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

FOSTERING INNOVATION AND ENTREPRENEURSHIP THROUGH STRUCTURAL POLICY SETTINGS

**Economic Committee Chair Rory McLeod
To APEC Structural Reform Capacity Building
Workshop on RAASR Individual Action Plans
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APEC Economic Policy Report



The **AEPR** is a key annual output produced by the EC

- The 2015 AEPR focussed on **Structural Reform and Innovation**

How can economies stimulate innovation through implementing effective structural policies?

- Links examined between structural policy settings and firm-level innovation.
- Twenty participating economies provided Individual Economy Reports on their structural policy mechanisms.

Why is innovation important?



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- **Innovation** is far broader than invention, technology or research and development.
- Firm-level innovation key to economic growth and business productivity, and continued innovation important to firm survival.
 - Innovation is path dependent as it depends on capabilities
 - Innovation in firms depends on the wider innovation system
 - The quality of public institutions matters
 - Level of technological and economic development matters
- **Structural policies** matter in that they can encourage or hinder innovation:
 - Regulatory policy (including Ease of Doing Business)
 - Competition policy
 - Corporate law and governance
 - Public sector governance
- However, the links between structural reform and innovation have not been widely explored.

Regulatory Policy



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- Regulatory policy can stimulate innovation both directly and indirectly.
- Administrative simplification can directly drive innovation.
- Technology is increasingly driving economies' simplification programmes for their engagement with business.
- RIA is widely used in APEC. As RIA becomes embedded, the focus shifts towards strengthening specialised areas of analysis in areas such as competition.
- Flexible regulatory approaches such as alternatives to prescriptive regulation or performance based standards enable innovation.

Competition Policy



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- Increased competition drives innovation by encouraging firms to adopt improved technology and organisational approaches
- Competition policies across APEC economies are generally comprehensive and include technical efficiency



- Competition policy often starts with putting the basics in place
- As economies build up their capabilities, there is a move towards incorporating market intelligence and regulatory capability
- Emphasis then shifts to considering competition policy with a focus on efficiencies from new technologies

Corporate Law & Governance



- Government's rule is to establish the relevant corporate governance frameworks, which play a key enabling role for innovation
- All economies have mechanisms to ensure director's duties to act in the interests of the company or its shareholders
- EODB programmes assist innovation by smoothing the transitions in the life cycles of businesses and improving operation of corporate governance policies
- Recognition that an appropriate balance needs to be struck between risk taking and shareholder/creditor protection
- Emerging practice across more advanced economies is enabling a range of options for capital raising, e.g. crowd-funding to enable innovative SMEs to raise capital from the public

Public Sector Governance



- Stable and predictable public sector institutions are important because innovation is inherently uncertain and risky
- Legal frameworks are widespread but the application of the rule of law is uneven across APEC
- As economies become more advanced, the role of SOEs tends to decline
- However specialist non-market bodies tasked with explicitly encouraging firm innovation can also play an important role in the national innovation system
- Recurring challenge is the lack of coherence and integration between different parts of an economy's innovation system (innovation policy settings, knowledge infrastructure, and innovation infrastructure).

Innovation challenges vary depending on levels of development



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The table below illustrates common aspects of structural reform policies and the challenges that economies of different levels of development may face:

Structural policies and challenges	Developing economies <i>(learning/ factor driven)</i>	Middle Income economies <i>(catching-up/ efficiency driven)</i>	Advanced economies <i>(frontier/ innovation driven)</i>
Regulatory policy	Developing institutions to support robust regulatory policy development and implementation. Creating public participation procedures to involve stakeholders in the rulemaking process.	Implementing frameworks to identify and manage impacts of regulatory reform. Working to ensure that regulation does not inhibit firm innovation.	Implementing advanced tools to support transparency and robust regulatory policy. Using regulation to promote innovation and the adoption of new technologies.
Competition policy	Establish a competition authority to enforce competitive markets.	Establish comprehensive competition policy framework.	Sophisticated competition framework to encourage long term efficiencies from new technologies.
Corporate governance	Providing basic legal infrastructure to support the birth, life, and death of firms.	Refining corporate governance systems to enable increased capital raising and more complex corporate structures.	Advanced and flexible legal infrastructure to support firm governance and risk taking, incentivise growth and enable raising of capital.
Public sector governance	Implementing governance frameworks to support the rule of law and remove corruption or administrative abuse.	Administrative simplification, improving coordination between government agencies.	Sophisticated governance arrangements to incentivise efficient and effective public spending, taxation, and ownership (where applicable).

Conclusions from the 2015 AEPR



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Regulatory Policy

can impact innovation both directly and indirectly

- Regulatory flexibility and administrative simplification are key objectives in the area of regulatory reform
- Reducing the burden of regulations can directly improve innovation
- Economies are considering competition impacts of regulation

Competition Policy

is an important driver of innovation

- Comprehensive competition law and independence of competition agencies are important
- As economies develop, competition agencies become better equipped to consider efficiencies from new technologies

Corporate Governance

enables innovation

- Economies recognize the need for incentives to ensure directors act in the long-term interests of shareholders.
- As economies develop, there is greater focus on enabling a range of options for capital raising, especially for innovative start-ups

Public Sector Governance

affects innovation capability

- Legal frameworks are widespread but their application is uneven
- The role of SOEs tends to decline as economies develop
- Economies' innovation systems can be more integrated and coherent

Conclusions



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- Firm innovation is another lens through which economies can consider the impact of structural policies and examine areas where reform may be required
- Economies are making progress in developing structural policies to support innovation
- However, no matter the level of development, all economies face capability challenges in developing the policies and institutions that will improve firm innovation outcomes
- APEC economies can learn from each other