outcome disposal, title evaluation, and salary distribution, and stock and option incentives in favor of entrepreneurship and innovation of teaching and research personnel will be improved. (3) Promotion of fair competition among various market entities. Efforts are needed to crack down on intellectual property infringement, production and sales of counterfeit and shoddy goods, and illegal fund-raising.

## HONG KONG, CHINA

### 1. General overview

#### Overview of services sectors:

Hong Kong, China (HKC) is a highly service-oriented economy. In 2014, the services sectors generated 92.7% of GDP and 88.4% of employment in HKC. Among all services sectors, import/export trade is the largest, accounting for 19.1% of GDP in 2014. Other major services sectors include financing and insurance (16.6%); real estate, professional and business services (10.9%) and transportation, storage, postal and courier services (6.2%). This reflects HKC's roles as an international financial centre and a regional business and trading hub. Over the past years, HKC's services sectors enjoyed rapid expansion riding on the back of increasing economic and financial integration between the Mainland and HKC. In the ten years ending 2014, the value-added of the services sectors grew at an average annual rate of 5.8%, faster than that of the nominal GDP. This suggests that the services sectors led the economy in moving up the value chain. HKC is also one of the top trading entities in commercial services trade. According to World Trade Organisation, HKC ranked 14<sup>th</sup> and 17<sup>th</sup> globally in the exports and imports of commercial services respectively in 2015.

### 2. Context of structural reforms undertaken

- a. What specific services sector structural reforms are you addressing in this questionnaire?

In this questionnaire we are addressing structural reforms in the legal services sector of HKC.

- b. Why this reform was necessary?

- HKC's fine reputation for its rule of law and our sophisticated legal services sector are instrumental to our development as a major international financial and commercial centre.
- HKC is a separate jurisdiction from Mainland China and has its own legal system and its own Court of Final Appeal. The common law continues to apply in HKC as provided for by the Basic Law. This is a manifestation of the "One country, Two systems" principle. The independence of the judiciary is fully guaranteed and protected by the Basic Law.
- The reforms undertaken in the legal services sector relate to the operation of the legal profession and the development of dispute resolution services including arbitration and mediation in HKC.
- The reforms are necessary to enhance the competitiveness of our legal services sector and to provide persons doing businesses in and through HKC with access to high quality, multi-jurisdictional legal and dispute resolution services.
- The reform relating to the dispute resolution services is consistent with the long-standing policy of the Government of the Hong Kong Special Administrative Region (HKSAR) to promote HKC as a leading international legal and dispute resolution services centre in the Asia Pacific region.
- As a matter of policy, HKC encourages the use of dispute resolution methods, including arbitration and mediation, to resolve civil and commercial disputes. We regularly update our arbitration legislation to provide for a more user-friendly statutory framework for conducting arbitration. On the mediation front, we encourage the wider use and promote the development of mediation, which is aimed at providing a proper legal framework for the conduct of

mediation in HKC.

**Questions 3 – 6 will be addressed separately in relation to specific reforms (A – D) below.**

**A. Reform in the legal profession - Rights of audience in our higher courts for solicitors**

**3A. Reform measures**

In 2010, HKC enacted the Legal Practitioners (Amendment) Ordinance 2010 (“**2010 Ordinance**”) which grants rights of audience in our higher courts (“HRA”) to solicitors. The steps leading up to this piece of legislation are summarised below:

1. In 1995, the HKSAR Government issued a “Consultation Paper on Legal Services” which, among others, stated that *“The Administration’s view is that it should be possible for solicitors to acquire rights of audience in all courts under statutory provisions similar to those in England and Scotland.”*
2. In June 2004, the Chief Justice established a working party (“WP”) *“[t]o consider whether solicitors’ existing rights of audience should be extended and, if so, the mechanism for dealing with the grant of extended rights of audience to solicitors.”*
3. After issuance of its consultation paper in June 2006, the WP issued its Final Report on Solicitors’ Right of Audience in October 2007 which recommended, among others, that *“[l]egislation should be enacted to provide the necessary framework for the granting of higher rights of audience to solicitors.”*
4. In June 2009, the HKSAR Government introduced the Legal Practitioners (Amendment) Bill 2009 (“Bill”) *“to implement the scheme proposed by the Working Party on Solicitors’ Rights of Audience”*. The Bill was eventually enacted into the 2010 Ordinance which came into full effect on 22 June 2012.

**4A. Impact of reform**

As of 14 May 2016, 39 solicitors were granted HRA in HKC. Granting HRA to solicitors is expected to increase consumer choice on able advocates to represent them in our higher courts.

Nil return to Q5 & Q6.

**B. Reform in the legal profession - Limited liability partnership for law firms in HKC**

**3B. Reform measures**

In 2012, HKC enacted the Legal Practitioners (Amendment) Ordinance 2012 (“**2012 Ordinance**”) which allows law firms in HKC to operate in the form of a Limited Liability Partnership (“LLP”). The steps leading up to this piece of legislation are summarised below:

1. Since 2004, The Law Society of Hong Kong (“LS”) has been calling for an early introduction of LLP. Generally speaking, LLP is a model for doing business which confers the privilege of limited liability on innocent partners so as to insulate their personal assets from claims arising from the professional default of the other partners of the firm.
2. In June 2010, the HKSAR Government submitted the Legal Practitioners (Amendment) Bill 2010 (“Bill”) into the Legislative Council *“to introduce limited liability partnerships for law firms in Hong Kong”*.
3. The Bill was eventually enacted as the 2012 Ordinance which came into full effect on 1 March 2016.

#### **4B. Impact of reform**

As of 14 May 2016, there were 6 foreign law firms and 2 solicitors firms operating in the form of LLP. We expect that the number of LLP law firms in HKC will increase over time. The introduction of LLP as a business model for law firms in HKC will encourage overseas law firms to come and operate in HKC. This would help enhance HKC's position as an international legal services hub.

#### **5B. Challenges and lessons learned**

One principal challenge in the legislative process on LLP was to arrive at a proposal that would maintain a proper balance between limiting professional liability and safeguarding public interests in such a way that was also acceptable to its stakeholders. To address this, a number of consumer protection measures were included in the 2012 Ordinance, including the requirement for LLP to take out top-up insurance for additional indemnity coverage of HK\$10 million in respect of any one claim. This top-up insurance together with the mandatory coverage of HK\$10 million on each law firm provided by the compulsory primary insurance scheme under the existing legislation provides a total of at least HK\$20 million per claim for clients who engage the services of a LLP.

Nil return to Q6.

### ***C. Reform measures relating to dispute resolution - Arbitration***

#### **3C. Reform measures**

- It was necessary to reform the arbitration legislation (by repealing the previous Arbitration Ordinance, Cap. 341 and enacting a new Arbitration Ordinance) to enable the HKC business community and arbitration practitioners to operate an arbitration regime which would accord with widely accepted international arbitration practices and development. It was hoped that, by introducing the reform, HKC would attract more business parties to choose HKC as the place to conduct arbitral proceedings.
- Specific measure was taken to reform the arbitration legislation based on the Model Law on International Commercial Arbitration of the United Nations Commission on International Trade Law (as amended in 2006) ("Model Law") to unify the previous different arbitration regimes for domestic and international arbitration. As the Model Law is familiar to arbitration practitioners in both civil law and common law jurisdictions around the world, the reform would have the effect of achieving the aim stated in paragraph 2b above.
- The proposed reform was first made in a report issued in 2003 by the Committee on Hong Kong Arbitration Law ("Committee") established by the Hong Kong Institute of Arbitrators in cooperation with the Hong Kong International Arbitration Centre. In 2005, the Department of Justice ("DoJ") set up a Working Group to implement the report of the Committee. The Working Group was chaired by the Solicitor General and comprised representatives of the legal profession, arbitration experts and relevant government officials, to formulate legislative proposals to implement the recommendations in the report of the Committee.
- In December 2007, DoJ published a Consultation Paper on Reform of the Law of Arbitration in Hong Kong and a draft Arbitration Bill for a 6-month consultation. After studying the comments received during the consultation period, DoJ reported the outcome of the consultation at a meeting of the Legislative Council Panel on Administration of Justice and Legal Services ("Panel") in February 2009. At the end of that meeting, the Panel indicated support for introducing the Arbitration Bill.

- In June 2009, the Arbitration Bill was introduced into the Legislative Council. A Bills Committee was formed to study the Bill in 15 meetings with DoJ's representatives. The Bills Committee received views from eight deputations at one of its meetings. Subsequently, the new Arbitration Ordinance, Cap. 609 was enacted on 10 November 2010 and came into effect on 1 June 2011.

#### **4C. Impact of reform**

- We take the view that the rise in ranking of HKC as a preferred seat of arbitration in recent years has been largely attributed to the reform introduced to the arbitration legislation. The supporting evidence of our view is set out in the following paragraph.
- Two international arbitration surveys were conducted by Queen Mary University of London in 2010 and 2015 respectively. In both surveys, respondents (mainly users of arbitration from around the world) ranked '*national arbitration law*' as one of the three most important factors for their preference for certain seats of arbitration. In the results of the 2010 survey, which was conducted prior to the enactment of the new Arbitration Ordinance, Cap. 609, HKC was not in the list of top 6 preferred seats of arbitration (namely, London, Geneva, Paris, Tokyo, Singapore and New York in descending order). In the results of the 2015 survey, which was conducted a few years after the new Arbitration Ordinance had come into effect, HKC was ranked 3rd in the world, after London (1st) and Paris (2nd).
- Regarding the impact of this reform on global value chain, the Arbitration Ordinance is based on the Model Law which is familiar to arbitration practitioners in both civil law and common law jurisdictions around the world. This no doubt facilitates the involvement of all the actors in arbitration.

#### **5C. Challenges and lessons learned**

- As the reform involved a revamp of the entire arbitration legislation, care had to be taken to ensure that the provisions in the draft Bill would accurately reflect the policy intent of the new legislation. Besides, comments were received from 42 respondents in the consultation exercise and it took time to incorporate those comments before the Bill could be introduced to the Legislative Council. In hindsight, DoJ would still diligently follow the same procedure in carrying out this reform, because of the profound impact of the new arbitration legislation on users of arbitration both in and outside HKC.

#### **6C. Next steps**

- Some amendments to the Arbitration Ordinance were introduced in 2013 and 2015. In future, DoJ will review and, if necessary, amend the Arbitration Ordinance from time to time to ensure that the latest developments in the arbitration sector can be promptly reflected in the legislation.

### **D. Reform measures relating to dispute resolution – Mediation**

#### **3D. Reform measures**

- The HKSAR Government is committed to fostering a wider use of mediation to resolve disputes and the development of mediation services in HKC. With the efforts of the Steering Committee on Mediation chaired by the Secretary for Justice and comprising members from different sectors (the Steering Committee), initiatives and measures have continuously been taken to provide a favourable regulatory framework to conduct mediation in HKC, maintain the standard of mediators and enhance the awareness of the general public and targeted sectors for mediation.

- The Mediation Ordinance (Cap. 620) came into effect on 1 January 2013. It provides a legal framework for the conduct of mediation in HKC, addresses fundamental issues such as confidentiality and admissibility of mediation communications without hampering the flexibility of the mediation process.
- With a view to facilitating the further development of mediation in HKC by making available mediation communications for research, evaluation and educational purposes, the Steering Committee has published a set of guidelines (“the Guidelines”). The Guidelines aim to assist persons intending to use mediation communications for research, evaluation or educational purposes in compliance with the relevant provision of the Mediation Ordinance that allows the disclosure of mediation communications for those purposes.
- The Steering Committee is also studying the need to introduce apology legislation in HKC by removing the legal uncertainty regarding the making of an apology and thus promoting the use of apology which may facilitate settlement of disputes. The Steering Committee is formulating its final recommendations for introducing apology legislation in the legislative year 2016-2017.

#### **4D. Impact of reform**

- Over the years, the public’s awareness of mediation and the use of mediation have increased significantly. According to the Judiciary’s statistics, in 2015, 645 cases in the Court of First Instance were mediated and 294 cases were settled with full or partial agreement as compared to 421 cases in the Court of First Instance mediated and 159 cases settled with full or partial agreement in 2011.
- A number of mediation organisations have since been established in HKC to provide a wide range of mediation services, including the Mediation Information Office, Joint Mediation Helpline Office and the Financial Dispute Resolution Centre. The recent establishment of the CCPIT-HKMC Joint Mediation Centre by the China Council for the Promotion of International Trade (CCPIT) and the Hong Kong Mediation Centre (HKMC) enhances the collaboration and co-operation between mediation organisations and provides an effective platform in HKC for resolving cross-border commercial disputes. It also strengthens HKC’s status as the leading dispute resolution centre in the region.

Nil return to Q5.

#### **6D. Next steps**

- The Steering Committee will continue to monitor the implementation of the Mediation Ordinance, to ensure the quality of mediators and consistency of standards, and to promote the mediation culture.



# INDONESIA

## 1. General overview

### Indonesian services sector

Services sectors have significant roles in economic development. Not only does it contribute to its own output, but also functions as input to other sectors, hence determining the performance of other sectors. Parallel to Indonesia's structural transformation from an agricultural-based economy to a manufacturing and services-based economy, the services sectors' contribution to Indonesia's GDP has increased from 38% in 1970 to 51% in 2014. Moreover, the services sectors have a more important role as the new source of growth and the source of job creation as well, where services sectors currently employ 43% of total employment in Indonesia.

### Services sector reform

Recently, Indonesia has undertaken deregulation in its economic policy. A number of economic policy packages have been issued in the last ten months and more will be issued in the near future to simplify procedures, reduce time and cost of doing business as well as to ensure fair competition. The packages cover several strategic issues such as industrial reformation, improving ease of doing business, improving logistic performance, strengthening MSMEs, providing soft loans for low-income households, introducing a one map policy to address land issues and the launching of a new Negative Investment List to attract more investment.

## 2. Context of structural reforms undertaken

- a. What specific services sector structural reforms are you addressing in this questionnaire?

In this questionnaire, Indonesia is addressing regulatory reform in the logistics sector. Under the national deregulation program, policy packages for logistics reform were included in the economic policy packages issued by the government in 2015. The specific services sector structural reform addressed is the establishment of Bonded Logistics Centers (BLC) as part of Indonesia's national strategy for improving logistics performance.

- b. Why this reform was necessary

Improvement of logistics is now an important objective in many countries around the world. Successful integration into the world economy depends to a large extent on improving logistics. These improvements must take place both at the border and behind the border. With the emergence of global supply chains, increasingly high value is being placed on the ability to meet delivery schedules not only in a cost-effective manner, but also in a reliable and predictable way.

Logistics becomes an important sector in Indonesia since it greatly affects national competitiveness. However, logistics in Indonesia has not yet met its desired objectives. Logistical costs remain high; up to 24% of national GDP. Currently, logistics is still unable to serve national industries and allow efficient trade by enabling the smooth flow of goods. Since Indonesia does not have bonded logistics

centers, when industries need imported raw material, they have to get it from neighboring countries. Further to that, there are several Indonesia logistics warehouses located in these neighboring countries. And for exportation, Indonesian exporters especially SMEs do not have an international warehouse for their products.

### **3. Reform measures**

Under Government Regulation No. 32 of 2009 on Bonded Storage Place, Indonesia has implemented a number of custom facilities for bonded areas. However, the regulation has not accommodated a facility for Bonded Logistics Centers (BLC). BLC itself is a storage that meets certain requirements which is used to store goods for certain purposes and obtains import duty postponement.

Considering the need for BLC for the manufacturing sector, at the start of 2015, the Government has initiated an amendment of Government Regulation No. 32 of 2009 in order to accommodate BLC. This amendment is included in the national deregulation program, specifically the second economic policy package released in September 2015.

In November 2015, the Government issued Government Regulation No. 85 of 2015 which amends Government Regulation No. 32 of 2009. The new regulation introduces the concept of BLC as one type of Bonded Storage Place in Indonesia. The introduction of BLC is expected to encourage the manufacturing sector because these BLCs would increase the smooth flows of basic materials. In order to find suitable facilities for BLC, a series of public-private consultation and public hearings were held.

### **4. Impact of reform(s)**

#### **a. Quantitative and qualitative**

As a direct result of the new regulation, in March 2016, the President formalized 11 BLCs in Indonesia. The establishment of BLCs is expected to significantly lower logistics costs as well as secure the availability of basic material supply for primary manufacturing industries in Indonesia such as textile, food and beverage, and more. Based on recent reports from the textile industries, BLC is expected to curtail logistics costs by approximately 30%.

