

# Regulatory Reform in support of National Competitiveness

Lessons from around the world

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- ❑ **How regulatory reform can contribute to competitiveness**
- ❑ **Varieties of regulatory reform experience (one faith, many chapels)**
- ❑ **How can Chinese Taipei tap the competitiveness potential of RR**

# **Part one:**

## **How regulatory reform can support competitiveness**

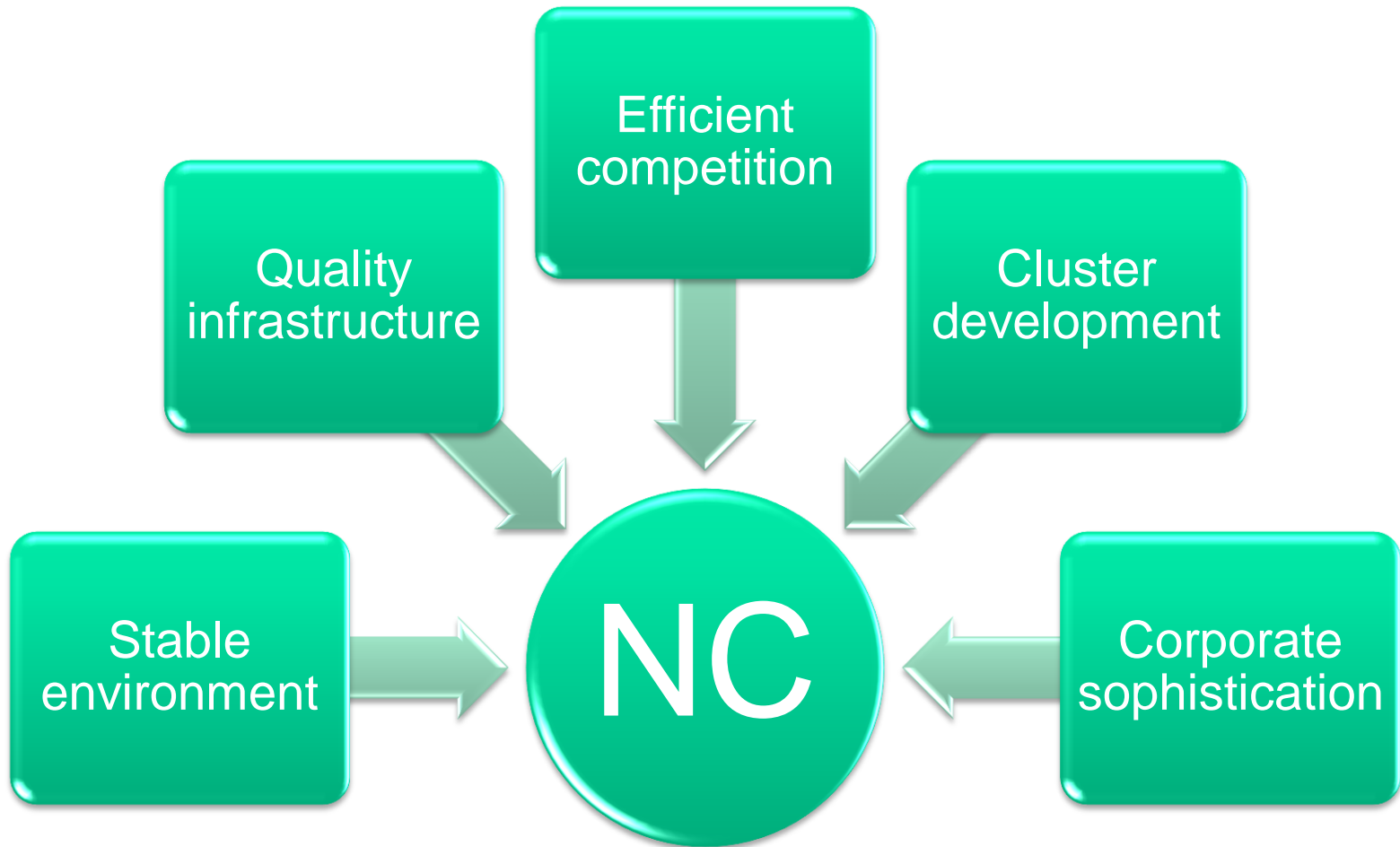
**Approaches to competitiveness**

**Regulation in society and the economy**

**What is quality regulation?**

**Measuring competitiveness**

# Drivers or competitiveness



# Determinants of competitiveness (Porter)

- ❑ **Macroeconomic competitiveness:**
  - Social infrastructure and political institutions
  - Macroeconomic policies
- ❑ **Microeconomic competitiveness:**
  - Quality of business environment
  - State of development of clusters
  - Sophistication of company operations and strategy

# How can governments nurture competitiveness?

- ❑ Establish a stable and predictable macroeconomic, political, and legal environment
- ❑ Improve the availability, quality, and efficiency of general purpose inputs, infrastructure, and institutions
- ❑ Set overall rules and incentives governing competition that encourage productivity growth
- ❑ (cluster development)
- ❑ (process of economic change )

# National Competitiveness “policy clusters”

## External competitiveness

- Openness to international trade

## Regulatory competitiveness

- Attractiveness of the domestic business environment
- Regulation supportive of efficient markets