#### **b. What effect has this reform(s) had on global value chains?**

Since BLC is a type of international storage for basic material, it is expected that BLC can improve Indonesia's role in the international supply chain as well as global value chains.

### **5. Challenges and lessons learned**

The biggest challenge in implementing BLCs is on the distribution of BLCs in Indonesia given Indonesia's large geographical area. Current BLCs are mostly located in Western Indonesia.

## **6. Next steps**

To attract more investors to establish new BLCs, specifically in Eastern Indonesia, there needs to be more dissemination and promotion of the Government Regulation No. 85 of 2015.

# JAPAN

## 1. General overview

In recent years, the service industry has accounted for approximately 70% of all industries in Japan in terms of both gross domestic product (GDP) and employment.

As a share of GDP, the service industry increased from approximately 66% in 2000 to around 71% in 2014 and its employment rose from about 37 million (62%) to 41 million (70%) in the same period. Notably, while total employment decreased by 1.2%, workers in the service industry increased by 11.4%.

As these figures show, on the back of expanding demand for services tailored to the changing social structure as exemplified by rising income levels, aging population, and declining birthrate, Japan's economy is becoming increasingly service-oriented, shifting from manufacturing to services. The service industry, therefore, is exerting a stronger influence on the economy as a whole.

However, the growth of the service industry's share of GDP (from 2000 to 2014) reveals significant differences among areas, with ICT (5.2%), transportation (4.0%), real estate (3.4%) and others achieving positive growth, but electricity/gas/water supply (-27.8%), finance/insurance (-16.8%), wholesale/retail (-0.6%) and others recording negative growth.

Since the mid-1990s, deregulation has proceeded in such areas as telecommunications, transportation, energy, and finance. Furthermore, since 2000, deregulation initiatives for individual industrial sectors have expanded into initiatives for introducing and executing basic systems and rules across multiple or all industries. Deregulation has been implemented in a host of fields including the environment, tourism, logistics, and agriculture, and has allowed the private sector to enter such areas as healthcare, education, welfare, and childcare services, while also promoting information technology (IT) in a wide range of areas.

Furthermore, since 2012, the Abe administration has been decisively undertaking the first reforms of bedrock regulations of the post-war era in agriculture, energy, healthcare, and other areas. Specific initiatives include: (1) Reforming the agricultural cooperative system, relaxing requirements for the ownership of farmland by agricultural production corporations, and reforming the rice production adjustment program in the agricultural sector; (2) Accelerating the practical usage of regenerative medicine and promoting business alliances through a new healthcare corporation system in the healthcare sector; and (3) Fully liberalizing the electricity retail market from April 2016, approving the legal unbundling of power transmission from April 2020, and fully liberalizing the gas retail market from April 2017 in the energy sector.

Going forward, improvement of the service industry's productivity is indispensable for people to really feel economic growth and vitality of the community. In the service industry, the principal driver of today's economy, it is crucial to shift into provision of data-driven services as the fourth industrial revolution unfolds.

In the service industry, however, a huge productivity gap exists among companies, and service details differ by type of business. In addition, an overwhelming majority of the businesses are community-based, making it difficult for measures to spread among them. Given such reality of the service industry, political approaches which are not standardized but made from a variety of perspectives are required.

Therefore, the government will push forward with a productivity revolution in the service industry with strong determination by undertaking the following initiatives: (1) At the Service Productivity & Innovation for Growth (SPRING) established jointly by the public and private sectors in June 2015, the manufacturing industry's "Kaizen" (improvement activities) will be applied to the service industry, and productivity improvement models will be created and standardized for each business area to proliferate excellent practices across the board; and (2) Based on the Service Industry Challenge Program approved in April 2015, best practices will be proliferated through the presentation of the Japan Service Grand Prize, IT investment in small and medium-sized service providers will be promoted, and a hospitality license designed to make service quality more visible will be created and rolled out. Furthermore, support will be provided to initiatives based on sector-by-sector guidelines developed in accordance with the SMEs Business Enhancement Act and community-based initiatives leveraging small business associations will be fostered.

## **2. Context of structural reforms undertaken**

In this questionnaire we are addressing structural reforms in the Japanese tourism sector.

The number of foreign tourists to Japan was 5.21 million in 2003, when the Visit-Japan project was launched<sup>1</sup>; in 2013, for the first time ever, the figure exceeded 10 million, reaching 10.36 million. The Japanese government convened the Ministerial Council on the Promotion of Japan as a Tourism-Oriented Country in March 2013, in order to achieve the ambitious new target of 20 million foreign tourists and to make Japan a more attractive, more tourism-oriented country than its neighbors by restoring the Japanese economy through a growth strategy. The Working Team for Attracting Foreign Tourists to Japan, whose members are from all government ministries and agencies related to this purpose, coordinated discussions while listening to the opinions of experts. The team drafted the Action Program, which consists of policies and measures for making Japan a more tourism-oriented country.

<sup>1</sup> The Visit Japan Project:

Based on the Visit-Japan promotion policy, this project seeks to communicate Japan's attractions overseas and draw foreign tourists to Japan by running advertisements in overseas media, organizing exhibits at overseas tourism fairs, etc.

## **3. Reform measures**

The original target of 20 million foreign tourists is expected to be met soon. Toward setting new targets and determining measures for achieving them, in November 2015, the Japanese government established the Meeting of the Council for the Development of a Tourism Vision

to Support the Future of Japan, whose Chairman is Prime Minister Abe. After several discussions, the Japanese government drafted that vision.

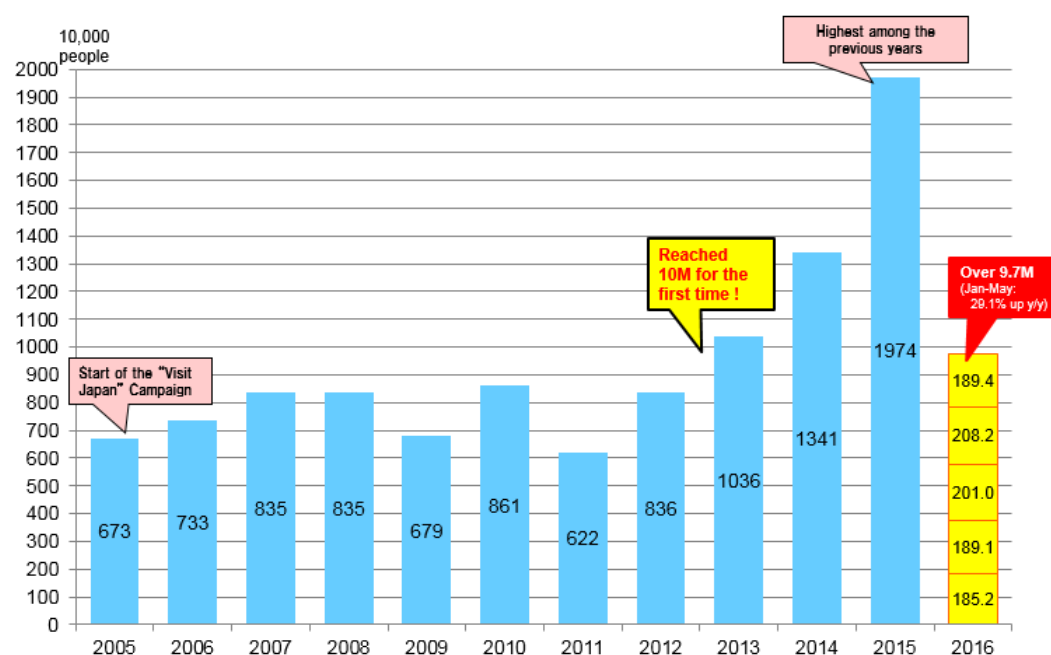
#### 4. Impact of reform(s)

As a result of the concerted efforts of the entire government, the number of foreign tourists in 2014 increased by more than 3.0 million to 13.41 million. Consumption by foreign tourists doubled in the 2 years since the Ministerial Council was established, exceeding 2 trillion yen.

The number of foreign tourists increased in 2015 to 19.74 million.

The main factors behind the increase are not only the trend of recent yen depreciation, but also visa relaxation, extension of the consumption tax exemption system, expansion of airline networks and ongoing Visit-Japan projects and so forth. Measures of solidarity in government agencies and contributions in which the public and private sectors cooperate have led to this success.

Figure 1. Trend of the Number of Foreign Tourists Visiting Japan



Source: Japan National Tourism Organization (JNTO)

#### 5. Challenges and lessons learned

Japan is blessed with rich tourism resources, and its neighbors are growing Asian countries; thus, Japan has great potential to become a more tourism-oriented country. However, Japan has shortcomings, such as insufficiently convenient Wi-Fi access, railway and bus transportation, and cash advance services. The Japanese Government should recognize such shortcomings and work to overcome them, toward accepting new tourists and increasing repeater tourists.

To this end, the Japanese government decided to make a vision in FY 2015 that set new targets and identified measures necessary to achieve those targets. The Meeting of the Council for the Development of a Tourism Vision to Support the Future of Japan and the working group chaired by the Chief Cabinet Secretary held meetings to deepen discussion on each topic, so as to identify issues and remedies.

For regional revitalization, tourism is our ace in the hole, the pillar of an economic growth strategy that aims to achieve GDP of 600 trillion yen.

A firm decision must be made by the whole country to launch a new endeavor to make Japan ‘tourism – oriented developed nation’ and to grow tourism as a major industry in Japan.

## 6. Next steps

The below-mentioned new targets have been set. The new targets aim to achieve former goals set by government much earlier than the original plan, so as to accelerate high-quality tourism exchanges between residents and tourists.

| Item   | By 2020  | By 2030               |
|--|--|-----------------------|
| Foreign tourists   | 40 mil. people   | 60 mil. people        |
|  | (Former target for 2020: 20 mil.; for 2030: 30 mil.)                   |                       |
| Consumption by foreign tourists  | 8 tr. yen  | 15 tr. yen            |
|  | (Former target: 4 tr. yen in the first year that 20 mil. people visit) |                       |
| Guest nights spent by foreign tourists in outlying regions (other than the three major metropolitan areas, the national capital region, the Kinki region, and the Chukyo region) | 70 mil. guest nights   | 130 mil. guest nights |
| Repeat foreign tourists  | 24 mil. people   | 36 mil. people        |
| Consumption on travel by domestic Japanese tourists  | 21 tr. yen   | 22 tr. Yen            |

Based on the issues and measures identified at the Meeting of the Council for the Development of a Tourism Vision to Support the Future of Japan, the Tourism Vision proposes the following ‘three visions’ and ‘ten reforms’ under the recognition that ‘Tourism is a major pillar of Japan’s strategy for economic growth and regional revitalization.’

All levels of government, all ministries, and the public and private sectors will work together to make Japan ‘a country of advanced tourism’.

### Three visions

Vision 1: Maximizing the attractiveness of tourism resources towards making tourism the base of regional revitalization

Vision 2: Innovate tourism industry, boost its international competitiveness, develop it into Japan’s key industry

Vision 3: Creating a tourism environment where every visitor can travel comfortably without any stress

### Ten reforms

1. Allowing domestic and foreign tourists entry to attractive public facilities

2. Shifting the use of cultural properties from ‘an emphasis on preservation’ to ‘an emphasis on their appreciation’ and ‘active use’ by tourists
3. Upgrading the current ‘national parks’ into world-class ‘national parks’
4. Making ‘landscaping plans’ for major tourism sites towards achieving beautiful townscapes
5. Review old regulations, develop the tourism industry into one which respects productivity
6. Develop new markets, realize both long-term stays & expansion of consumer consumption
7. Regenerate & revitalize deadbeat hot-spring districts & local towns with future-oriented management
8. Greatly improving tourism’s hard and soft infrastructure so that tourists can enjoy the most pleasant accommodation environment in the world
9. Completing ‘regional revitalization corridors’ towards realizing comfortable travel to every corner of Japan
10. Reforming the system of ‘work days’ and ‘days off’ towards realizing a more vibrant society



# REPUBLIC OF KOREA

## 1. General overview

### Service sector of the Republic of Korea

Korea has been transitioning into a service-led economy, as the service sector's share of total GDP and employment has continued to grow. In 2015, the amount of value added of service industries was 846.4 trillion won, accounting for 59.7% of the total GDP which was approximately 1.4176 quadrillion won. The service sector expanded by 2.8% in 2015 led by the growth of wholesale and retail trade, finance and insurance industries. The real GDP growth rate of 2015 was 2.6%.

In particular, the service sector has played an instrumental role in creating jobs. More than 18.2 million people, accounting for 70.1% of the total number of employees, were employed in the service sector in 2015.

However, the productivity of Korea's service sector is not yet on an equal footing with that of more advanced economies. Relatively low productivity of Korea's service sector is restricting the competitiveness of the manufacturing sector and negatively impacting overall economic performance.

In order to boost the productivity of Korea's service sector, the Korean government has implemented more than 30 policy measures since 2008. They include comprehensive measures such as modernizing the domestic service sector and encouraging overseas service trade as well as sectoral measures with regard to contents/media/3D industries, leisure/tourism industries, etc.

These measures have helped the private sector to further embrace the necessity of service sector development and have also produced positive results in many service industries including tourism, healthcare, and education. For example, the number of international inbound tourists to Korea exceeded 13 million in 2015, up from 6.9 million people in 2008. The reform of Korea's visa system and expansion of tourism infrastructure have helped to achieve this number. As of 2015, more than 141 Korean medical institutions have established overseas branches, and over 280,000 foreign patients have come to Korea in 2015 for medical services. Furthermore, Korea allowed the establishment of foreign educational institutions in free economic zones and the Jeju Special Self-governing Province. Korea attracted more than 90,000 international students in 2015, which is a 7.6 % increase from 2014.

## 2. Context of structural reforms undertaken

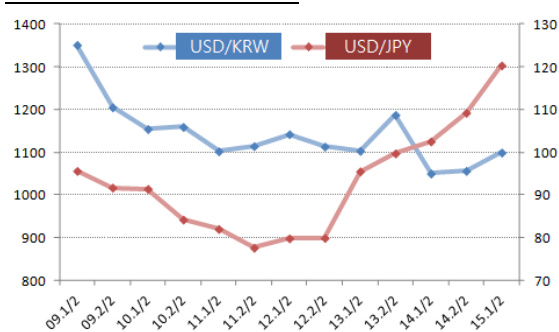
- a. *What specific services sector structural reforms are you addressing in this questionnaire?*

In this questionnaire, we are addressing structural reforms in Korea's tourism industry. Tourism is an important economic pillar in Korea, a benefit of which spills over to other economic sectors.

b. Why this reform was necessary

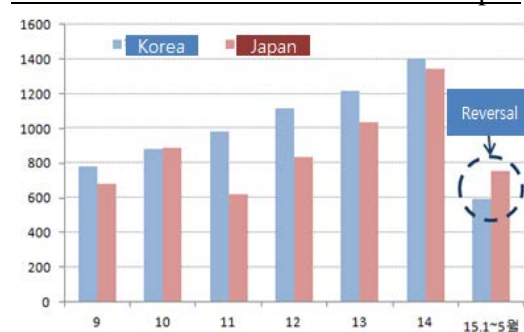
Intensified low-price competition among Korea's inbound travel agencies lowered the overall quality of Korea's tourism industry. There was also a need to develop tourists' programmes which could showcase Korean cultural heritage such as traditional homes and cuisine as well as Hallyu, including K-Pop and Korean dramas. In addition, the price competitiveness of Japan's tourism industry was strengthened thanks to the depreciation of the Japanese Yen. In 2015, the number of visitors to Japan exceeded the number of inbound travellers to Korea.

Trends in KRW and JPY



Source: Bank of Korea

Number of inbound visitors to Korea/Japan



Source: Korea Culture & Tourism Institute, Japan National Tourism Organization

Chinese visitors, the driving force behind the growth of Korea's tourism industry, have increasingly tended to choose Japan rather than Korea to visit since 2014.

Trends in the number of Chinese visitors to Korea/Japan

(Unit: 10,000 people)

|                           | 2011            | 2012           | 2013           | 2014           | 1~5            | 2015.1~5        |
|---------------------------|-----------------|----------------|----------------|----------------|----------------|-----------------|
| Chinese visitors to Korea | 222<br>(18.1%)  | 284<br>(27.9%) | 433<br>(52.5%) | 613<br>(41.6%) | 210<br>(56.7%) | 267<br>(27.3%)  |
| Chinese visitors to Japan | 104<br>(Δ26.2%) | 143<br>(37.5%) | 131<br>(Δ8.4%) | 241<br>(84.0%) | 83<br>(90.8%)  | 172<br>(105.7%) |

3. Reform measures

Q. What are the specific measures for structural reforms?

The Korean government has implemented many policy measures including regulatory reform, taxation support, financial support, human resources training, and fiscal support to expand the base of the service industries.

In particular, the government decided to issue more licenses for new downtown duty-free shops to expand tourism infrastructure. The government also announced to improve duty-free shop regulations as it will extend the license period from 5 years to 10 years and allow renewal of the license. This revision is designed to encourage

market competition as the 5 year single-term license discouraged investment and led to concerns over weakening competitiveness.

In addition, the Korean government promoted the construction of tourist accommodations by providing one trillion won in construction support and easing regulations on hotel REITs, including establishment, management and listing regulations.

#### **4. Impact of reform(s)**

The number of international travellers has increased following the reform measures. In spite of the outbreak of the Middle East Respiratory Syndrome (MERS) in 2015, the number of foreign visitors increased to 13.2 million people in 2015 from 12.2 million people in 2013. Total travel revenue stood at USD 15.2 billion in 2015, up from USD 14.1 billion in 2013.

#### **5. Challenges and lessons learned**

##### Lessons

A long-term strategic approach with the participation of stakeholders should be taken when pursuing structural reforms. Measures with a lower risk of conflicting interests should be pursued first. Measures with a higher risk of conflicting interests should be carried out on the basis of social consensus. Cooperation with interest groups, the National Assembly as well as various administrative agencies is also essential.

#### **6. Next steps**

The Korean government is preparing the ‘Strategy for Service Economy Development’ (to be announced later this year), which will lay the foundation for the long-term vision, policy goals and sub-strategies of overall service sector development.

##### Fostering promising service industries

Seven service industries - healthcare, education, tourism, finance, software, contents, and distribution – will be the targets of the intensive measures of regulatory reforms by the Korean government. These industries are more effective in creating jobs and stimulating economic growth. Recent technological developments will be utilized in creating new kinds of services in these industries and the overseas provision of new services will be encouraged. Regulatory reforms to tap into the creativity and investment schemes of the private sector will be actively pursued.

##### Convergence and globalization

The Korean government will encourage the convergence and integration of service industries in creating new kinds of services. Law and regulations hindering the convergence and integration of service industries will be abolished, and what’s called a “total support system” will be established to help the convergence of service industries. Incentives, policy funds, and overall help for domestic and overseas market access will be provided.

Service sector infrastructure

Laws and regulations for the entry and operation of service firms which hinder the development of service industries will be deregulated. Discriminatory measures for service industries in all areas including tax, financial and fiscal policies will be addressed. Public and private R&D in the service sector will be increased through incentive schemes. Education/vocational training for service sector employees will be strengthened in consideration of the overall supply/demand of human resources in the service sector.

# MALAYSIA

## 1. General overview

For Malaysia, to move towards a high income nation, the services sector will continue to be the main source of growth, output and employment. In 2014, the services sector contributed 55% to the GDP and provided 8 million jobs representing 61% of total employment. By 2020, the contribution of services sector is targeted to increase to 58%. Therefore, it is critical for Malaysia to accelerate the transformation of the sector from one of that is dependent on low cost labour to a sector that thrives on innovation and creates high paying job.

In view of this, the Government has opened up a number of important services sub-sectors to foreign participation in order to accelerate the growth of the services industry. Allowing foreigners to own businesses in Malaysia or in partnership with locals can help to upgrade the skills of Malaysians and also assist them to establish business links overseas.

In April 2009, the Government had liberalised the services sector to strengthen the Malaysian economy, face challenges of globalisation, attract more foreign investments and bring more professionals and technology as well as strengthen competitiveness of the sector. Recognising the growth potential in the services sector, the Government has decided to liberalise 27 services subsectors for foreign participation up to 100 percent.

These sub-sectors are in the areas of health and social services, tourism services, transport services, business services and computer and related services. The Government had further liberalised an additional 7 broad services sectors, consisting of 18 sub-sectors in 2012 to allow up to 100% foreign equity participation in phases. These sub-sectors are:

### Telecommunications

- Telecommunication services (network service providers and network facilities providers licences)
- Telecommunication Services (Application Service Providers licence)

### Healthcare

- Private hospital services
- Medical specialist services
- Dental specialist services

### Professional Services

- Accounting and taxation
- Architectural services
- Engineering services
- Legal services
- Quantity surveying services

### Environmental Services

- Incineration services

### **Distributive Trade Services**

- Departmental stores and specialty stores

### **Education Services**

- Private higher education with university status
- International schools
- Technical and vocational secondary education services
- Technical and vocational secondary education services for students with special needs
- Skills training centre

### **Courier Services**

In pursuing the target-to increase the contribution of services sector to GDP, Malaysia has given focus in ensuring that growth is real and inclusive targeting the most important element which is developing human capital. Malaysia must produce, attract and retain skilled talent who can be employed in high income services sub-sectors.

## **2. Context of structural reforms undertaken**

- a. What specific services sector structural reforms are you addressing in this questionnaire?

In this questionnaire, Malaysia is addressing structural reforms in the education sector.

- b. Why this reform was necessary?

Human capital lies at the core of innovation and a productive high income economy. No economy can succeed without a highly skilled talent base that is able to rapidly respond creatively to economic changes, and is centred on developing and utilising knowledge. To achieve the Malaysia's aspirations, it is imperative to develop its human talent. The talent base and workforce of high-income nations include a number of key characteristics, specifically around higher education qualifications to promote knowledge generation and innovation and high skill-levels in both technical and professional fields.

Apart from developing its human talent with the reform of the education services sector, the reform was necessary to develop education as a significant component of the services industry and increase contribution to GDP. In addition, Malaysia envisions internationalising education and developing it as an export industry.

## **3. Reform measures**

Educational reforms were introduced since mid-1990s to encourage the private sector to play a more dynamic and expanded role in higher education to meet excess demand and to produce sufficient skilled talents. It was apparent that self-sufficiency in education was critical to the nations' drive to achieve develop nation status and within this context that reforms in education were introduced. The liberalisation of the education sector has facilitated private sector participation in education and training services. During this time, local private universities and branch campuses of foreign universities and private colleges were established, with the latter conducting all

modules of foreign degree programme locally. Over the years, the number of private higher learning and training institutions has increased which some of the universities have become public listed companies and been recognised as international education providers.

Education has continuously become the utmost important in Malaysia's policy. Malaysia has placed education and training as one of the focus areas under the Third Industrial Master Plan (IMP3), 10<sup>th</sup> Malaysia Plan (10MP) and the recently launched 11<sup>th</sup> Malaysia Plan (11MP).

Under the Third Industrial Master Plan (2006 - 2020), the Government has placed education and training as one of the eight services sub-sectors that have been targeted for greater development, promotion and increased in exports. A major focus of development is the promotion of exports including positioning Malaysia to become a regional center for education. In developing and promoting the sector, areas of focus include undertaking progressive liberalisation of the sector.

Under the 10<sup>th</sup> Malaysia Plan (2011 – 2015), the Government's target was to increase the contribution of private education to GDP by 1.5% to two times to 2% in 2015 and attract 150,000 international students by 2015. Several initiatives have been adopted across all levels of education with specific focus on tertiary education to achieve this growth target and enhance Malaysia's position as a leading destination for education. It is still work in progress and continues under the 11<sup>th</sup> Malaysia Plan (11MP).

In 2012, foreign equity for international schools, technical and vocational schools (including for the special needs) and private universities is allowed up to 100 per cent, subject to approval from the Ministry of Education (MOE) and Ministry of Higher Education (MOHE).

#### **4. Impact of reform(s)**

- a. Quantitative and qualitative (including anecdotal) *information to demonstrate the impact the reform(s) had on your economy, including flow-on effects to other sectors/the wider economy, unexpected consequences (both positive and negative)*

In 2016, there are 144 international schools and 13 expatriates schools established in Malaysia. This demonstrates Malaysia's commitments to facilitate demand from expatriates community as well as Malaysians returning from abroad. Part of the reason for this success is the continued increase of local students enrolled in international schools in Malaysia. Since January 2016, the total of students studying in private international schools is 35,750.

On another note, there are 486 Private Higher Education Institute (PHEI) in Malaysia. The composition is as follows:

- i. 44 PHEI with university status;
- ii. 31 PHEI with college university status;
- iii. 402 PHEI are non-university status; and
- iv. 9 foreign universities branch campuses.

A total of 88, 665 number of foreign students studying in the PHEI.

In 2011, foreign investment in the Malaysia's education sector recorded RM 461.8 Million (USD 153.9 Million) as to compare to RM 6.3 Million (USD 2.1 Million) in 2009.

## **5. Challenges and lessons learned**

Malaysia has always put an emphasis on raising the quality of education through regulatory reforms. Malaysia has learned that maintaining quality education is the key to education liberalisation for the benefit of its people. A key initiative involves the implementation of Malaysia Quality Evaluation System (known as My Quest), which is an instrument to evaluate the current performance of private Universities/Colleges in Malaysia. The evaluation of private Universities/Colleges is aimed at driving improvements towards quality education through developmental approaches, ratings and self-assessments.

Another important tool is the Rating System for Higher Education Institutions in Malaysia (known as D-SETARA). D-SETARA measures the quality of teaching and learning at level six of the Malaysia Qualifications Framework (undergraduate level) in academic disciplines in universities and Colleges in Malaysia. It classifies its rating into six tiers ranging from 1 as weak to 6 for outstanding. Among the results, Taylor's University ranked at Tier 6; Universiti Teknologi MARA at Tier 5 for Hospitality and Tourism; and University Malaya achieving Tier 5 for medicine, dentistry and pharmacy.

To facilitate the entry of international students to study in Malaysia, Malaysia has streamline visa passes for foreign students. In 2011, the Malaysian government has introduced the Employment Pass II which enables high-performing foreign graduates who had completed their education and young professionals to pursue employment in the country. At present, there are 122,061 international students. The number is expected to grow to 200,000 students by 2020 in line with Malaysia's National Key Economic Area target.

With the interest of ensuring quality private education, Malaysia imposes a two-year Moratorium on applications for private higher education institutions beginning 1 February 2013 to 2015. This moratorium was later extended for another two years to 31 January 2017. Among key reasons for the moratorium is to rationalise quality of the programmes offered by the Private Universities.

However, to facilitate quality private education institutions to establish in Malaysia, Malaysia has introduced interim measures which include:

- Private Universities which are already in operations will be allowed to apply for an upgrading for their status to university/college; and
- university and applications from foreign universities to establish branch campuses will still be processed provided that these applications are from the top 100 universities.



# MEXICO

## 1. General overview

On March 24, 2014 President Enrique Peña Nieto, submitted before the Senate an Initiative decree to Reform the Federal Telecommunications and Broadcasting Federal Law, amending certain provisions in the telecommunications and broadcasting sectors.

This initiative was subject of discussions and debates within Congress, who approved it by a large majority, making various modifications to enrich the proposal, which was enacted on July 14, 2014.

Access to information and communications technologies (ICT's) has rapidly become a key element to increase growth and productivity, while serving as an essential element to strengthen democracy, access to culture, education, health, and overall the full exercise of human rights.

The telecommunications reform had as its guiding principles the welfare of consumers and the promotion of economic and social development. To achieve these goals, the reform prioritized achieving universal coverage of services and the elimination of extraordinary profit margins obtained by flaws in competition conditions (which used to result in expensive and low quality services).

Before this reform was enacted, the current administration performed a context diagnosis regarding the prevailing situation in the telecommunications and broadcasting sectors. The diagnosis concluded that the Mexican government had lost its steering capacity due to the following factors:

- i. An inadequate legal framework existing at that time;
- ii. The existence of deficiencies in the design of the institutions responsible for developing and implementing the regulatory framework;

- iii. Previous barriers to the entry for new competitors;
- iv. Inadequate coverage of services; and
- v. High prices and poor quality of telecommunication services.

Despite more than 20 years ago Mexico made the decision to promote competition by privatizing the state enterprises of telecommunications and broadcasting, Mexico still presented high levels of concentration before the reform. For this reason, Mexico's government, with the support of the main political forces, made the decision to promote competition in telecommunications and broadcasting.

## **2. Context of structural reforms undertaken**

- a. What specific services sector structural reforms are you addressing in this questionnaire?

- Telecommunications

- b. Why this reform was necessary?

The reform reaffirmed the importance of the telecommunications sector as a public service of general interest, and helped rebuild the rectory of the Mexican State to ensure the provision of services under adequate conditions of competition, coverage, quality and price.

The Telecommunications reform in Mexico focused on addressing the following challenges:

### **1. Promote effective competition**

- *Ex-ante* asymmetric measures to regulate preponderant/dominant market players.
- Openness up to 100% of foreign direct investment in the telecommunications sector.

### **2. Reinforcement of the institutional framework**

- Constitutional reform and General Law and Regulation in the matter.

- Creation of the Federal Institute of Telecommunications (IFT), an independent Regulatory Agency invested with a broad mandate (which includes the adoption of anti-trust measurements).
- Establishment of specialized courts for the resolution of telecommunications related disputes.
- Allowing the implementation of the IFT's regulations, regardless if they are challenged.

### **3. Strengthening of the telecommunications infrastructure and promoting penetration in Mexico**

- Creation of a national “Carrier of Carriers” mobile network (*Red Compartida*) in the 700 MHz band, which will become operational by 2018.
- Expansion of the optical fiber network of *Comisión Federal de Electricidad (Red Troncal)* for fixed broadband transport and other universal access projects.

### **4. Extend and recognize citizens' rights of access to telecommunication services**

- Access to broadband.
- Additional consumers' rights.

### **5. Reform measures**

The Mexican government enacted the Telecommunications Reform, whose main objectives were to ensure access to ICT's in order to achieve integration, and thus increase productivity and competitiveness in the country. To accomplish its objectives, the reform defined an innovative institutional framework to transform the telecommunications sector for the benefit of all Mexicans and established the implementation of a series of projects that frame an integral model of leaning towards universal access to telecommunications services. The initiative presented by the President and the decree passed by the Congress include this model as part of a careful design to ensure the fundamental right of access to ICT's, recognized in the Mexican

Constitution. According to this new institutional design, the deployment of these public policy projects is responsibility of the Federal Government through the Secretariat of Communications and Transportation. The most relevant projects that constitutes this model are:

### ***Red Compartida***

This is the most important project resulting from the reform. It establishes the mandate of constructing a network able to commercialize capacity and mobile services at wholesale pricing levels. Currently, the investment required for the construction of mobile networks is very high, therefore, their deployment in small, scattered locations and marginalized communities results unattractive for private capital. Consequently, the reform sets the mandatory creation of a shared network, which will use at least 90 MHz of the 700 MHz band; which consists of the spectrum that was successfully released thanks to the Transition to Digital Terrestrial Television (DTT) program.

### ***Red Troncal***

The reform also establishes the mandate of deploying a robust backbone telecommunications network that will use the already existing optical fiber network of the Federal Electricity Commission (CFE), with the aim of expanding it to reach currently underserved localities, while encouraging competition in those localities in which coverage is already provided. This strategy seeks to improve the telecommunications infrastructure, and make broadband services more affordable.

### ***Government properties***

The reform aims to generate a uniform policy for the deployment of infrastructure across the country. Moreover, this process seeks to identify the number of federal public places, pipelines, posts, and existing rights of way that may be made available to operators of telecommunications in order to expedite the deployment of their networks.

### ***DTT Program***

The transition to digital television (DTT) program carried out by the Mexican Government in 2015 which disappeared traditional analogue television signals, in order to cater digital terrestrial television, granted access to audio and video of higher quality and increased the number of transmitted channels, generating more availability of programming and content, as well as releasing spectrum to be used with other purposes by the government.

Through this program, the transition was achieved in an extremely short period of time and in just 1 year Mexico reduced the number households relying on analog television, from 14 million in 2014 to 4 million in 2015 (less than 4% of the population).

### **México Conectado**

The reform mandated the Federal Government to design a broadband program in public places that identifies the number of sites to be connected each year to achieve universal coverage. The “México Conectado” project responds to such mandate, by providing Internet access in schools, health centers, libraries, community centers, and other public spaces at local, state and federal levels.