## Public sector competitiveness

- Investment in infrastructure
- Security
- Education

**Dangers:**

**ideological bias (“liberalisation”), lack of economic analysis**

**Source: Weymouth<sup>8</sup> and Feinberg**



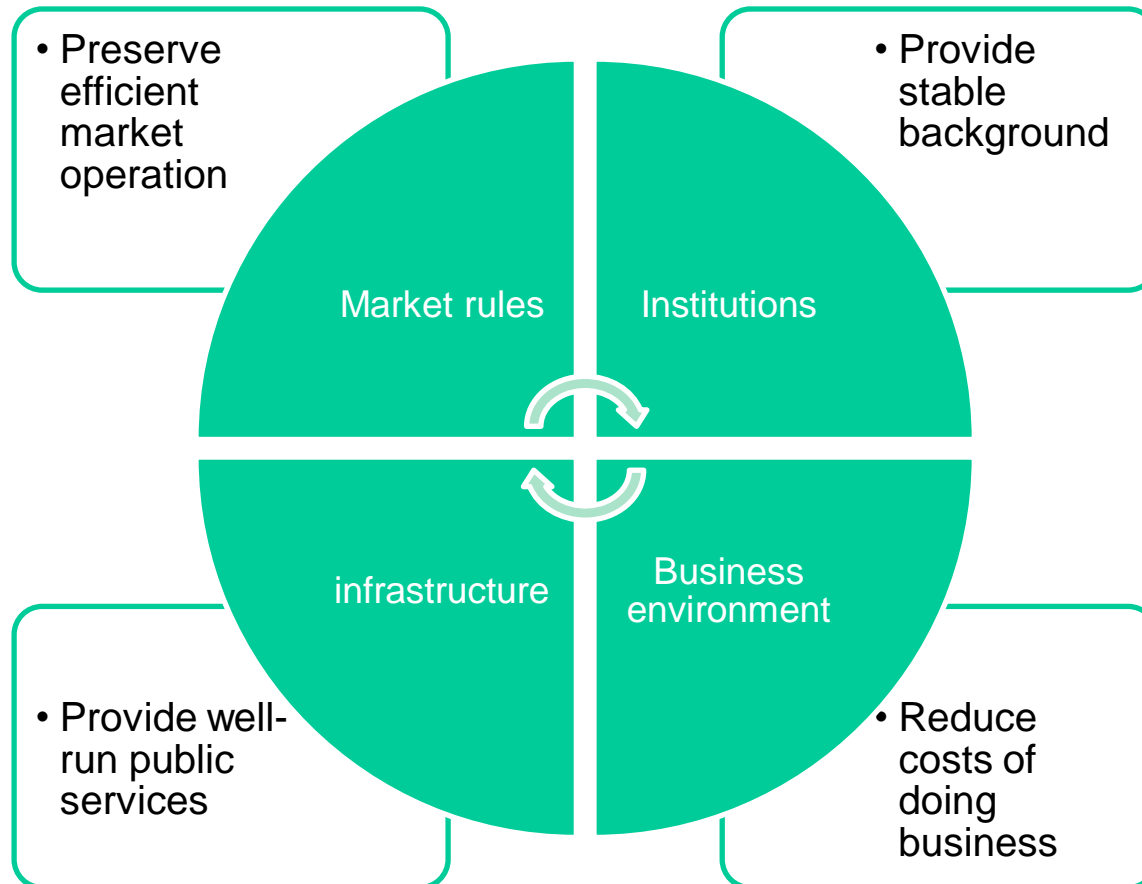
# How regulation can hamper competitiveness

- ❑ **Costs**
  - direct /indirect; compliance /admin costs
  - SMEs and the economies of scale
- ❑ **Unintended microeconomic choices: interfering with optimal allocation of resources within the company to different business processes. Regulatory uncertainty causes risk of deferral of investment**
- ❑ **Barriers to efficient market functioning**

# How regulation can support competitiveness (UK approach)

- ❑ **Reduce regulation that raises the cost of doing business**
- ❑ **Assure basic legal guarantees (land law, contracts, dispute resolution, etc) and corporate governance FW**
- ❑ **Preserve level playing field for markets: competition policy and law, financial markets supervision,**
  - remove impediments to entry to markets and discriminations (regs or taxes) or protecting incumbents against competitors
  - Seek out anticompetitive behavior, to avoid rents, for lower prices
- ❑ **Enforce standards to disseminate major technologies**

# The main areas of regulation in support of competitiveness



# The economic basis

- ❑ **Economic studies (Nicoletti and Scarpetta 2003) show that product market reform are positively correlated to total factor productivity growth, with the strongest cause is reducing admin burden;**
- ❑ **Gelauff (2006): a 25% cut of administrative burdens (red tape) → +0.9% GDP by 2005**

# Qualities of regulation supporting competitiveness

- ❑ **Necessary**
- ❑ **Clear/ accepted**
- ❑ **Light (costs)**
- ❑ **Well targeted**
- ❑ **Stable**
- ❑ **Proportional**
- ❑ **Well applied**