## **6. Impact of reform(s)**

After three years since its enactment, there are several achievements:

1. Gross Domestic Product (GDP): During 2015, the GDP of the sector reported an annual growth rate of 9.7%. In the quarterly comparison, the fourth quarter of 2015 represented an increase of 21% over the same period of 2014. These figures place the telecommunications sector as the most dynamic of the national economy.
2. Foreign Direct Investment (FDI): In 2015, FDI in the telecommunications sector accounted for about 10% of the total FDI registered in the country, doubling its share in relation to 2013. Today, the telecommunications sector, constitutes the second sector that attracts more FDI into the country.
3. Private Investment: The total amount of private investment in fixed and mobile telecommunications during 2015 reached 65,800 million pesos, reflecting an increase of 34.8% over the numbers observed in 2014.

4. Internet Users: From 2014 to 2015, the number of Internet users increased from 44 to 57 per 100 inhabitants. The largest growth of Internet users occurred among young people, where more than 70% of the population from ages 6 to 17 uses Internet, while 76.5% of the population aged 18 to 34 years also makes use of this tool.
5. International recognition: In February 2016, the World Organization for Mobile Operators, awarded Mexico with the Government Leadership Award in recognition of the implementation of the reform of telecommunications. It is the most important award of its kind given by industry to national government.

The OECD acknowledged that Mexico's telecommunications regulation is less restrictive than the average of OECD countries.

Mexico climbed 10 positions in the Network Readiness Index, published by the WEF.

## **7. Challenges and lessons learned**

Several challenges were identified and addressed to build a robust legal framework. For example, the telecommunications and broadcasting sector diagnosis showed profound deficiencies in the design of institutions responsible for developing and implementing the regulatory framework, which resulted in the creation of the Federal Institute of Telecommunications (IFT); inadequate coverage of services, which was addressed by establishing a strong network to improve the infrastructure and make access more affordable.

## **8. Next steps**

*Are there any next steps in implementing this reform(s)? Is your economy planning to implement other services-related structural reform(s) in the near future?*

In terms of public policy projects that were set in the reform of telecommunications, the following steps will be to give continuity to the processes established for each project.

## NEW ZEALAND

### 1. General overview

Services form a vital component of New Zealand's economy, contributing around 70% of GDP and maintaining an average annual growth rate at 1.9% in real terms between 2008/09 and 2013/14. Service firms account for 70% of all registered New Zealand businesses, which implies that earnings and aggregate demand depends crucially on productivity in the services sector.

New Zealand is one of the most open countries to services trade, taking into account all modes of supply. Services exports reached NZ\$20 billion in 2015 and currently make up almost 30% of New Zealand's total export earnings. Since 2012, growth in services exports has also outstripped growth in goods exports. This reflects the important role that cost-effective, internationally competitive services play in supporting the competitiveness of manufacturing and agricultural production in New Zealand.

Travel, education, transport and business services are New Zealand's main services exports, but both the range of services exported and the markets they are exported to have diversified in recent years. Travel services (including tourism, travel for education purposes and air transport) are by far the most important, accounting for 60% of total value of exports of services in 2015. Other areas that have seen strong growth are financial services, computer and information services and audio-visual services. Exports of commercial services in particular have experienced rapid growth and have outpaced goods exports over the last 20 years.

By international standards, there are few discriminatory restrictions that impact foreign service suppliers' access to the New Zealand market. New Zealand continues to augment its open domestic services market by actively pursuing improved access for New Zealand services exporters in overseas markets, including through a free trade agreement (FTA) agenda and at the WTO. New Zealand is a participant in the Trade in Services Agreement negotiations, and has commitments in 90 of 155 sectors under General Agreement on Trade in Services.

### 2. Context of structural reforms undertaken

This report addresses structural reform in New Zealand's telecommunications sector.

The sector is governed by general competition regulation (the Commerce Act 1986) and the Telecommunications Act 2001 (the **Act**), with the stated purpose of ensuring the promotion of competition in telecommunications markets for the long-term benefit of end users.

New Zealand does not impose licensing requirements for entry into the telecommunications market and control over retail prices is minimal. The Commerce Commission, the agency charged with promoting competition and monitoring the market, does regulate some wholesale prices and conditions.

A review of the telecommunications sector in 2005/2006 identified key problems with the existing regime, including a lack of access for small players, a lack of robust enforcement provisions and low broadband penetration.

An amendment to the Act in 2006 saw Telecom New Zealand (**Telecom**), the incumbent wholesale/retail telecommunications provider, separated into three business units; Telecom Retail; Telecom Wholesale; and Chorus, which owns the copper-wire network. Telecom was also required to upgrade its network and unbundle the local loop, ending any remnants of monopoly that Telecom once had in the retail market.

The 2006 reforms met the Government's short term objectives of improving competition and incentivising investment. However, following these reforms the Government recognised that operational separation alone was insufficient to ensure investment in appropriate infrastructure to realise the services trade opportunities that the internet offers, and in 2011 Telecom underwent structural separation.

### 3. Reform measures

In 2009, the Government launched the Ultra Fast Broadband (**UFB**) Initiative. This programme aimed to roll out a fibre-to-the-premises broadband network to 75% of the population by 2020, giving priority to businesses, schools and health services. To ensure greater competition in the UFB rollout process, the Government stipulated that it would only invest in Local Fibre Companies that are not controlled by shareholders who also operate retail telecommunications business. This meant that the incumbent operator, Telecom, would need to commit to structural separation to be successful in bidding for a UFB contract.

In 2011, Telecom structurally separated by way of a demerger between its retail arm and its wholesale division (**Chorus**). Each became a separate listed company, thus removing the incentive and the ability to place access-seekers at a disadvantage by supplying wholesale services on less favourable terms and conditions (through both price and non-price factors) than they make available to their own retail arm.

Telecom, which changed its name to Spark New Zealand (**Spark**) in 2014, now owns fixed line retail and mobile networks, while Chorus owns the copper and fibre networks. Amendments were made to the Telecommunications Act 2001 as part of the Ultra Fast Broadband Initiative, which require all services provided using networks developed with Crown funding to enter into undertakings to provide wholesale services on a non-discriminatory basis. As the owner of the legacy copper access network, Chorus is also required to enter into undertakings for its copper access network.

Wholesale prices for fibre services on the UFB network were then set through commercial negotiation as part of the competitive process for contracting with UFB partners. The demerger enabled Chorus to successfully bid for about 70% of the Government subsidised roll-out of the UFB network. In addition to the participation of Chorus, three other local fibre companies were selected through a tender procedure.

#### Public consultation

In 2011, the Ministry of Economic Development undertook extensive consultation as part of the development of the Ultra Fast Broadband Initiative, and the regulatory changes required to achieve this. An Expression of Interest process sought views on the structure of the programme, and submissions to this were considered when determining final policy proposals. Based on the content of these submissions, cross-submissions on particular issues were also sought, and workshops were set up for further discussion. Public views were also



sought on the structural separation proposal, and at the Select Committee stage of amendments to the Act that facilitated the separation.

#### **4. Impact of reforms**

Annual monitoring reports by the Commerce Commission indicated that in the five years following the 2006 operational separation, an increase in competition resulted in increased investment, greater consumer choice, lower prices and better quality across the spectrum of telecommunications services in New Zealand. In the OECD broadband penetration rankings, New Zealand climbed from 22nd to 17th over the same period.

Structural separation in 2011 facilitated the UFB rollout, allowing rapid market expansion and increased investment in the sector. Broadband connections of all types continue to grow as a result. As at March 2016, telecommunications sector investment increased in 2014/15 to reach \$1.69 billion, equal to the previous high set in 2008/09, and over 921,600 end users were able to connect to the fibre network. By 2020, this is expected to extend to 1.45 million end users, while access to data should be ten times faster than with current technology.

Structural reform also supported Government's rollout of the Rural Broadband Initiative which is on track to deliver improved broadband access to 86% of rural communities by June 2016. This initiative is also benefitting from the introduction of new 4G technologies. Such technologies have resulted in faster fixed mobile broadband speeds and growing uptake of mobile broadband.

Fixed-line broadband connections have continued to grow steadily in New Zealand and reached 1.45 million in June 2015 (up from 0.68 million in June 2007). As at 30 June 2015, New Zealand had 32.6 fixed-line broadband subscriptions per 100 of population, compared with the OECD average of 28.8. This gave New Zealand a continued ranking of 14 out of 34 OECD countries, ahead of the United States at 16 and Australia at 24.

Over time, the retail share held by Telecom (now Spark) has diminished, although competitors are still heavily reliant on Chorus' copper and fibre networks for fixed line access to customers. Competition has also been enhanced significantly by new technologies that enable content and applications to be delivered online.

#### **5. Challenges and lessons learned**

Reform outcomes have been positive in terms of greater competition, increased investment and the availability of high quality infrastructure. However, considerable industry resources have been invested in lengthy regulatory pricing proceedings in recent years, creating uncertainty. The challenge is to preserve the benefits of reform, but also provide a predictable and stable regulatory environment.

Inconsistencies between access rights for installation for old and new infrastructure also pose a challenge. Local Fibre Companies do not have ongoing rights of access to maintain fibre infrastructure once installed on private property. This is in contrast to the situation with legacy copper telecommunications infrastructure for which they do have enduring rights of access. As a result, updates to legislation are being considered to extend the same rights of access they have with copper infrastructure to fibre.

In general, progressing reform of this nature often requires several incremental steps, particularly given the rapid growth of the competitiveness of new technologies.

## **6. Next steps**

It is considered that a change from a vertically integrated incumbent with a high degree of market power to two structurally separate companies requires a re-assessment of whether broader regulatory settings in the telecommunications sector appropriately reflect industry structure. Therefore, the regulatory framework for telecommunications, including the Telecommunications Act 2001, is currently under review to address the remaining challenges facing the communications regulatory system. Technology and customer expectations are changing rapidly, and the system must be ‘future-proofed’ and remain up to date. It is also important to identify remaining barriers to Chorus stopping copper services in fibre areas.

The review will focus on the optimal framework for regulation after the completion of the fibre network in 2020, and will consider how best to set access prices under the framework. It will also look to build competition in mobile services in order to support further growth.

## THE PHILIPPINES

### 1. General overview<sup>1</sup>

The services sector is an important source of output and employment in the Philippines. In 2015, services contributed 57 percent of total gross value added and 55 percent of total employment. Wholesale and retail trade constituted the bulk of the services sector gross value added, followed by real estate, renting and business activities; other services; transport, storage and communication; and financial intermediation services.

The country is a net exporter of services due to a strong Information Technology-Business Process Management (IT-BPM) sector, especially in legal, accounting, tax consultancy, bookkeeping and auditing, business and management consultancy, engineering services, and computer and information services. Services exports generated US\$28.2 billion in 2015, 10.5 percent higher compared to 2014 while imports of services amounted to US\$23.9 billion. Other business services which include IT-BPM accounted for 59.1 percent of total services exports.

The dominance of the services sector highlights the importance of ensuring that it is competitive and efficient in order to maximize its contribution to the country's economic growth and development. An efficient services sector also has indirect consequences for economic growth through the efficiency of other sectors in the economy such as manufacturing and agriculture which utilize services as inputs. Thus, the country embarked on various liberalization and other reforms in the services sector.

The reforms in the services sector came in the late 80s with the opening up of power generation, followed by the liberalization of the telecommunications and shipping industry in the early 90s and deregulation of the air transport industry, and the foreign bank liberalization allowing the operation of ten (10) foreign banks, in the mid-90s. The water sector was likewise privatized through competitive bidding and the downstream oil industry deregulated in the late 1990s. Later in 2000s, the Retail Trade Liberalization Law and the Electric Power Industry Reform Act (EPIRA) were enacted and implemented. As part of the continuing thrust to ensure energy security, the Renewable Energy Act was passed in 2008 which paved the way to optimize the potential of the country's renewable energy and generate investments.

These reforms were crucial in introducing competition in key sectors such as telecommunications, power, shipping and ports, as well as in disciplining incumbent monopolies, the absence of clear rules and appropriate regulatory framework, as well as efficient regulators have limited the impact of reforms on competition. The country's liberalization experience highlighted the need for unilateral reform initiatives in promoting domestic policies.

Recently, the laws on competition (Republic Act (RA) 10667), foreign co-loading (RA 10668) and full entry of foreign banks (RA 10641) were passed.

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<sup>1</sup> Culled from PIDS Paper Discussion No. 2013-02 "The ASEAN Economic Community and the Philippines: Implementation, Outcomes, Impacts and Ways Forward (Integrative Report) –Melanie S. Milo

## 2. Context of structural reforms undertaken

- a. *What specific services sector structural reforms are you addressing in this questionnaire? Why this reform was necessary?*

### **Banking**

Further opening of the banking sector to foreign banks is seen to build a stronger banking industry. With more players in the market, the banking industry is envisioned to become more competitive and beneficial to consumer welfare given the increased banking products, improved services and foreign technology/practices which these new players may bring. Greater participation in the banking and financial sector is expected to augment the financial resources to which the Philippine economy may have access, thus supporting various infrastructure projects and initiatives of the government. The reforms are also in preparation for regional integration.

### **Power**

Rising per capita electricity consumption tend to be positively correlated with an economy's growth and other development indicators. But in order for an economy to demonstrate this, its power sector must be capable of providing electricity as efficiently and accessibly as possible, which necessitates the undertaking of power sector reforms.

Power sector reform and restructuring aimed to address the inadequacies of the electricity supply industry and to foster competitive markets that will help ensure efficiency and cost effectiveness from generation to the distribution and retail of electricity. In 2001, the EPIRA was enacted with the intention of ensuring affordable and reliable electricity to all power consumers in the Philippines. The law sought to achieve this through the introduction of sweeping reforms including the restructuring and deregulation of the entire power industry and the privatization of most state-owned power generation and transmission assets. From a vertically integrated, extensively publicly-owned utility business, the industry was envisioned to be broken down into its main components with a deregulated and effectively privatized generation and supply sectors. These reforms were intended to introduce more competition and choices for consumers while levelling the playing field in the power industry in order to encourage greater private sector participation. However, since EPIRA's introduction in 2001, power rates in the Philippines continue to be among the highest in Asia and remain a source of concern for industries in the country struggling to remain competitive with their regional counterparts<sup>2</sup>.

## 3. Reform measures

*What was the specific measure(s) undertaken? How were reforms/measures sequenced?*

### **Banking**

The banking sector has been opened up to competition, both local and overseas, largely through a series of government-initiated liberalization measures. Twenty years after RA 7721, the government further liberalized the entry of foreign banks with the issuance of RA 10641 in 2014. Under the new law, foreign banks may now own up to 100% of an existing bank's voting stock. Foreign banks are given equal treatment to that accorded domestic banks, as they "shall perform the same functions, enjoy the

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<sup>2</sup>Tanchuco (2008), Cost Structure and Implications for Power Sector Reforms

same privileges, and be subject to the same limitations imposed upon a Philippine bank of the same category.” Similarly, under the new law, domestic banks under the new law also enjoy “any right, privilege or incentive granted to foreign banks or their subsidiaries or affiliates.” As a result of the changes in the policy regime for the sector and in the overall economic environment, commercial banks have been undertaking different organizational and business adjustments to make their operations viable, efficient and profitable.

The banking sector also proactively pursued reforms on risk management practices, capital build-up, corporate governance, financial inclusion, financial literacy and consumer protection. The Bangko Sentral ng Pilipinas (BSP) implemented a comprehensive risk-based approach that is aligned with international best practices. This includes the Basel Committee's standards as articulated in the updated Core Principles for Effective Bank Supervision. Bank supervision is focused on assuring the public of the safety and soundness of individual banks. Periodic on-site examination and regular off-site supervision of banks are being implemented.

The reforms were necessary as structural shifts in the global economy such as the gradual recovery and growth slowdown in many emerging market economies posed near term risks of increased financial market volatility and lower growth output to the domestic economy. Changing global remittance policies and de-risking may also have implication in the growth of banks' balance sheets and overall profitability. The increasing sophistication of global financial services coupled with increasing interconnectedness and cross-border exposures further redefines the traditional risks assumed by banking institutions which could lead to systemic imbalances that may affect the overall performance and health of the banking system.

Given these rapid and ongoing changes, the reform initiatives undertaken by the BSP and other financial regulators were meant to align the needs of a growing economy with a sound and responsive financial system. As markets have become more attractive through financial stability, markets are also targeted destinations for capital flows. On this basis, the BSP recognized the urgency to maintain a strong monetary and macro-prudential framework to attain its objectives.

### ***Power***

Relative to power, EPIRA restructured the industry and introduced policy and institutional reforms. Restructuring broke up National Power Corporation, the state-owned power generating company, into its constituent generation and transmission components and privatized these assets. It also established a wholesale power market; and introduced retail competition through a policy of open access to the distribution networks. The policy intent of unbundling the power sector was to ensure appropriate investment and efficient operation through increased competition. Due to delayed implementation of open access, power sector reforms have, however, not yet translated in real declines in electricity prices

To ensure affordable and competitive electricity prices, transparency was fostered through the unbundling of rates to reflect the different charges from the generation up

to delivery of electricity and other charges <sup>3</sup> such as universal charge. The Energy Regulatory Commission, an independent, quasi, judicial body, established under the law, continued to regulate transmission and distribution. The Department of Energy monitors and plans for the development needs of the country.

#### **4. Impact of reform(s)**

- a. Quantitative and qualitative (including anecdotal) *information to demonstrate the impact of the reform(s) had on your economy, including flow-on effects to other sectors/the wider economy, unexpected consequences (both positive and negative)*

As of end December 2015, there were 23 foreign banks which were authorized to operate in the Philippines. Four (4) of these banks started operations as new foreign bank branches in the Philippines with full banking authority in 2015 pursuant to RA 10641. These are Sumitomo Mitsui Banking Corporation of Japan, Shinhan Bank Co. Ltd. and Industrial Bank of Korea, and Cathay United Bank Co. Ltd of Chinese Taipei. <sup>4</sup>The number is seen to further increase due to the potential entry of qualified ASEAN banks due to the ASEAN Banking Integration Framework.

Through the reform (post-EPIRA), power shortages were managed and did not reach nationwide crisis levels such that in the 1990s, although power supply reliability is still an ongoing concern. Production efficiency gains were also achieved through the reduction of system losses.<sup>5</sup> However, electricity prices in the Philippines remain high.

#### **5. Challenges and lessons learned**

The reform of the power sector has been in the government's priority agenda since the early 1990s, but the law was passed only in 2001. The delays in passing the legislation reflected the difficulties of getting legislative approval for a complex reform measure. Implementation of the reform agenda has been slower than expected, which observers noted to be due to among others, excessive politics, regulatory bottlenecks and poor institutional coordination among concerned government agencies.<sup>6</sup> The establishment and implementation of an effective regulatory regime in a market driven setting also proved to be difficult. Addressing these issues, as well as good governance and sound management will be important in achieving the goal of providing reliable supply of electricity that is affordable and accessible to those who are willing to pay for the service.

The early enactment of RA 10641 may be attributed to the interest shown by the local banking industry and the full support of the BSP, which recognized the benefits of further opening up the banking sector to foreign competition.

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<sup>3</sup> Universal charge includes collection for missionary electrification, environmental fund, removal of cross subsidies, and for stranded debts and contract costs of NPC as well as for stranded contract costs of private distribution utilities.

<sup>4</sup> Source [www.bsp.gov.ph/downloads/Publications/2015/StatRep\\_2Sem2b.pdf](http://www.bsp.gov.ph/downloads/Publications/2015/StatRep_2Sem2b.pdf)

<sup>5</sup> Source: Navaro, Adoracion M., et. al, "Post-EPIRA Impacts of Electric Power Industry Competition Policies," Discussion Paper Series No. 2016-15, May 2016, Philippine Institute for Development Studies.

<sup>6</sup> Cham, Ma. Rowena, M., "The Philippine Power Sector: Issues and Solutions; The Philippine Review of Economics, Vol. XLIV, 1 June 2007, pp.33-63, Asian Development Bank.

## 6. Next steps

The incoming Philippine Congress is expected to file anew proposed reforms in the EPIRA. A number of bills were introduced in the previous Philippine Congress seeking to introduce amendments to the law to address perceived weaknesses and to clarify certain ambiguous provisions. One bill for instance, sought to address cross ownership, market power abuse and anti-competitive behaviour by prohibiting generation companies to hold interest and/ or undertake the business of distributing electricity and the distribution companies to directly or indirectly venture to energy generation.<sup>7</sup> But some quarters were of the view that completely restricting cross-ownership between generators and distributors will pose a barrier to investments and make privatization difficult. Other proposed amendments include tightening of the rules on rate setting, hastening the implementation of open access and retail competition, and detailing the rights of electricity consumers, among others.<sup>8</sup>

Among the eight-point economic agenda of the incoming administration is to ensure the attractiveness of the Philippines to foreign direct investments by easing economic restrictions and by enhancing competitiveness of doing business in the Philippines. In light of the general policy of openness, the review and update of the Foreign Investments Act of 1991, as amended, particularly the specific laws cited in the Foreign Investment Negative List should be pursued. The conduct of a comprehensive mapping and audit of laws and regulatory measures on services could be a first step to serve as a guide to identifying priorities for reforms.

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<sup>7</sup> Senate Bill 2059 filed by Senator Joseph Victor Ejercito in the 16th Congress.

<sup>8</sup> Policy Brief 08-03, Senate Economic Planning Office, June 2008.

## THE RUSSIAN FEDERATION

### 1. General overview

After the period of implementation of market reforms in Russia the service sector had achieved a qualitatively new level of development. Nowadays Russian economy disposes well-diversified service sector. Largest service sectors in Russia are commerce, education, transportation, finance, credit, insurance, and communication. Rapid development also show such sectors as tourism, personal services, cleaning, medicine, repair and construction services; services associated with recreational and entertainment activities.

Taking into account the importance of structure reforms for economic development, Russia also takes necessary measures aimed at developing and improving public services through the promotion of e-government.

### 2. Context of structural reforms undertaken

- a. What specific services sector structural reforms are you addressing in this questionnaire?

Public services provided via electronic government (e-government)

- b. Why this reform was necessary?

The purpose to develop of e-government was to simplify and optimize the process of providing public services to citizens and businesses. E-government reduces the time to obtain necessary documents or information and increase the quality of services.

### 3. Reform measures

The Presidential Decree number 601 of 2012 "On the main directions of improving the system of the public administration" had included the task of development of public services in electronic form.

Further development of the public services in electronic form was ensured by the following main legislative acts approved by the Government of the Russian Federation:

- State Program "Information Society" for 2011 - 2020 years.
- Federal Law from February 9, 2009, N 8-FZ, that introduced provisions on access to information about activities of state authorities and local governments.
- Resolution N 583 from July 10, 2013, , "On ensuring access to public information about the activities of state bodies and local government in the information and telecommunication network "Internet" in the form of open data".
- The Concept of openness of the federal bodies of executive power (the Decree N 93-p, 2014). It is based on the principles of openness and transparency in governance and accountability to civil society.



The Government Commission for the Coordination of “open government” coordinates interactions of the federal bodies of executive power with representatives of civil society on the formation of the "Open Government". This Commission is chaired by the head of the Russian Government Dmitry Medvedev.

Minister M. Abizov was appointed responsible for organizing the work of the Government Commission on coordination of "Open Government".

The federal bodies of executive power of the Russian Federation published open data, both on they own and third-party sites. Some Russian regions also publish public data on specific sites.

#### **4. Impact of reform(s)**

- a. Quantitative and qualitative (including anecdotal) *information to demonstrate the impact the reform(s) had on your economy, including flow-on effects to other sectors/the wider economy, unexpected consequences (both positive and negative)*

The single portal of public services (hereinafter - EPGU) (gosuslugi.ru) is visited monthly by about 5 millions users.

Only in 2015, almost 10 millions users registered in the portal. Currently in the EPGU registered more than 28 millions citizens.

According to the ranking of the United Nations on e-government development, in 2014 Russia took 27<sup>th</sup> place, going up 32 points since 2010.

In Russia it was implemented all stages of involvement of citizens in the electronic interaction with the government. Information technologies are used for conveying information to the public, taking initiatives, and to consult with citizens for joint decision-making.

Official website of public procurement and tendering [torgi.gov.ru](http://torgi.gov.ru) informs citizens on tenders opened by official bodies and companies with state participation.

Draft legal acts are placed on a separate site - <http://regulation.gov.ru>. There, citizens can participate in the public discussion on these acts.

Citizens registered in e-government, may file a petition. To do this, they can use a separate site - [roi.ru](http://roi.ru). Those initiatives that have collected a certain number of votes pass for further consideration of the authorities.

Currently, the work on integration of e-government and judicial system of the Russian Federation is also under way.

E-government in Russia is based on several principles. They are 1) multi-channel system of interagency electronic interaction (hereinafter - SMEV), 2) single window and 3) single entry point.

To access the e-government it is necessary to register in a single system of identification and authentication. This system is so popular that every three seconds a new user is registered in it. Users can register in the system from home, or from

multiple points placed across the country. Now the number of these points is above 10 thousand.

The SMEV ensures the safety of personal data. It uses electronic signatures. It is stable and has capacity to handle a huge amount of requests.

- b. What effect has this reform(s) had on global value chains?(if relevant/possible; response can be anecdotal if necessary)

Using open data of e-government, interested entrepreneurs can create applications for gadgets. For example, in many regions it is popular to create applications that allow observing traffic of public transport. Russian search engine Yandex also uses open data of e-government in its services.

Currently, the work on preparing the release of e-passport is under way. E-passport will be used in many applications. For example, citizens can use it for accessing the public services. The main difference of new type of passport is that it allows the usage of electronic signature. In turn, it will make available legal actions between citizens in electronic form.

In addition, further development of e-government services will simplify interactions of citizens and businesses. Considering a loan application from individuals, a bank can use e-government data to assess the creditworthiness of citizens.

## 5. Challenges and lessons learned

*What were the challenges to introducing and implementing the reform(s)? In hindsight, what would you do differently (e.g. in terms of sequencing reforms, coordination between institutions, public consultations)?*

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## 6. Next steps

By 2020 Russia aims to enter the top-10 leading countries in the index of development of information technologies.

By 2018, 70 percent of Russian citizens who use public services, should give priority to electronic form for their preparation. The level of satisfaction with the quality should be no less than 90 percent.

To develop e-government and improve the quality of public and municipal services provided in electronic form the following actions are to be done:

1. Introduction of the registry model of providing public and municipal services. The main principal of this model is that a result of a requested service (information, certificate, reference, etc.) is to be saved as the registry entry in the basic state information resource without issuing the result of service on paper. At the same time a citizen at any time can get a statement from the information resource.

2. Minimization of the number of obligatory personal documents that may be required from an applicant during the period of service rendering, as well as reduction

of the time that is necessary to get a response on inter-agency electronic request from 5 days up to a few seconds.

3. Introduction of regulation for archival storing of documents in electronic form, including the procedure for storing documents, signed by a qualified electronic signature, and authentication of documents with expired certificate of electronic signature key.

4. Removing restrictions from sectoral laws on the use of documents in electronic form outside the public sector, as many of documents are used in transactions and confirmations of different types in civil legal relations.

5. Bringing to a single standard of the main regional (municipal) services through their typification and shaping in electronic form in the EPGU. It will lead to a significant reduction of the regional (municipal) budget costs by using common forms without duplication in regional portals.

6. Insuring proper informing citizens about their rights in the field of public services (transition to a proactive model).

7. Developing new e-services regarding different life situations (eg, loss of documents, birth of a child).

8. Regulatory consolidation of the information specified in the Federal Register of public and municipal services and displayed in the EPGU as the only true, and establishing personal responsibility of public servants for relevance of this information.

9. Conducting service quality monitoring on ongoing basis in all priority services, including those once that are listed in the Decree of the Government of the Russian Federation of number 2516-p from 12.25.2013.

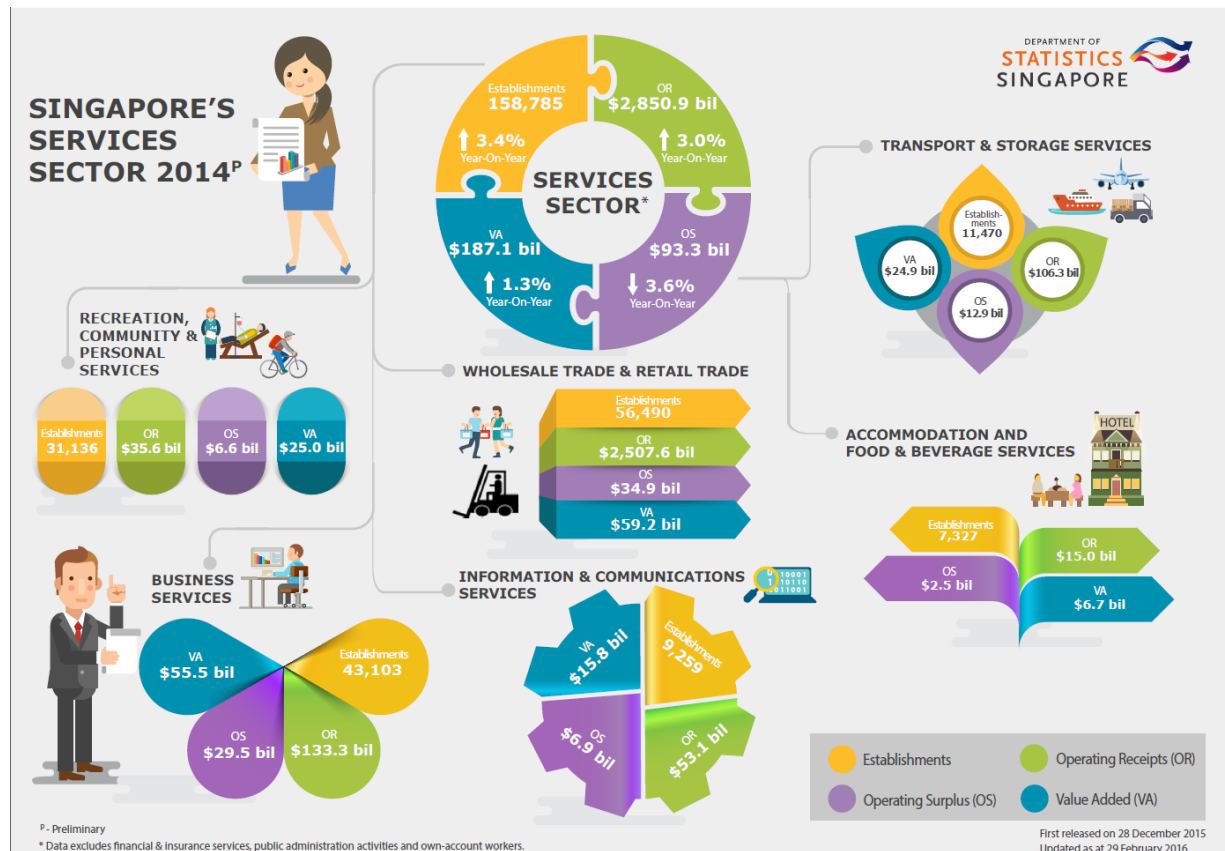
10. Implementation of the automatic distribution of data updates of members of interagency cooperation to ensure the relevance of the information contained in information systems.

11. Conducting specialized distance learning courses for the staff of government bodies and local authorities, as well as activities designated for popularization of e-services.