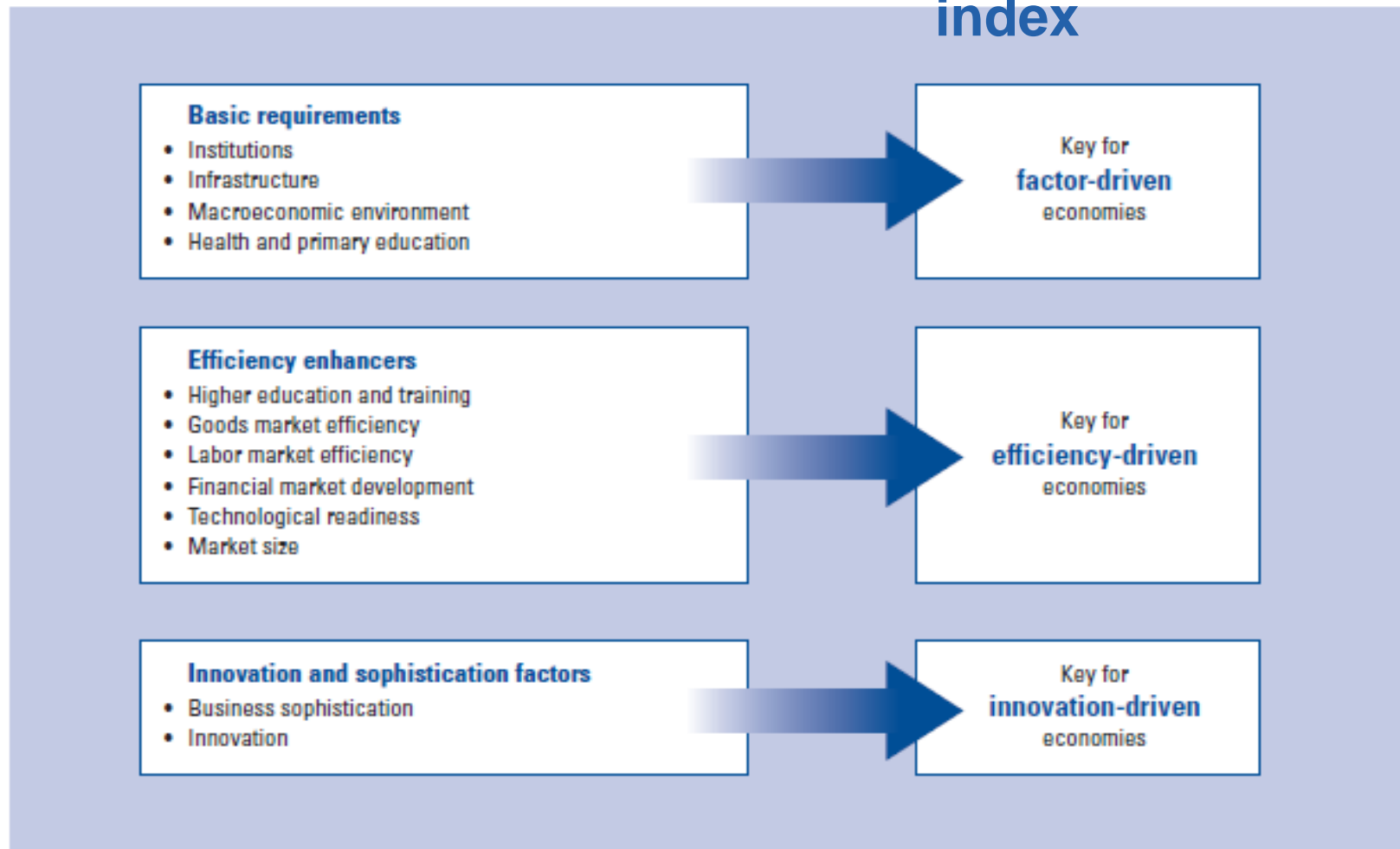
## Regulatory reform supports i.a. NC

- ❑ Not to be confused with regulatory competition
- ❑ RR pursues multiple objectives (growth, social cohesion, risk management, protection), NC is a spin-off, not the only objective.
- ❑ RR aims at making the best use of regulation in support of the full range of public policies
- ❑ NC requires more than RR, but RR may be the most elusive but also the most cost-efficient of the NC policies

# Measuring competitiveness (1)

Figure 1: The 12 pillars of competitiveness

## The Global Competitiveness index



## Measuring competitiveness (2)

### The Doing Business index

- **Annual report ranks 183 “economies” on key aspects of business regulation (outcomes)**
  - Starting a business      - Dealing with construction permits
  - Registering property      - Protecting investors
  - Paying taxes                  - Trading across borders
  - Enforcing contracts      - Closing a business
- **117 countries carried out 216 reg reforms**
- **WBG advises countries on RR on raising ranking**



## **Part 2**

# **Varieties of regulatory reform**

**The growth and control of regulation**  
**The three ages of regulatory quality**  
**International and national approaches**

# Regulation and society

- **Regulation: written rules that mandate behaviour, in pursuit of policy objectives**
- **Regulation, “one of three key levers of state power, with fiscal and monetary policy” (OECD)**
- **One of the two ‘outputs’ of administration, with public services, hence need for quality and value approach;**
- **Regulation pursues social outcomes, establishes and protects rights. Benefits of reg. must not be forgotten;**
- **Dilemma: how specific should regulation be (SME policy)**
  - SMEs disproportionately hit by regulation, hence “SME test”;
  - Avoid over-specific regulation but cater for legitimate needs
  - Avoid “exemptions” and “derogations”

# Regulation and the economy

## ➤ Regulation in economic theory

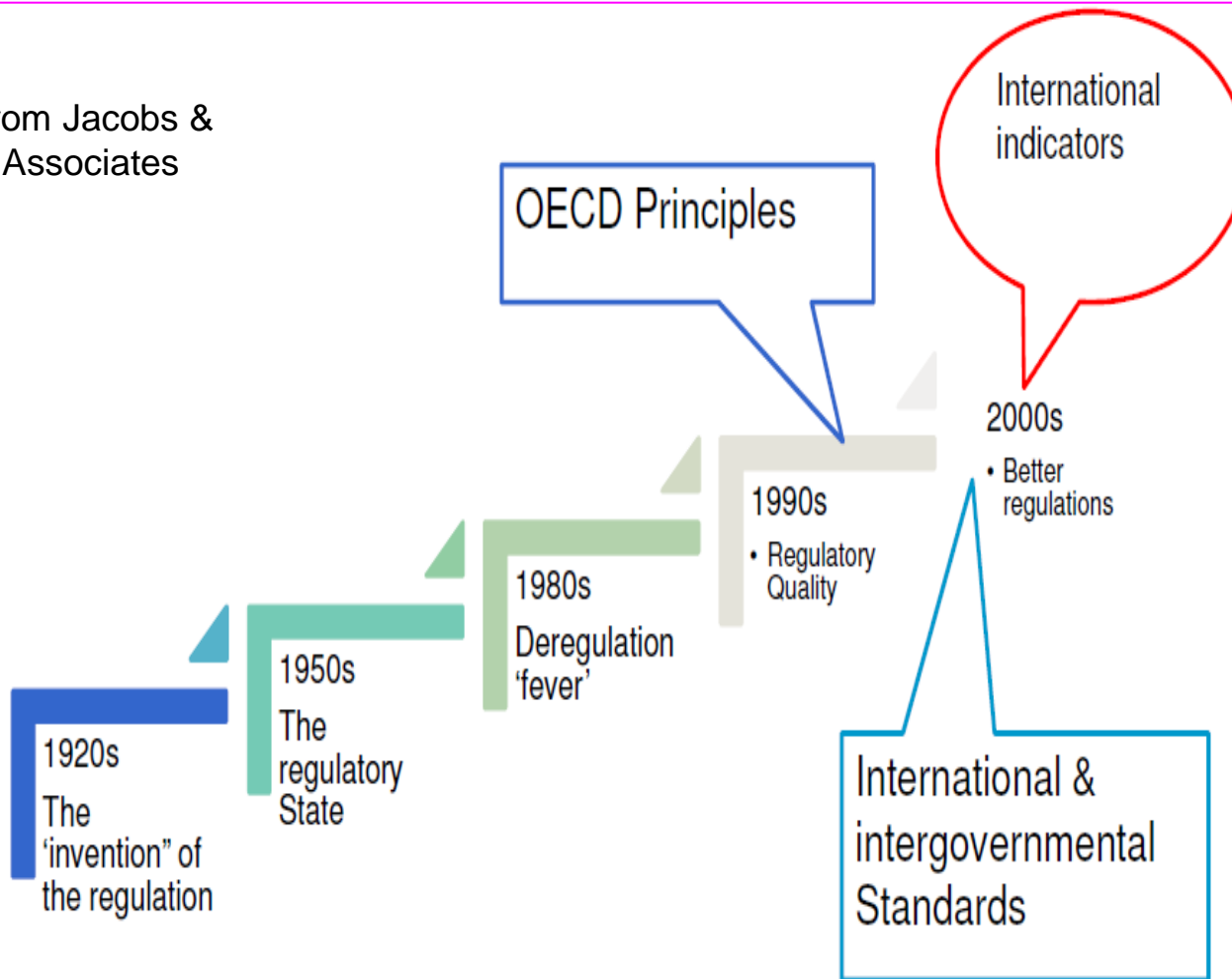
- Value of open free markets (Chicago school)
- Market failures, asymmetric information, externalities not covered (Stiglitz)
- Limits of the informal sector, the need for good regulation (Loayza)
- The BR answer: CBA, AB, RIA (quantify)