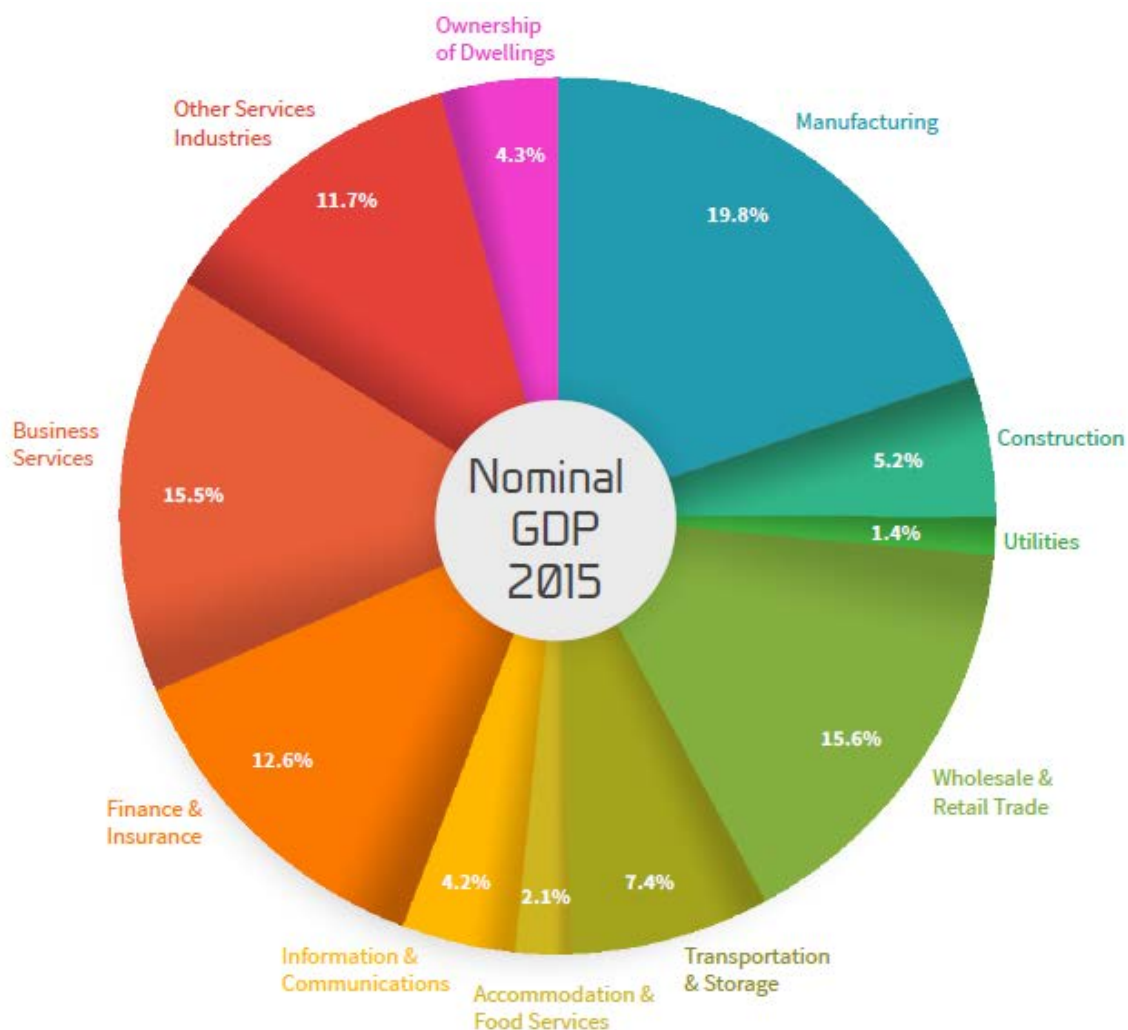
# SINGAPORE

## 1. General overview

An overview of Singapore's services sector is captured in the info-graphics below (Source: Department of Statistics, Singapore). Some reforms that have impacted Singapore's services sector include deregulation in the electricity sector. These reforms were implemented against the backdrop of a changing economic context. Singapore's growing energy demands and requirements for investment in infrastructure, for instance, was the impetus for reform in the electricity sector.







## 2. Context of structural reforms undertaken

- a. What specific services sector structural reforms are you addressing in this questionnaire?
- b. Why this reform was necessary

Underpinning Singapore's growth into a modern city-state and quest to remain competitive is an efficient and modern electricity system. With Singapore's growing energy demands and requirements for investment in infrastructure, deregulation was seen as a way to inject efficiency into system through keener competition using price signals to guide production and consumption decisions, spur innovation and widen consumer choice. The Government had a role in structuring the industry, regulating it and making strategic investments beyond the capabilities of the private sector. It was left to market forces through competition and the pursuit of profit by the operators, to raise service standards, promote innovation, improve efficiency and consumer benefits.

## 3. Reform measures

*What was the specific measure(s) undertaken? Were public consultations/other forms of public participation and regulatory impact analyses used? How were reforms/measures sequenced?*

In the past, Singapore had a vertically integrated electricity and gas supply industry which was regulated by the Public Utilities Board (PUB), a government statutory board.

Deregulation started in 1995 when the electricity and gas functions of the PUB were corporatized to form Singapore Power (SP). PUB was restructured to continue to supply water, and take on the new role as the regulator of the electricity and gas industries. The intention was to gradually introduce competition into the sector so that market forces, rather than central planning, drive investment, production and pricing decisions. The Singapore Electricity Pool commenced operations in 1998 for day-ahead trading of electricity in a competitive environment. This was a stepping stone to the next stage of reform.

In September 1999, the Government carried out a comprehensive review of the electricity industry. Following the review, the Government decided in March 2000 to continue with further deregulation of the sector. It opened up generation and retail markets to commercial players, split off the power grid into a separate company, introduced a wholesale electricity market with spot bidding every 30 minutes, and market clearing and settlement. The Energy Market Company (EMC) was set up to operate and administer market clearing and settlement.

On 1 April 2001, PUB was restructured into a water authority under the Ministry of the Environment. The Energy Market Authority (EMA) was established to regulate the electricity and gas industries and, in its capacity as the Power System Operator, for ensuring the secure operation of the power system. Concurrently, the Government also decided to restructure the gas industry and put in place a competitive market framework to mirror that of the electricity sector.

#### **4. Impact of reform(s)**

- a. Quantitative and qualitative (including anecdotal) *information to demonstrate the impact the reform(s) had on your economy, including flow-on effects to other sectors/the wider economy, unexpected consequences (both positive and negative)*
- b. What effect has this reform(s) had on global value chains? *(if relevant/possible; response can be anecdotal if necessary)*

Today, Singapore's electricity grid continues to be one of the most reliable in the world with an average interruption time of less than 1 minute per customer per year. Since January 2008, grid charges have fallen from 5.35cts/kWh to 5.30cts/kWh (a 1% reduction). The fees for providing billing and meter reading services have also decreased from 0.28ct/kWh to 0.17ct/kWh (a 39% reduction). This is a good example of how private operators, working in competitive markets, can outperform state-owned, nationalised industries. Without deregulation, the tendency could be to just pass on the extra costs to consumers and firms, who would have to bear higher electricity bills.

Since market deregulation, Singapore has been able to attract new entrants like Keppel and Pacific Light to set up new plants. Competition has also encouraged incumbent power generation companies to adopt newer and more efficient

technology. The move towards the greater use of natural gas for power generation occurred in the early 2000s during the “Dash for Gas” where the generation companies capitalised on opportunities to replace their less efficient fuel oil steam plants with more efficient combined cycle gas turbine (CCGT). This benefitted Singapore as the switch from fuel oil to natural gas lowered the cost of producing electricity, given the higher efficiency level of the gas-fired plants. It also significantly reduced Singapore’s overall carbon footprint.

## **5. Challenges and lessons learned**

Firstly, there is a need to tackle the issue of market power in the electricity generation sector. Singapore has three large incumbent power generation companies which can exercise market power and raise prices in the wholesale electricity market. EMA introduced Vesting Contracts in 2004, under which power generation companies are required to sell specified quantities of electricity at a specified price. This removes the power generation companies’ incentive to exercise their market power by withholding their generation capacity to push up prices in the wholesale electricity market. EMA’s long term goal is to remove Vesting Contracts following the dilution of market power in the electricity generation sector.

Secondly, there is a need to provide investors with regulatory certainty. In the case of the electricity sector, power generation investments require high investment outlay and significant lead time to bring new capacity on stream; coupled with a long pay-back period. To address this, EMA provides information about the longer term outlook of the sector to help investors to make informed decisions. It also ensures that Singapore maintains a clear and transparent regulatory regime, and is consistent in its regulatory decisions so that investors are confident of the rules they will operate under.

Thirdly, setting the optimal price for monopoly providers is another key challenge. EMA regulates the SP companies and the EMC to ensure that their fees and charges are reasonable, whilst keeping reliability standards high and incentivising the companies to reduce their costs through efficiency and productivity improvements. EMA also oversees transmission and system planning to ensure that Singapore’s current and future energy needs are met. This ensures that regulated firms do not gold plate and overinvest, whilst balancing against having sufficient redundancy in the system to ensure a secure and reliable energy supply.

Lastly, there is a need for a consultative approach during the deregulation process, which would increase transparency and trust between the regulator and stakeholders. The close tripartite relationship between the Government, employers and unions was crucial in working out harmonious settlements and garnering stakeholder buy-in during the period of structural change.

## **6. Next steps**

Singapore has progressively opened up the retail electricity market since 2001 to give consumers the option to source and buy electricity at competitive rates from electricity retailers of their choice. They serve as alternatives to the regulated tariff. The introduction of competition has given consumers more options to manage their energy usage and costs, gain access to new products and services, help drive better service standards and improve efficiency.



Today, around 80% of electricity demand (or 89,500 accounts) have this flexibility and choice. EMA is working with industry stakeholders to implement the final phase of retail electricity market liberalisation, known as Full Retail Competition, to take place in the second half of 2018. This will enable the remaining 1.3 million consumers, which are mainly households, to have the same flexibility and choice in their electricity purchase. Those who prefer to remain with SP Services to buy electricity at the regulated tariff will still be able to do so.

# CHINESE TAIPEI

## 1. General overview

The services sector plays a crucial role in the economic development of Chinese Taipei. It is not only the biggest contributor to the GDP of Chinese Taipei, but also creates substantial employment opportunities. In 2015, the output of the services sector reached USD 326.3 billion, accounting for 62.8% of the GDP of Chinese Taipei; and the sector provides 6.6 million jobs, accounting for 59% of total employment. The services export of Chinese Taipei continued expanding over the years and reached USD 56.8 billion in 2015, ranked 23rd in the world.

The overall economic context for implementing reforms in the financial services sector could be depicted by the following:

### (1) Profitability of financial industries

The net income before tax of overall financial industries in 2015 reached NTD 561.4 billion dollars, a NTD 18.6 billion gain compared to in 2014, up by 3.4%.

### (2) Improvement of the assets quality of domestic banks and good intermediary function

(a) As of December, 2015, the average NPL ratio of domestic banks had fallen significantly to 0.23% compared to 11.76% as of April, 2002.

(b) The coverage ratio of allowances for NPLs had increased to 555.43% compared to 14.29% as of April, 2002.

(c) As of the end of 2015, loans by financial institutions amounted NTD 27.1 trillion, an increase of NTD 2.17 trillion as compared to the end of 2013, support the development of other industries overall.

(d) The loans extended to SMEs by domestic banks, as of the end of 2015, amounted to NTD 5,452 billion, an increase of NTD 691 billion as compared to the end of 2013.

### (3) Development of the capital markets

There were 58 Initial Public Offering companies in 2015. As of the end of 2015, 1,586 companies were listed on the Taiwan Stock Exchange (TWSE) or and the Taipei Exchange (TPEX), with the total market capitalization of listed companies reaching NTD 27.1 trillion. Through the issuance of common stock for cash and corporate bonds, enterprises can obtain NTD 500 billion capital annually for facilitating their development.

### (4) Development of insurance industry

In 2015, the total premium income of our insurance industry was NTD 3,062.8 billion (life NTD 2,926.7 billion/non-life NTD 136.1 billion), an increase of NTD 159.5 billion or 5.5% over the previous year. Life and non-life insurance accounted for 95.56% and 4.44% of total premium income respectively.

## 2. Context of structural reforms undertaken

(1) In recent years, the Asian region has experienced rapid economic growth and will continue to be the epicentre of global economic growth. According to the Asian Development Bank, the Asian region accounted for about 36% of global GDP in 2012, which is expected to grow significantly to 50% by 2050. With the great growth potential of the Asian region and the excellent financial services of Chinese Taipei, we aim to further expand our presence in the Asian

region so as to tap the vast business potentials and facilitate the economic development of the region.

- (2) The reform and sound development of the financial services industry is helpful for enhancing international competitiveness, upgrading productivity, and promoting investment. In Chinese Taipei, there are many innovative MSMEs and start-ups, which are small in size and in terms of market capitalization and oftentimes lacking capital. It is thus essential to support them in the early stages of development so that they can prosper with their creativity and innovation. In addition, faced with the trend of ageing population and the associated economic safety issues for the elderly, Chinese Taipei actively encourages insurers to develop protection-type insurance, annuity insurance, and long-term care insurance products to fulfill the needs of the elderly. In so doing, the social safety net can be strengthened and the fiscal burden of the administration can be reduced.
- (3) The challenges currently faced by the financial services industry are not only the fierce competition of the financial market, but also the urgent need to adapt themselves to the rise of the mobile era, the rapid development of technology innovation, as well as the business model revolution of the global financial services industry. Especially, the development trend of five major technologies, including the Internet, mobile telecommunications, social media, cloud computing, and big data, has progressively reshaped the way financial services are provided and consumers' behavior. Therefore, it is necessary to build a digital financial environment that responds to the arrival of the digital financial era.
- (4) Financial consumer protection has become the world trend since the 2008 financial crisis. In response, Chinese Taipei has adopted a two-pronged supervisory approach. On the one hand, we moderately relax regulatory restrictions to facilitate the development of innovative services and further growth of financial industries. On the other hand, we also stress the importance of risk management to protect the interests of the consumers. To this end, related laws and regulations have been established and an ombudsman body has been set up to implement the policies.

### **3. Reform measures**

To promote business environment reforms and speed up our pace in integrating into the regional economy, regulatory reform policy is sought to raise the overall welfare through regulatory review, rather than merely meeting demands from specific stakeholder groups. Major regulatory reform measures include:

- (1) **Advancing regulatory harmonization with international standards**  
Chinese Taipei has systematically examined and reviewed the suggestions proposed by domestic and foreign industrial organizations, coordinated the work of various agencies on the international harmonization of laws and regulations, and made timely public reports on related progress. The deregulation achievements in recent years include domestic listed securities and OTC (Over-The-Counter) market companies were permitted to issue non-capital-raising deposit receipts for overseas OTC trading, and securities firms may set up offshore securities units (OSUs) to conduct offshore securities business.
- (2) **Promoting Business Environment Reforms**

Since 2008, Chinese Taipei has been conducting business environment reforms. With seven years of efforts, the overall World Bank “Ease of Doing Business” ranking of Chinese Taipei has risen from 61<sup>st</sup> in 2008 to 11<sup>th</sup> in 2015. In 2016, Chinese Taipei will take further actions to enhance the functionality of the Property Secured Transaction Online Registration and Public Inquiry Website, while promoting floating lien system.

With regards to the enhancement of the financial services, Chinese Taipei has undertaken the following reform measures:

- (1) Building a stronger Asian presence

In order to encourage domestic financial institutions to grasp the opportunities offered by the economic growth of the Asian region and to meet the needs for financial services of foreign enterprises and overseas enterprises of Chinese Taipei, we have formulated the four key strategies: deregulating to simplify procedures, strengthening supervisory cooperation, cultivating international talent, and building database for overseas deployment, so as to assist financial institutions to actively expand their Asian presence.
- (2) Promoting sound development of capital markets
  - (a) Launching a program to boost securities market

Chinese Taipei announced the launch of a program to boost the securities market on February 3, 2015 and the advanced version on December 15, 2015. The program aims to establish a transparent, fair and efficient capital market, develop a more flourishing securities market in line with world trends, and improve global competitiveness. The measures include: launching a crowdfunding platform with equity characteristics, encouraging top-notch domestic and foreign enterprises to apply for TWSE or TPEX listings, enlarging the scope of targets for day-trading, easing the price fluctuation limit to 10%, and promoting a master plan of corporate governance, etc.
  - (b) Developing a multi-layer capital market

Chinese Taipei allowed first international bonds issuance in October 2005 and completed the planning to allow RMB-denominated Formosa bonds issuance in October 2012. Relevant rules and measures are sound and thorough. Moreover, the Go Incubation Board for Startup and Acceleration Firms (GISA) was established in January 2014. GISA is primarily for small-sized non-public innovative companies with creative ideas and offers equity fundraising and integrative counselling mechanisms for those companies.
- (3) Strengthening management and development of the insurance industry
  - (a) In order to enhance the efficiency and flexibility of insurers’ fund allocation, Chinese Taipei has continually reviewed and amended the regulations related to fund allocation of insurers. Furthermore, Chinese Taipei has continuously required insurers to strengthen their risk management capability to ensure the soundness of insurers.
  - (b) In order to meet the demands of an ageing society, Chinese Taipei has launched the model provisions for long-term care insurance policies and group annuity insurance policies (interest-sensitive).
- (4) Building a digitalized financial environment
  - (a) Expanding online and mobile payment financial services

Banks’ clients are able to enjoy 12 major online services including deposit, loan, credit card, wealth management and co-marketing. Securities firms

and futures commission merchants (FCMs) are allowed to offer account opening and other services through electronic media. Insurers are allowed to engage in online sales of insurance at different stages. Regulations on types of insurance products have been relaxed, with differential supervisory measures implemented and information security enhancement required.

(b) Promoting the development of innovative financial services

Chinese Taipei has established the Financial Technology Office, set up the Financial Technology Consulting Committee, and accordingly held related meetings. Furthermore, we have also published the Financial Technology Development Policy White Paper as the FinTech blueprint of Chinese Taipei. The White Paper encompasses policy measures in five major dimensions: financial services, innovative R&D, talent cultivation, risk management, and infrastructure.