## ➤ Regulation after the crisis

- Regulatory gaps – clear market failures
- Regulations as preferred policy instrument in era of fiscal constraint
- Low public trust requires more, not less, regulation

# From regulation to better regulation

From Jacobs & Associates



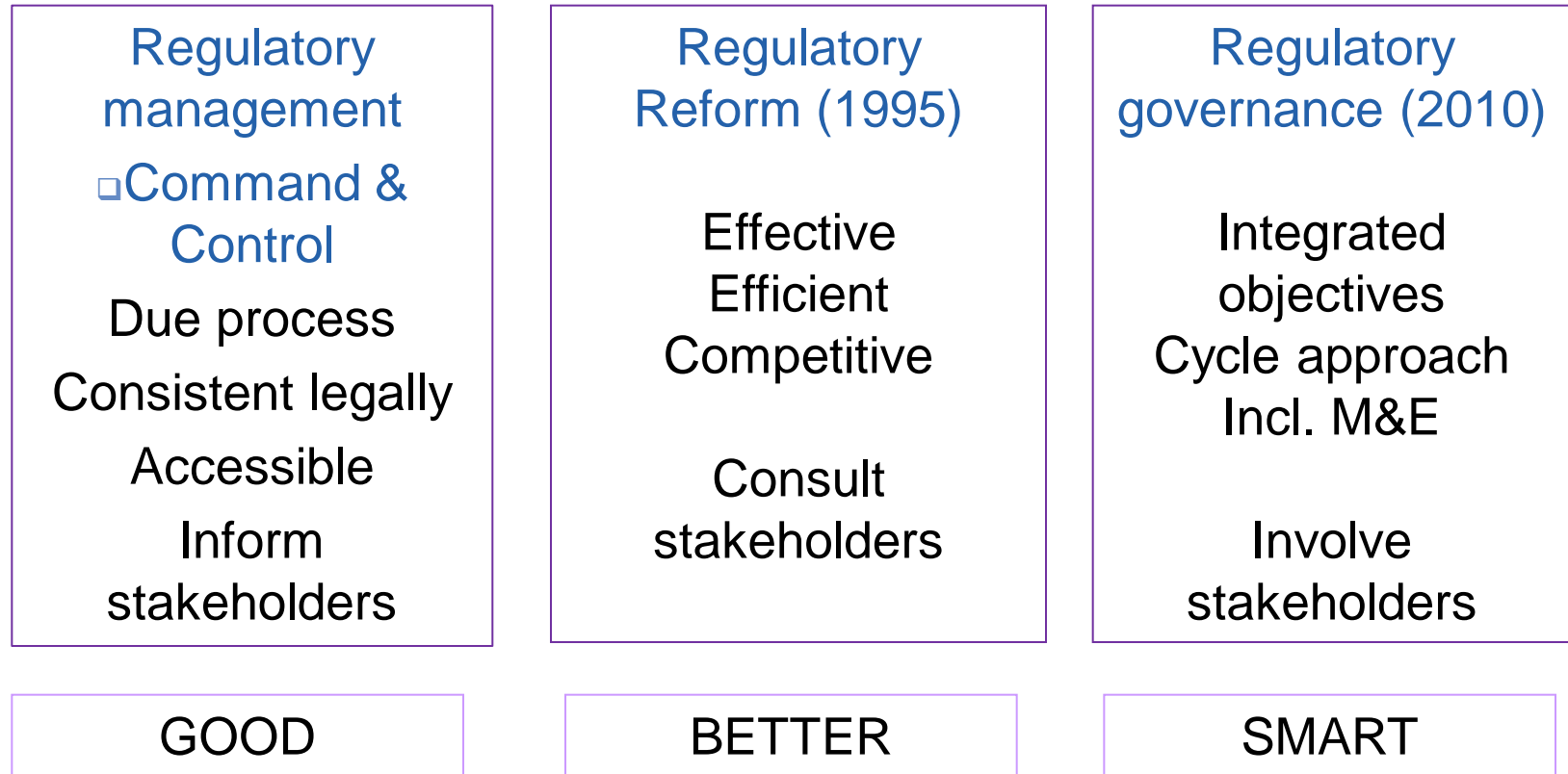
# The battle for “Principles” of regulatory quality

- Early sets of principles
  - **OECD 1995-97: 7 recommendations to governments**
  - **UK 1998: 5 principles transparency, accountability, targeting, consistency, proportionality**
- Maturity
  - **Mandelkern report (EU) (2001): six dimensions**
  - **OECD “performance” 2005 : Broad programmes, impacts, transparency, competitiveness test, liberalisation, policy linkages**
- Current trends
  - **National sets: Australia (2007) “best practice regulation,” Ireland, Finland...**
  - **OECD review of 2005 principles (2011): post-crisis adaptations**

# Challenges to Delivering High Quality Regulation

- **Lack of coordination and planning capacities**
- **Vested interests may block reform; political incentives favour short term interests over long term societal policy goals**
- **Rapidly changing environments (obsolescence)**
- **Too many levels of government: duplicative or excessive reg. (e.g. gold-plating of EU law)**
- **Over-reliance on regulation, regardless of cost and alternatives**
- **Risk aversion, poor risk management in reg.**

# The three ages of regulatory quality



BR ≠ Deregulation

BR = dynamic LT process acting on policies, institutions and tools

# One objective, three approaches

## OECD

Regulatory policy  
Think tank  
Best practice forum

Market orientation

Public  
management

## European Union

Better/Smart  
Regulation  
Supranational  
Manage '*Acquis  
communautaire*'  
Subsidiarity  
Transposition  
Process-oriented  
Inter-institutional

## World Bank Group

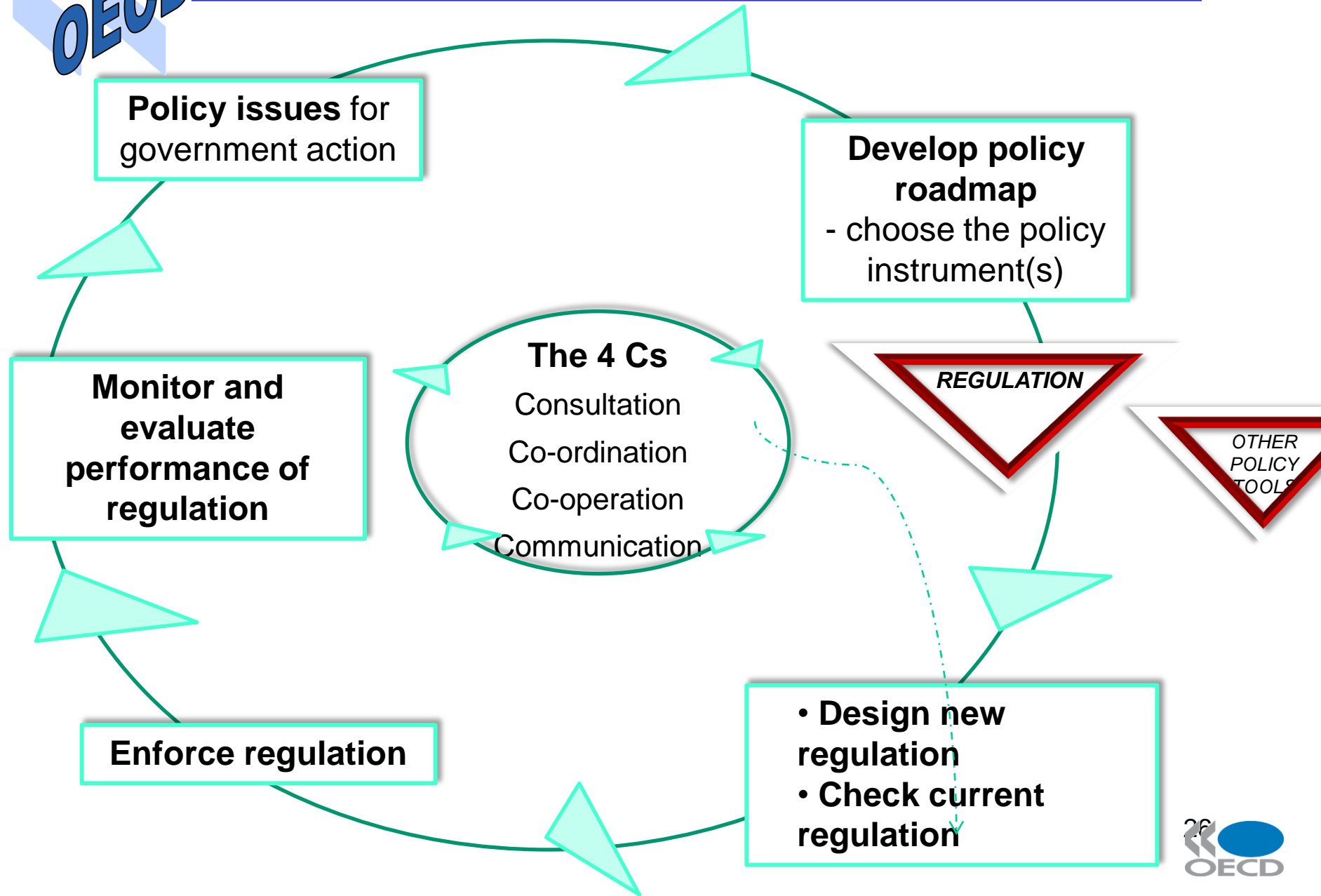
Business climate  
Doing Business  
(outcomes)

Development  
technical  
assistance  
One stop shops  
Licensing  
Reg. guillotine



- **Institutions for regulatory oversight**
- **Building capacities and introducing tools**
- **Preventing regulatory capture**
- **Ensuring policy sustainability**
- **Contributing to green growth**
- **Addressing risk in regulation making**
- **Coordinating multi-level regulation**
- **International regulatory co-operation**

# 'Regulatory Governance Cycle'



## Mandelkern

Predominantly legal  
Simplification  
Consultation  
standards 2002

## Barroso I (2005)

VP Verheugen  
Competitiveness  
test

Admin Burden  
Reduction Progr.  
2007-12

SME test

Stoiber Group

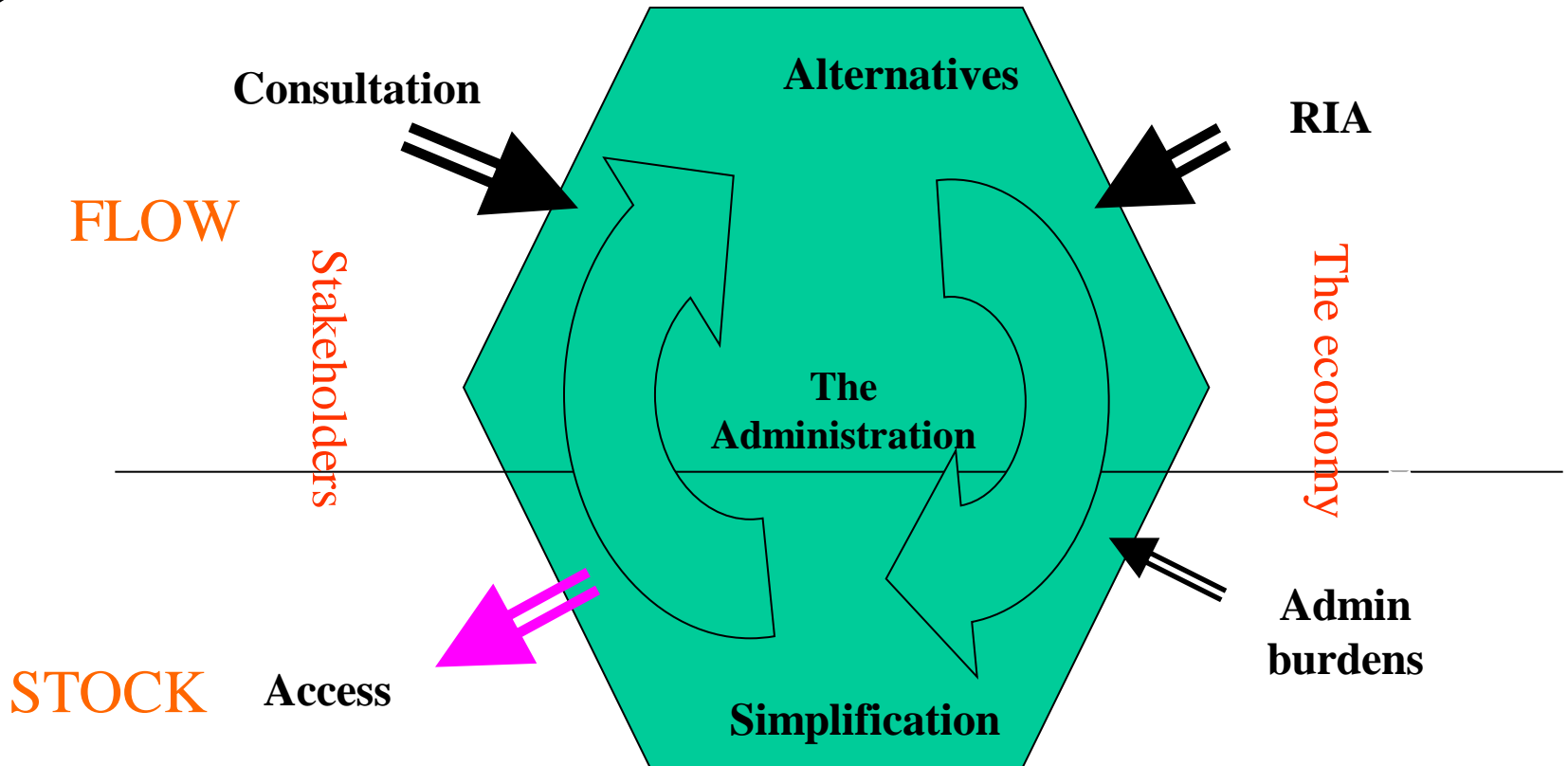
## Barroso II (2010)