(5) Strengthening financial consumer protection

(a) The Financial Consumer Protection Act (FCPA) and associated legislations entered into force on December 30, 2011. The Financial Ombudsman Institution (FOI), which is totally funded by the administration, was established and commenced operations on January 2, 2012 in accordance with the FCPA. The FOI handles financial consumer disputes, and conducts education and awareness programs for financial services enterprises (FSEs) and financial consumers.

(b) Chinese Taipei has formulated the Principles of Treating Customers Fairly (TCF Principles), which have been implemented and become the guideline for FSEs.

#### 4. Impact of reform(s)

The impacts of the aforementioned reform programs can be demonstrated via the following five aspects accordingly:

(1) Building a stronger Asian presence

(a) Since the end of 2013, Chinese Taipei has strongly promoted the policy of building up the Asian presence of our financial institutions to help them grasp the opportunities presented by Asian economic growth and rapid regional economic integration, and thus become regional financial institutions in Asia; and, at the same time, provide the funding for the local market development of foreign and domestic enterprises.

(b) By the end of 2015, the number of overseas offices/branches of Chinese Taipei's financial institutions had reached 608, an increase of 36.3% on the end of 2013. Among the overseas establishments, 473 of them are located in Asia, up by 52.1% for the same period.

(c) As for overseas M&As, from the second half of 2013 to the end of 2015, 26 M&As deals were completed, including 5 cases in the banking industry, 9 cases in the securities industry, and 12 cases in the insurance industry.

(2) Promoting sound development of capital markets

(a) The benefits of the program to boost the securities market and the advanced version cover several aspects, including:

- facilitating diversified financing channels and helping youth realize their innovative and creative powers and development potential;
- meeting investors' trading needs and creating a more efficient trading market under a complete risk management mechanism;

- meeting investors needs for global asset allocation and trading via domestic securities markets by providing investors with a diversified selection of products and appropriately linking to overseas targets;
  - enhancing the quality of services by integrating resources of related parties and strengthening the efficiency of market operations.
- (b) As of the end of 2015, 273 International Bonds had been issued and the total issuance amount was USD 61.6 billion, including 97 Formosa Bonds issued with total issuance amount RMB 62.57 billion. Furthermore, 82 companies have registered on the GISA board and raised approximately USD 6.63 million in capital through the GISA platform.
- (3) Strengthening management and development of the insurance industry  
Measures related to deregulating regulations for insurers' fund allocation are working effectively, especially the measure allowing insurers to have the invested amount of foreign-denominated equities or bonds traded in Chinese Taipei not included in the foreign investment ceiling. As of the end of 2015, the issuing scale of foreign-denominated equities or bonds traded in Chinese Taipei was about NTD 1,878 billion, of which the insurance industry accounted for approximately 78%.
- (4) Building a digitalized financial environment  
Chinese Taipei has launched the "Digital Financial Environment 3.0" program. Related laws and regulations are being progressively amended to create a comprehensive legal environment to foster the development of high-tech finance. By the end of December 2015, Chinese Taipei has achieved the following:
- (a) 12 types of banking business are allowed to accept online applications (from January 2015);
  - (b) 59 securities firms can accept customer orders online;
  - (c) 33 securities firms can accept electronic signing of risk disclosure statements;
  - (d) 15 securities firms can accept the signing of trading agreement documents electronically;
  - (e) 34 FCMs can accept customer orders online;
  - (f) 5 FCMs can offer services through electronic media;
  - (g) 4 FCMs can offer account opening service through electronic media to their customers;
  - (h) the average percentage of electronic trading for FCMs and securities firms is 82% and 48.22%, respectively;
  - (i) 9 life insurance firms and 12 non-life insurance firms have been approved to conduct online insurance business.
- (5) Strengthening financial consumer protection  
By the end of December 2015, the dispute resolution rate of complaints that the FOI referred to FSEs for handling was over 40%. Of the disputes not resolved after referral to an FSE and then filed with the FOI by the consumer, over 50% of them were solved.

## 5. Challenges and lessons learned

The lessons learned through the implementation of the various reform programs can be explicated in the following five aspects as well:

- (1) Building up a stronger Asian presence

Chinese Taipei recognizes that industrial development needs the financial industry to provide adequate funding and the financial industry also relies on other industries to grow. They are inseparable and mutually reinforcing. In view of the fact that Asia is the main investing target for enterprises of Chinese Taipei, domestic financial institutions should follow their footsteps and provide the capital they need to grow, so as to share mutual growth and benefits and to promote the regional economic development.

- (2) Promoting sound development of capital markets  
Following the introduction of measure allowing insurance companies to invest in international bonds listed on the Taipei Exchange, with the investment excluded from the foreign investment cap, the amount of international bonds issued has increased significantly.
- (3) Strengthening management and development of the insurance industry  
To cope with an ageing population, Chinese Taipei encourages financial institutions to appropriately adjust resource allocation and develop financial products that meet the needs of the elderly. In addition, financial institutions can integrate the resources of medical and care service institutions to enhance the protection and living quality of the elderly.
- (4) Building a digitalized financial environment
  - (a) Technologitization and digitization of financial services may lead to job losses. Thus, related personnel in the financial services industry need to upgrade their professional capabilities so as to provide differentiated services and to enhance competitiveness.
  - (b) In order to enhance the efficiency of payment, save the cost of cash payment processing, stimulate economic growth through consumer spending, reduce the scale of the underground economy, increase financial transparency, reduce the circulation of false money, and lower the crime rate, Chinese Taipei is striving to double the ratio of e-payment within five years from the present ratio of 26% via the dual routes of public promotion and private sector participation.
- (5) Strengthening financial consumer protection  
Of the financial consumer disputes that were filed with the FOI, over 40% of disputes are not solved satisfactorily, with many financial consumers not satisfied with the results of ombudsman decisions filing a petition with an administrative authority. For this reason, it's necessary to further promote the upgrading of the quality of ombudsman decisions to enhance consumers' willingness to use this alternative dispute resolution mechanism.
- (6) Implementation of RIA
  - (a) Chinese Taipei has been conducting capacity-building programs for public servants and encouraging agencies to improve RIA procedures and reports, so as to improve the general rule-making quality and reduce unnecessary regulatory cost.
  - (b) Chinese Taipei has compiled an RIA handbook tailored to Chinese Taipei's specific conditions, while making reference to views and practices learned from APEC workshops and international seminars, and comparisons between domestic and foreign methods.

## 6. Next steps

Chinese Taipei is planning to undertake the following reforms in the financial services sector in the near future:

- (1) Building a stronger Asian presence

By taking into account the regional development situation, risk control, as well as the potential benefits for the financial industry and overseas enterprises, Chinese Taipei will continue supporting the expansion of overseas presence by financial institutions to assist foreign and domestic enterprises in participating in the regional economic development.

- (2) Promoting sound development of capital markets  
Chinese Taipei will continue to encourage top-notch domestic and foreign enterprises to apply for TWSE or TPEX listings in Chinese Taipei, so as to create a fund raising platform characterized by a diversity of industries and strengthen cooperation with foreign organizations in promoting new futures products. Furthermore, Chinese Taipei will also continue the development of International Bond Market, including the diversification of issuers and issuance products.
- (3) Strengthening management and development of the insurance industry
  - (a) In order to conform to the requirements of IFRS4-Phase II, Chinese Taipei will keep reviewing and strengthening the solvency supervision of insurers such as the liability reserves of life insurers and the Risk Based Capital system.
  - (b) Commercial long-term care insurance products will be adjusted in line with the long-term care system to be launched by Chinese Taipei's Ministry of Health and Welfare in the near future to supplement the system's insufficiency. Before the long-term care system is finalized, Chinese Taipei will keep promoting and advocating all kinds of ageing insurance products (including long-term care insurance), as well as raising public awareness of the importance of long-term care insurance.
- (4) Building up a digitalized financial environment
  - (a) Chinese Taipei will continue promoting such emerging payment tools as mobile payment, blockchain, and biometrics technology, etc.
  - (b) In order to study the incentives for mobile payment, small-sized enterprises such as night market vendors will be chosen to research the feasibility of tax reduction or exemption when implementing mobile payment, so that the money flow of the underground economy could be traced and tax revenue would be increased.
  - (c) Chinese Taipei aims to jointly develop and introduce practical blockchain applications to the financial services industry by accommodating the needs of the industry, integrating domestic research resources, and making reference to the research progress of large-scale international financial institutions.
  - (d) In order to diversify the development of the biometrics technology, Chinese Taipei will strive to coordinate and matchmake related technologies while maintaining its neutrality and allowing experimental projects being conducted.
- (5) Strengthening financial consumer protection  
In addition to assisting financial consumers to resolve financial disputes, through education and advocacy, the financial services industry is to pay further attention to consumers' interests and consumers are to enhance their abilities to plan financial projects so as to prevent financial disputes.

In addition, Chinese Taipei is committed to promoting such services sector as:

- (1) Tourism industry: Chinese Taipei is committed to constructing high-quality tourist services environment, including strengthening the brand image of



Chinese Taipei's tourism, enhancing the quality of the hotel industry, and cultivating key talents. Moreover, Chinese Taipei will develop tourism products of local specialty and promote the diversity of tourism, as well as aim to integrate Chinese Taipei's ICT advantages, so as to offer tourists intelligence services and travel information.

- (2) Cultural and Creative Industry: Chinese Taipei keeps implementing open data of cultural contents, expanding value-added applications, and promoting digitalization of cultural materials to facilitate cross-border and cross-sector synergies. Furthermore, we are strengthening digital technology application in films, television, popular music, as well as promoting talent cultivation and cooperation between industries and universities, so as to improve the quality of cultural products and expand international markets.
- (3) Engineering Technical Services: Chinese Taipei is working to strengthen the promoting organization by establishing a cross-ministerial coordination platform and an ad-hoc project office. Furthermore, we are taking proactive measures in searching overseas engineering business opportunities and continually providing full support for domestic firms to expand foreign markets.

# THAILAND

## 1. General overview

Thailand is an upper-middle income country, and its economy is comprised of the agriculture, manufacturing, and service sectors which contributed approximately 9.14%, 30.03%, and 60.83%, respectively to the GDP (NESDB, 2015). Over the past few decades, the significance of the service and manufacturing sectors in terms of real GDP has increased steadily while the share of real GDP derived from the agriculture sector has subsided.

Among the three major sectors, the service sector has contributed the largest percentage to Thailand's GDP since the period of the 6<sup>th</sup> National Economic and Social Development Plan: NESDP (1987-1991), and tended to increase continuously. In the first year of the 11<sup>th</sup> NESDP (2012-2016), the service sector contributed 58.78% of GDP at 6.96 trillion baht.

In 2015, the service sector generated 7.67 trillion baht, standing for 60.83% of the GDP expanding for 9.3% from 2012. Three main sub-sectors in Thailand's service sector are transportation and communication, retail and wholesale, and banking, followed by real estates, public administration, education, and hotel and restaurant, respectively.

The sub-sector, particularly transportation and communication are crucial elements facilitating other sectors and provides efficiency for doing business in the country. Therefore, the 11<sup>th</sup> NESDP set up "the Strategy for Restructuring the Economy toward Quality Growth and Sustainability" to enhance infrastructure systems, reduce costs of logistics, and support green development. The 11<sup>th</sup> NESDP also focuses on "the shifted mode and the shifted fuel" and has two key measures, namely "to encourage development of multimodal transportation by advancing energy efficient forms of transportation" and "to promote the use of alternative clean sources of energy" in order to support the use of alternative energy in transportation toward sustainability.

Hence, the policy reform for eco-friendly and energy-saving in transportations by applying alternative energy will be addressed here in the IER Questionnaire.

## 2. Context of structural reforms undertaken

Thailand has applied the energy policy reform for eco-friendly and energy-saving activities in transportations, by using alternative energy (bio-fuel) for the transportation, particularly road transport, which is the highest share in Thai logistics and the most popular use in ASEAN. Likewise many countries, the road transport in Thailand relies heavily on fossil fuel, which has to be imported from abroad, and also gives negative impacts on the global climate change. Thai government therefore develops alternative energy policies to replace fossil fuel.

Under this structural reform the target of alternative energy use in transportation sector is 25 per cent in 2036 currently the ratio was 6.65 per cent in 2014 (DEDE, 2015).

Expected beneficiaries under the positive impacts on the policy reform are; (1) reducing costs of transportation; (2) reducing dependency on fossil fuel; (3) enhancing the national competitiveness in the world market; (4) increasing values of the agricultural (bio-fuel) products; and (5) alleviating environmental (pollution) problems, in line with the sustainable development.

### 3. Reform measures

At the policy level, there are five important policies related to energy conservation and eco-friendly transportation to promote alternative energy in Thailand.

Firstly, the Energy Conservation Promotion Act. B.E.2535 (1992) was enacted and then amended by the Energy Conservation Promotion Act (No.2), B.E.2550 (2007). The Energy Act designated the general scope, requirements and responsibilities for key energy consuming sectors. It also defines government institutional and financial arrangements, governments' responsibilities, and requirements for entities with in energy consuming sectors.

Secondly, Thailand introduced the 20-year Energy Efficiency Development Plan: the EEDP 2011-2030 to provide the national policy framework and guidelines on energy conservation implementation in the long term. Emphasis is placed on measures, which will bring about market transformation and energy consumers' behavioural change.

Thirdly, the Alternative Energy Development Plan: the AEDP 2012-2021 was formulated to promote usage of alternative energy consumption to 25 per cent of the total energy consumption by replacing fossil fuel (e.g. oil and natural gas), and reducing dependency on energy import within ten years.

Fourthly, Office of Transport and Traffic Policy and Planning (OTP), Ministry of Transport introduced the Plan for Developing Logistics and Transport (2011-2020), which included the improvement in transportation system and also the energy saving and environmental friendly measurements.

To create public participation, the AEDP 2012-2021 and the EEDP 2011-2030 set up policy consultation throughout Thailand in order to raise public awareness and to formulate the action plans for the local. However, the official process of the Regulatory Impact Assessment (RIA) in Thailand has not been applied for this case because the RIA is a new procedure for the country which needs to be more studied and applied.

At the implementation level; Measures of Technology Promotion and Development for Eco-friendly and Energy-saving in Transportations

Under the plans for energy efficiency, many projects promoted eco-friendly and energy-saving practices in transportations, such as non-motorized transport, mass transit operations (to alleviate traffic problems), or developing eco-vehicles such as bio-diesel, solar-cell, electrical energy. Thailand has implemented policies to promote the alternative energy in transport sector, replacing fossil fuel, by considering the balance between production and utilization, as follows:

- 1) Cancellation of 91-octane gasoline from 2013.
- 2) Public relations and provision of knowledge about clean and alternative energy to the general public.
- 3) Expansion of the numbers of petrol stations distributing Gasohol E10, E20, and E85 for increasing bio-fuel accessibility.

- 4) Provision of tax incentives; by reducing the excise tax to the car manufacturers, who produced the Flexible-fuel vehicles and Eco-cars.
- 5) Set up several measures for the ethanol industry in Thailand (e.g. the government's oil fund has kept gasohol prices lower than those of ULG 95 gasoline).
- 6) Continuation of the promotion on bio- energy and efficiency energy for transport sector.

#### 4. Impact of reform(s)

After the reform, data from the DEDE showed that the bio-fuel consumption is accepted and supported extensively. The bio-diesel consumption in transportation rose up from 1.65 million litres per day (MLD) in 2010 to 2.55 MLD in the first five months of 2015. Moreover, Thailand expanded numbers of bio-diesel plants up to 10 plants in 2014 with their capacity of about 4.96 MLD. These could substitute the diesel consumption 1,054.92 million litre equivalent to 2.89 MLD.

For the ethanol consumption, it also rose up from 1.2 MLD in 2010 to 3.5 MLD in the first four month of 2015, due to increasing demands in Gasohol consumption. In 2014, numbers of ethanol plants increased to 22 plants, with their capacity of about 5.31 MLD.

As a result, Thailand's energy consumption in transport sector has gradually shifted to alternative fuel. Significantly, increase of the other alternative consumption would ensure Thailand for energy security, response to different demands, enhance more efficient use of energy, and raise awareness of consumer.

Indeed, the reform gives several impacts on economic, environmental and social sectors, namely;

Economically, domestic production for alternative energy reduces trade deficit on energy import, meanwhile increases energy security. It also helps farmers to stabilise the price gap when the crops prices are in the over-supply, and prevent them from the price falls. Besides, by-product of sugar production can be used as a material for ethanol production, thus both ethanol and sugar producers would be better-off by reducing cost of raw materials and waste management, respectively.