Smart Regulation

Fitness checks

Cycle approach

Integration of  
evaluation,  
infringements,  
complaints



+ Tools for ensure efficient implementation (including information, government forms, BPR, OSS, inspections)

## Goals of Regulatory Reform

- **Increase social welfare through more effective social and economic policies**
- **Boost economic development by encouraging market entry and competitiveness**
- **Control regulatory costs and improve productive efficiency, particularly for SMEs**
- **Improve the rule of law , transparency and participative democracy**

## Dimensions of the business environment

Administrative	<b>“One stop shop”, single window, inspections, licensing, standardized forms and corporate documents</b>
Legal	<b>Commercial code, company law, collateral law, bankruptcy, labor law, infrastructure laws, PPP</b>
Judicial	<b>Court procedure, case management, performance of judges</b>
Electronic services (eGov)	<b>Company/collateral registry, Credit bureau, Electronic signature, single ID, Paying taxes, Legal portal</b>
Tax and Subsidies	<b>Corporate tax, VAT, social contribution, registration duties, selective interventions</b>

# How to present regulatory reform?

## Deregulation, Reducing regulation

- Korea, Taiwan, UK (2011), NZ

## Improving business climate, reducing administrative burdens

- Australia, Netherlands, Belgium, Singapore

## Better Regulation

- UK, European Union, Ireland

## Fighting bureaucracy

- Germany

## Administrative simplification

- France, Italy, Portugal, Viet Nam

## Regulatory reform

- OECD, World Bank, US, "PR China, Poland, Netherlands, Thailand

# More active stakeholders

- **Support/ contribute to defining better regulation**
  - It is (supposed to be) a business-friendly policy
  - It expressly valorises consultation / partnership
  - It would like to roll back bureaucracy
- **Contribute to stock and flow management**
  - Anticipate stock reviews & make case for repeal/review
  - Assist RIA with relevant information incl. legal analysis
  - Support legal review of texts and present drafts
- **Take over regulating**
  - Obtain mandate from regulator for Self-regulation
  - Publish generally agreed standards



# Stakeholder challenges

*How can stakeholder organisations take up the challenge of regulatory governance?*

- **Can they contribute to higher evidence content in policy making?**
- **Should they mobilise political support or users support to reform, how?**
- **How can they contribute without appearing “captured”?**
- **“Top down” or a “bottom-up” approach?**
- **Can better regulation lead to loss of business?**

# Country best practices

## Transparency and open government

- Denmark, Finland, Norway, US

## Quantifying regulatory costs

- Australia, NL, UK, US

## Multilevel governance

- Italy, Mexico

## Simplification, one-stop-shop

- Austria, Belgium, Mexico

## Independent advisory bodies

- Germany, NL, UK, Sweden

## **Part 3**

# **Options for Chinese Taipei**

**Impressive NC results**

**But other economies are pursuing RR**

**Chinese Taipei must also enhance RR**

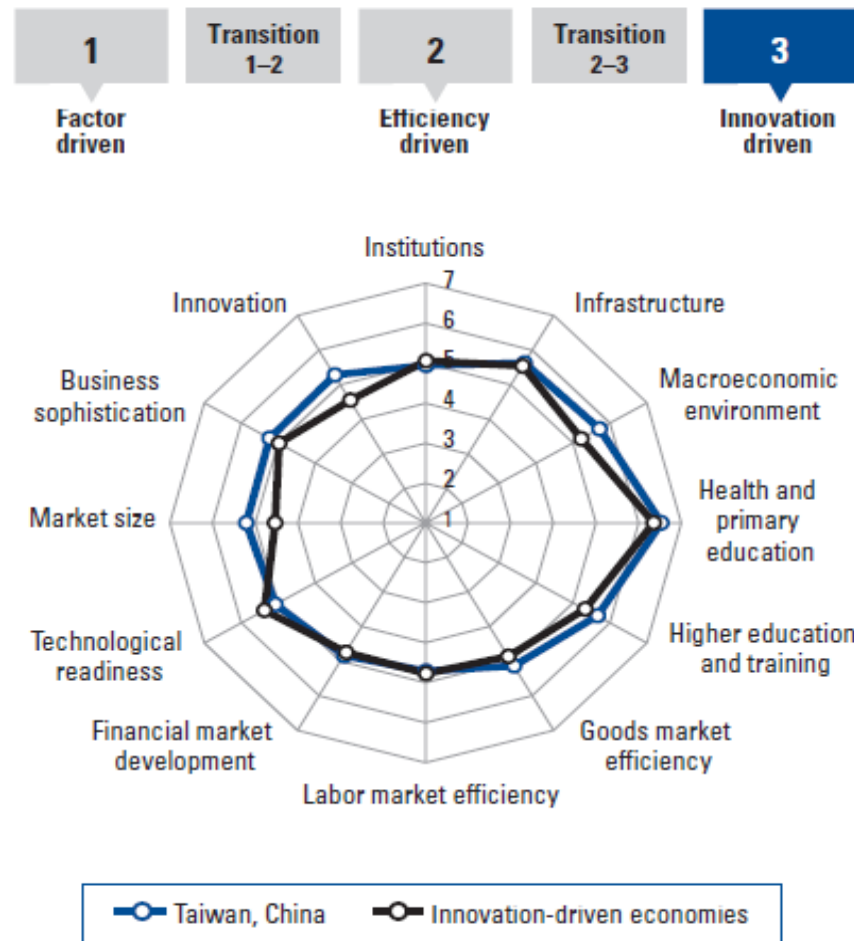
# Taiwan in the GCI

## Global Competitiveness Index

	Rank (out of 142)	Score (1–7)
<b>GCI 2011–2012</b> .....	<b>13</b> .....	<b>5.3</b>
GCI 2010–2011 (out of 139).....	13.....	5.2
GCI 2009–2010 (out of 133).....	12.....	5.2
<b>Basic requirements (20.0%)</b> .....	<b>15</b> .....	<b>5.7</b>
Institutions.....	31.....	4.9
Infrastructure.....	20.....	5.6
Macroeconomic environment.....	22.....	5.7
Health and primary education.....	11.....	6.5
<b>Efficiency enhancers (50.0%)</b> .....	<b>16</b> .....	<b>5.1</b>
Higher education and training.....	10.....	5.6
Goods market efficiency.....	11.....	5.1
Labor market efficiency.....	33.....	4.7
Financial market development .....	24.....	4.8
Technological readiness.....	24.....	5.1
Market size .....	16.....	5.2
<b>Innovation and sophistication factors (30.0%)</b> .....	<b>10</b> .....	<b>5.3</b>
Business sophistication .....	13.....	5.2
Innovation.....	9.....	5.3