Environmentally, alternative energy is eco-friendly and has less negative effects than the fossil fuel.

Socially, employment creation along the process of ethanol production in rural areas would reduce cross-sector labour movement and also prevent rural-urban migration of labour forces, which causes population density in urban and other problems.

As the demand grows, the Thai government needs to have preventive measures to protect deforestation through 'land use and land-use change activities'.

## 5. Challenges and lessons learned

As the above mentioned, alternative energy from agricultural products plays a significant role in clean energy for transportation and help to reduce costs of logistics. However, the bio-fuel production relies mostly on agricultural production which often fluctuates in terms of market, pricing, climate and so on. Thus, there are challenges, needed to manage.

The challenges are (1) the national food and energy security, (2) imbalanced demands for land uses and land-use changes, (3) constant supply of bio-fuel, and (4) changing in consumption behaviour.

With respect to the above challenges, the line agencies (energy, agricultural, transportation, trading, and industrial sectors as well as the national planning agency) should set a strategic target for the shares of food and energy production. The discussion will also be very useful for the policy formulation for food and energy security and also protect overlapping in the implementation. Furthermore, the line agencies should consult with local people, farmers and other stakeholders to find appropriate measures, which will be benefit for the country.

## 6. Next steps

- 1) The line agencies should work closely together in order to find out the solution between for food and energy security, and then provide other supports for the alternative energy production and consumption.
- 2) The government should continuously implement the long term plans: the Energy Conservation Promotion Act (No.2), B.E.2550 (2007), the EEDP 2011-2030, the AEDP 2012-2021 and the Plan for Developing Logistics and Transport (2011-2020) to let them achieve the objectives.
- 3) The DEDE continuously promote energy efficiency activities and create public awareness for all kinds of eco-friendly transportation. Also it should more promote R&D in technology and innovation for alternative energies with academic sector.

## UNITED STATES

### **1. Overview of the Services Economy in the United States**

The U.S. economy today is characterized as a “service economy” because the majority of the working population is employed in the service sector. Since the 1950s, the service sector has been both the largest and the fastest growing component of the U.S. economy. Sixty-five years ago, the service sector accounted for about sixty percent of U.S. output and employment. Today, the service sector's share of the U.S. economy has risen to over 80 percent of U.S. GDP and accounts for approximately 80% of U.S. jobs, employing over 100 million Americans. Professional and business services, education and health services, retail trade services, and leisure and hospitality services are the largest service providing industries in the United States. Over 70 percent of all new U.S. private businesses are service companies.

Services also play an important role in U.S. international trade. During the 1960s and 1970s, service exports constituted just over 20 percent of U.S. exports. In 2015, services accounted for over 30 percent of the total exports with a value of \$716 billion.

In 2011, President Obama called on Federal agencies to undertake an unprecedented government-wide regulatory review to identify rules on the books with outdated requirements or unjustified costs. Since the release of Executive Order 13563 in 2011, Federal agencies have been continually identifying outdated and duplicative regulations and have taken action to modify or eliminate them where possible. As of March 2016, the regulatory lookback effort has achieved an estimated \$28 billion in net 5-year savings. Moreover, these efforts significantly benefit states, local and tribal governments, businesses, and the American people by making all levels of government more efficient and effective. The Office of Information and Regulatory Affairs, housed in the Executive Office of the President, is the central authority for the review of regulations.

The regulation of the services industry varies by sector. Several services sectors are regulated at the state level. Some services sectors in the United States are self-regulated, with standard setting bodies and other such organizations monitoring the sectors' adherence to their own standards.

### **2. Context of structural reforms undertaken**

- a. *What specific services sector structural reforms are you addressing in this questionnaire?*
- b. *Why this reform was necessary?*

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### 3. Reform measures

The U.S. Department of Transportation (DOT) oversees policies and programs that contribute to providing fast, safe, efficient, and convenient transportation at the lowest cost consistent with domestic objectives such as the general welfare, economic growth and stability, and security of the United States, as well as the efficient use and conservation of natural resources.

Because of DOT's extensive experience with environmentally-responsible infrastructure planning and development through its Federal Aviation, Highway, Railroad, Transit, and Maritime Administrations, it is one of the co-leaders of the Federal government's Cross-Agency Priority Goal for Infrastructure Permitting Modernization.

As part of this effort, DOT utilizes the Permitting Dashboard, which is an online tool for Federal government agencies, project developers, and interested members of the public to track the Federal government's permitting and review process for large or complex infrastructure projects. This Permitting Dashboard is one element of a larger, government-wide effort to streamline the Federal permitting and review process while increasing transparency, in addition to improving environmental and community outcomes. This streamlining of Federal permitting and review processes is a significant and positive reform.

### 4. Impact of reform(s)

- a. Quantitative and qualitative (including anecdotal) *information to demonstrate the impact the reform(s) had on your economy, including flow-on effects to other sectors/the wider economy, unexpected consequences (both positive and negative)*
  - a. This Dashboard will increase transparency of permitting and review processes to the public.
  - b. It will shorten review timelines by encouraging early coordination and synchronization of agency review schedules, which has, historically, been one of the most significant inefficiencies in these processes.
  - c. It will provide data that government agencies can use to improve processes.
  - d. It will track improved environmental and community outcomes, which will help to highlight the important role that these processes play in safeguarding these resources.
- b. What effect has this reform(s) had on global value chains? *(if relevant/possible; response can be anecdotal if necessary)*
  - a. Though the United States does not yet know how the Dashboard will improve permitting and review processes (through transparency), it is anticipated that these reform efforts will positively impact the quality, efficiency, and duration of these processes.
  - b. When permitting and review processes linked to major transportation infrastructure development or redevelopment projects take too long or, worse, do

not follow a steady continuum of activity from start to end, project developers, private developers, and communities can suffer economically.

- c. The transparency and process improvements that the Dashboard will enable are expected to have positive economic benefits.

## **5. Challenges and lessons learned**

Creating the Permitting Dashboard has been a relatively smooth process. That said, it was critical early in the process to incorporate opinions and feedback from a wide range of stakeholders.

## **6. Next steps**

No next steps are envisioned at the present time.



# VIET NAM

## 1. General overview

The services sector has retained importance in Viet Nam's economy, despite different pattern of growth in 2000-2006 and 2007-2014. During 2000-2006, services sector growth has been robust, averaging at 7.18 per cent per annum. Due to relatively slower growth compared to overall GDP, the services sector witnessed smaller share in GDP. The share of services sector in GDP fell from 38.73 per cent in 2000 to 38.06 per cent in 2006. Meanwhile, the share of services sector in total employment went up to 25.6 per cent in 2006 from 21.8 per cent in 2000. Labour productivity<sup>1</sup> in services sector increased on average by 8.2 per cent per annum during 2000-2006.

Over the years from 2007 to 2014, Viet Nam's economy experienced slower growth, due to more modest growth momentum in all three sectors, i.e. agriculture-forestry-fishery, industry-construction, and services. Still, the decrease of GDP growth in services sector was significantly smaller compared to other sectors. On average, GDP growth of services sector reached 6.88 per cent per annum during 2007-2014. During this period, the share of services in total employment rose from 28.2 per cent to 32.3 per cent. Labour productivity<sup>2</sup> in services sector went up on average by 11.5 per cent in the same period.

Continuous growth of the services sector since 2000 was driven by series of reforms in Viet Nam. *First*, the legal framework was gradually improved towards facilitating private business activities in general and private provision of services in particular. Specifically, the common Investment Law and unified Enterprise Law were issued in 2005 to establish framework for more equal regulatory treatment over business and investment activities, irrespective of the ownership form. In 2014, both of these Laws were amended again, aiming to realize "full freedom of doing business" for the business entities, unless there are prohibitions or conditions imposed by the State. *Second*, Viet Nam equitized a number of State-owned enterprises since early 2000. It should be noted that many of the equitized enterprises were dominant firms or monopoly in key services areas such as distribution, telecommunication, banking, etc. *Third*, the competition policy was improved and enforced more effectively. In various sectors, such as telecommunication, post, financial services, etc. the competition between State-owned services providers and private ones were gradually nurtured and protected. *Finally*, Viet Nam actively participated in a number of free trade agreements (FTAs), which both opened up the opportunities for services and incorporated liberalization of the services sector. The first important arrangement was Viet Nam -US bilateral trade agreement – signed in 2000, in effect since 2001. Viet Nam has committed to open market to 11 services sectors, or 110 subsectors out of 155 subsectors according to the WTO's services classification. In general, regarding the committed services sectors, Viet Nam has few restrictions related to Mode 1 and Mode 2, a lot more restrictions related to Mode 3, and almost no commitment related to Mode 4.

It seems that the reforms of services sector were more rapid in 2000-2006 than in 2007-2015. During 2000-2006, Viet Nam just recovered from the Asian financial-monetary crisis and promoted radical reforms of the economy, including the services sector. Such reforms were also aimed to prepare for Viet Nam's accession to the World Trade

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<sup>1</sup> At current prices.

<sup>2</sup> At current prices.

Organization in 2007. Since 2007, however, several factors have slowed down the pace of services sector reforms in Viet Nam. These factors include: (i) adverse and prolonged impacts of the global financial crisis and economic recession; (ii) Viet Nam's prioritization of macroeconomic stabilization, following high inflation in 2008 and 2011; and (iii) high commitment of services liberalization under WTO, which makes services commitments under various FTAs less meaningful.

## **2. Context of structural reforms undertaken**

- a. What specific services sector structural reforms are you addressing in this questionnaire?

This response focuses on structural reforms over the telecommunication sector in Viet Nam.

- b. Why this reform was necessary?

The structural reforms of Viet Nam's telecommunication sector were aimed to: (i) enhance competition and productivity in the market; (ii) mobilize private investment in the sector; and (iii) reduce service fee for users, thereby making telecommunication services more accessible to the people.

## **3. Reform measures**

Reforms of the telecommunication sector include: (i) horizontal measures which affect all sectors in Viet Nam's economy; and (ii) specific measures on the telecommunication sector in Viet Nam. Specific structural reform measures in the telecommunication sector since 2000 include: (i) relaxation of entry for private providers, including foreign ones, in the telecommunication market; (ii) equitization of State-owned telecommunication providers; and (iii) enhancement of competition in the telecommunication market via regulatory changes and enforcement of competition law.

Reforming Viet Nam's telecommunication sector was a long process. The Government Decree 55/2001/ND-CP issued in 2001 excludes Internet services from the state-dominating policy. Specifically, ISP business were open to the private sector and foreign investors, though the provision of Internet exchange was reserved to state-owned operators or operators where the state holds majority shares.

Meanwhile, foreign investment in Viet Nam's telecommunications sector was first introduced in the form of a Business Cooperation Contract (BCC) scheme. However, the foreign partner does not have an equity claim in the assets and does not have any managerial control on the project. The first BCC scheme was established in 1988. Till 2009, there remained a number of BCCs in operation. Relaxation in foreign participation took a significant step forward when Viet Nam ratified the Viet Nam -USA BTA. The Viet Nam -USA BTA includes not only Viet Nam's commitments Viet Nam and obligations in the telecommunications sector but also a roadmap and blueprints for future reform. The BTA requires Viet Nam, amongst other things, to adopt the regulatory principles set out in the WTO Reference Paper on Basic Telecommunications so as to establish a transparent and pro-competitive regulatory regime, with the regime maintaining an arm's length with operators.

A second reform milestone was Viet Nam's WTO accession in 2007. As part of its accession commitments, Viet Nam in essence offered to all WTO members, on a most-favoured nation basis, more favourable market access conditions than those offered to US companies in the BTA. This allowed joint ventures with foreign partners to provide

telecommunications services related to network infrastructure such as telephone services, packet-switched data transmission services, circuit-switched data transmission services, telex services, telegraph services, facsimile services and private leased circuit services.

In terms of domestic regulations, the Law on Telecommunication in 2009 and the Competition Law in 2004 have delivered the key reforms of competition in the telecommunication sector. The Law on Telecommunications in essence establishes a framework for telecommunications regulations, with many specific regulatory items to be developed by implementation rules and regulations in the future. Relaxation of entry to the telecommunication, as per Viet Nam's commitment upon joining WTO, was also incorporated in the Law. The Law also provides for a regulatory authority to be established and in charge of regulating competition issues in the telecommunications sector and will act as a dispute settlement body for interconnection and infrastructure sharing disputes. Meanwhile, the Competition Law and its Implementation Decree No. 116/2005/ND-CP classify various telecommunication providers in Viet Nam as those with significant market power. Therefore, such providers must submit any proposal to change the retail tariff to the Ministry of Information and Telecommunication (MIC) before issuing the tariff. Moreover, 'basic' and 'important' interconnection charges that would greatly affect the telecommunications market are decided by the MIC.

The Law on Legal Normative Documents, which incorporated substances of good regulatory practices (such as regulatory impact assessment, public consultation), was only issued in 2008. As such, one could hardly expect to collect regulatory impact assessment for related regulations of telecommunication sector. Nor were there any attempts to consult stakeholders other than the Government agencies and key State-owned providers in the sector. Since 2009, however, the regulations that ignited reforms in telecommunications were widely consulted and incorporate regulatory impact assessment. Nonetheless, the impact assessment was rather simple and largely qualitative in manner.

#### **4. Impact of reform(s)**

- a. *Quantitative and qualitative (including anecdotal) information to demonstrate the impact the reform(s) had on your economy, including flow-on effects to other sectors/the wider economy, unexpected consequences (both positive and negative)*

The reforms led to significant growth of telecommunication. Gross revenues<sup>3</sup> of telecommunication sector rose by almost 6.3 times over the period 2007-2015, or on average by 25.8 per cent per annum. GDP of the sector<sup>4</sup> increased by almost 7.0 per cent per annum on average in the same period. In addition, Viet Nam has since moved from an under-developed economy to join many of its developed peers in the region in fixed-line availability. Mobile services in Viet Nam again shows a jump-start style of network expansion, surpassing both Indonesia and the Philippines during 2007-08. The number of mobile subscribers increased by roughly 13.1 per cent per annum during 2007-2015. In the same period, the number of ADSL subscribers rose by 24.9 per cent on average in the same period.

- b. *What effect has this reform(s) had on global value chains? (if relevant/possible; response can be anecdotal if necessary)*

The reforms contributed to improve the efficiency of various enterprises in Viet Nam. With improved quality and availability of telecommunication services, the enterprises in

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<sup>3</sup> At current prices.

<sup>4</sup> At comparable prices.

Viet Nam could contact and/or coordinate with their customers and network of suppliers at enjoyably smaller costs. This enhances the competitiveness of Vietnamese enterprises, and ensure that they could join the global value chains in a timely manner.

## 5. Challenges and lessons learned

Reforms of the telecommunication sector in Viet Nam encountered several challenges, particularly before 2007 (the milestone of major reforms). *First*, increasing competition and private participation in the sector encountered difficulties, due to: (i) previous dominance of the State-owned providers; (ii) inadequate institutional and technical capacity of competition authority to address competition cases in the sector; and (iii) ambiguity in the classification of telecommunication as public services, given that rural access to such services was also a priority<sup>5</sup>. *Second*, improving regulatory institutions and processes were seen as critical, but entailed ample technical challenges. Third, restructuring and reforming the dominant carriers are no easy task, as Viet Nam was observed in the generally slow process of reforming State-owned enterprises in Viet Nam.

Some key lessons could be drawn from the reforms of telecommunication sector as follows:

- The sizeable benefits from reforming telecommunication sector shows that such reforms were simply irreversible;
- Enhancing competition and/or contestability of telecommunication helps maximize the value for consumers;
- Devising a consistent and feasible roadmap for reforming telecommunication sector plays an essential role;
- Leveraging the external pressures can be beneficial in sustaining the momentum for reforming telecommunication sector.

## 6. Next steps

The reforms of telecommunication sector will continue till 2020, in line with the Master Plan for Developing Telecommunication Sector until 2020. Key measures included in this Master Plan are:

- To improve regulations on management of licensing, tariff, service quality, connection, resources, telecommunication infrastructure;
- To study the mechanism for investment and procurement in telecommunication sector to avoid excessive reliance on a single supplier;
- To restructure the telecommunication market in terms of both service and suppliers, in line with the overall reforms of State-owned enterprises in the sector; to improve capacity to identify and address competition cases in the sector.
- To further encourage and attract foreign investment in the telecommunication sector.

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<sup>5</sup> And the private sector was reluctant to supply services in these areas.