# Taiwan in the GCI 2011- 2012

## Stage of development



## Comment from GCI

**Taiwan, China remains stable in 13th position, profile nearly unchanged**

**Consistent performance across the pillars of the GCI,**

□ **Assets**

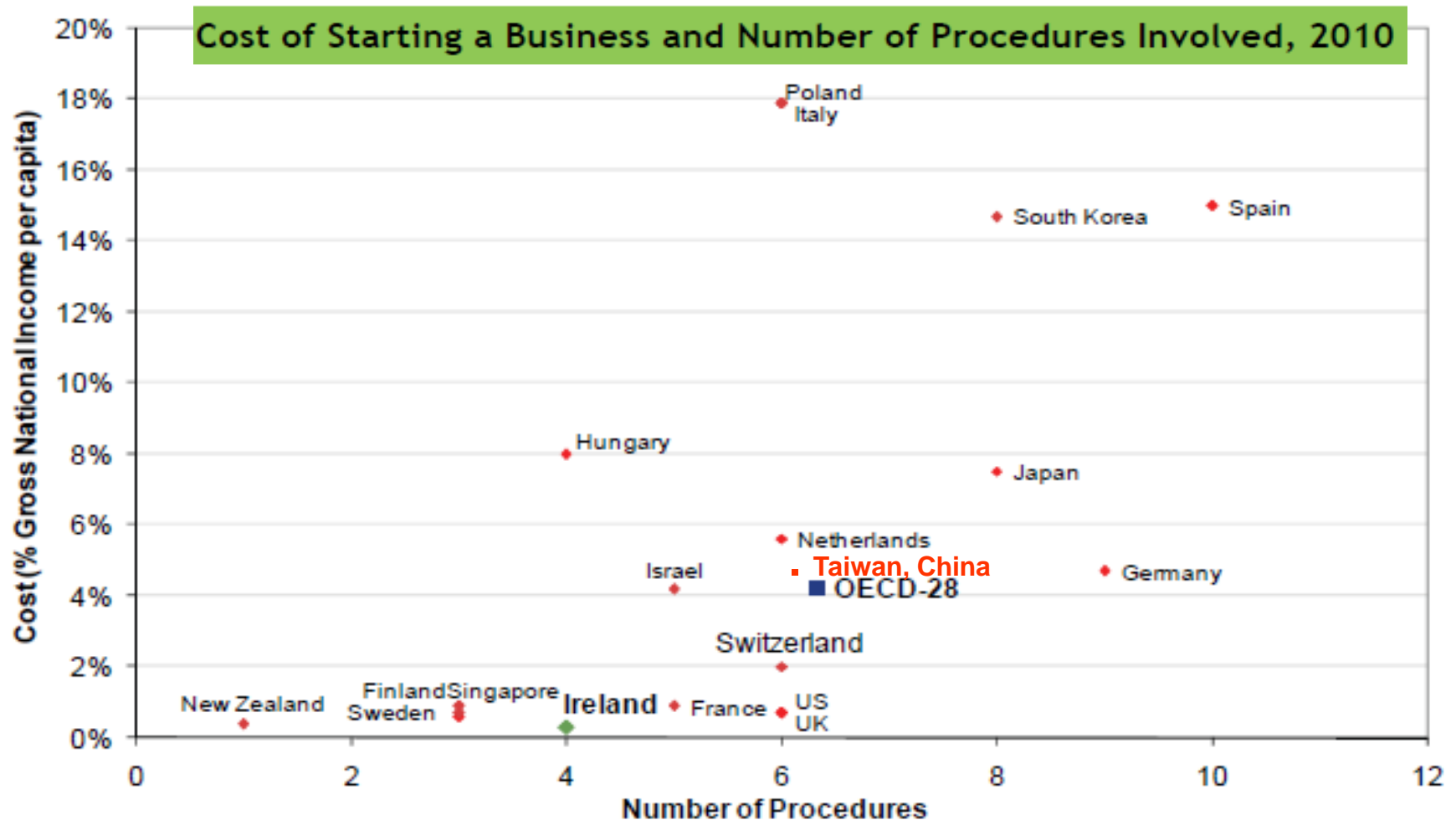
- innovation (9th)
- quality and presence of business clusters in high-end manufacturing, first-class R&D,
- excellent educational system,
- high level of technological readiness (24th) and well-developed infrastructure, with the exception of air transport (51st).

□ **Weaknesses:**

- rigidity of labor rules (118th, deteriorating) causes inefficiency of market (33rd),
- public and private institutions (31st), but improving.

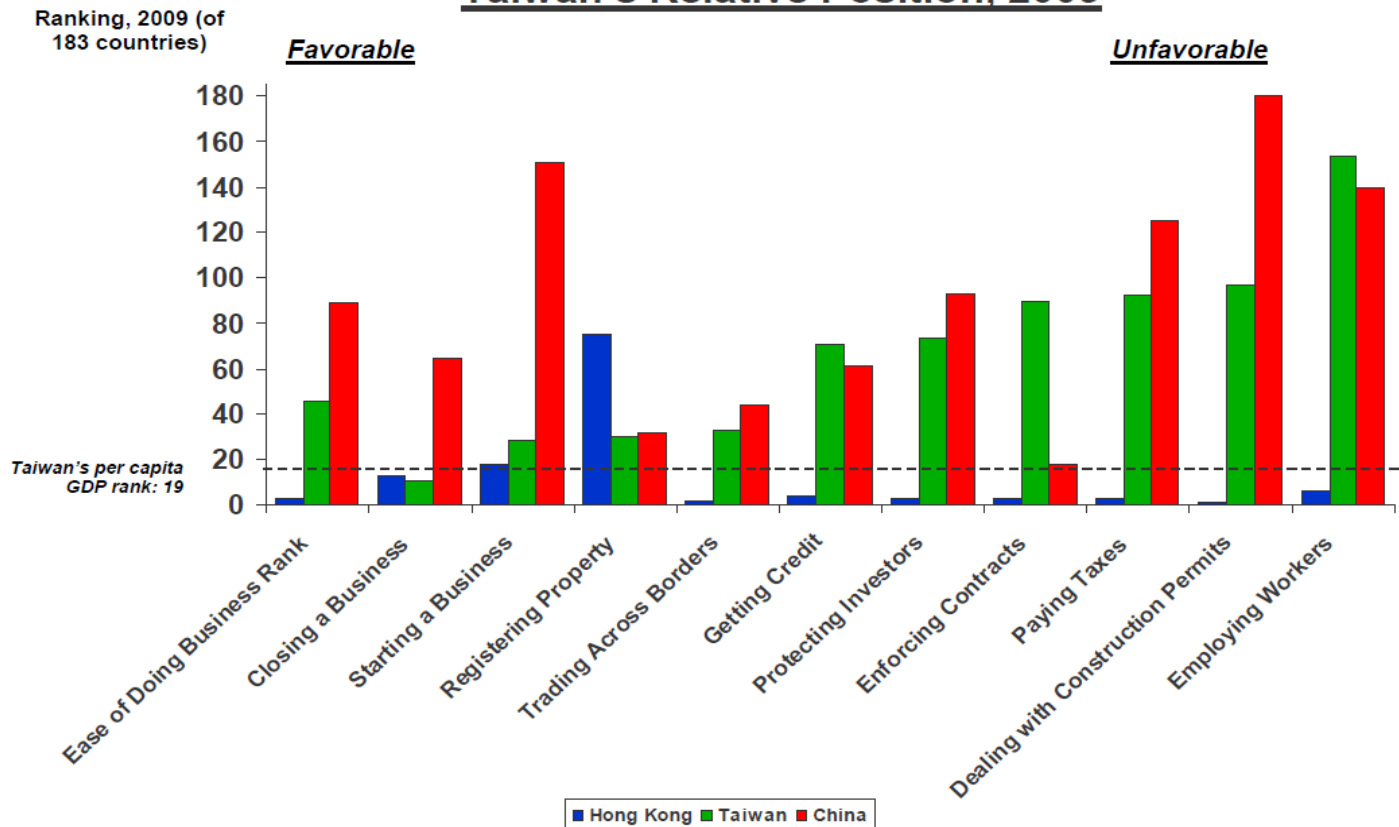
# Doing Business approach

OVERALL RANKING (2011): 33



# Taiwan's comparative position

## Ease of Doing Business Rankings Taiwan's Relative Position, 2009





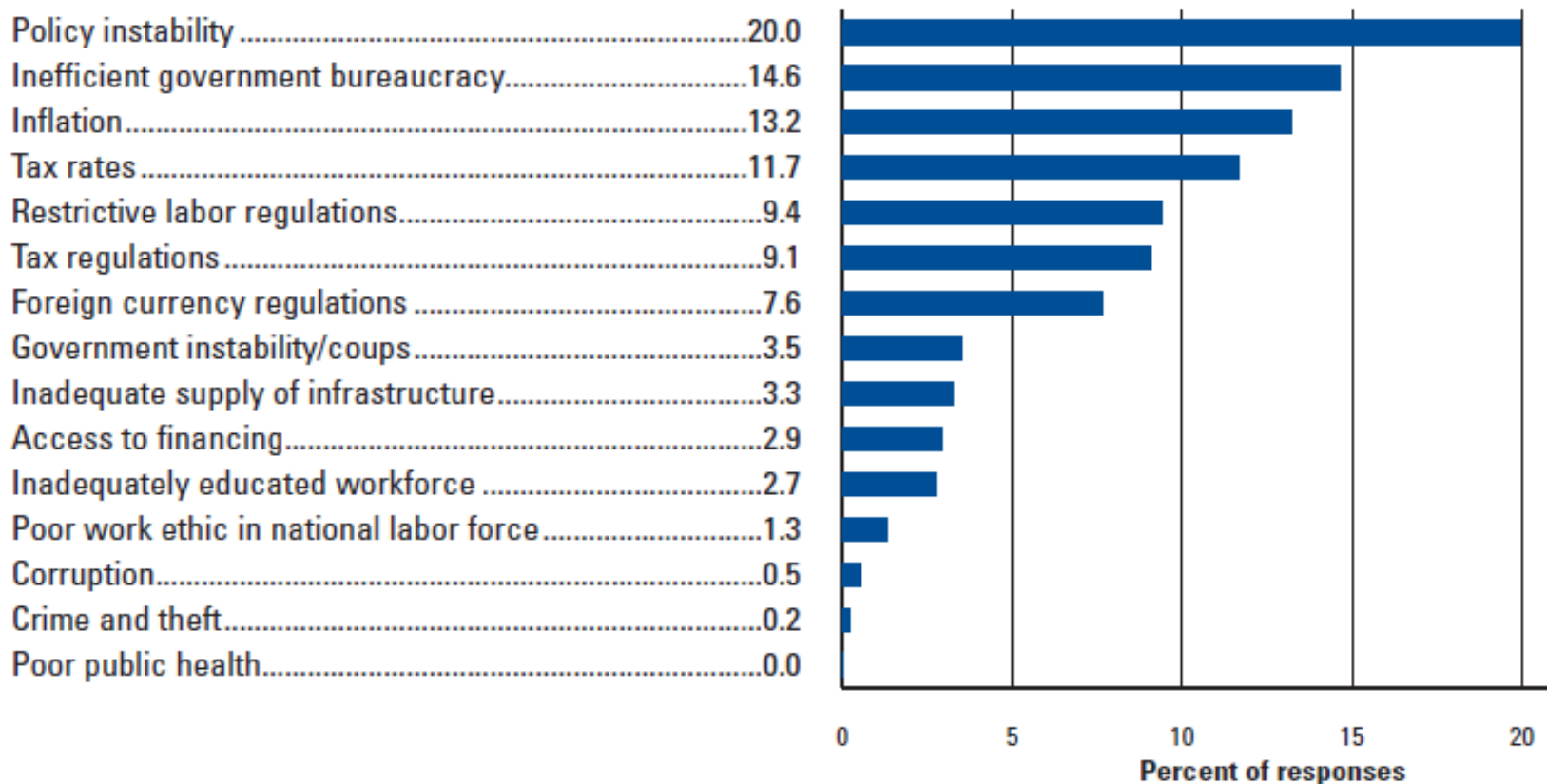
# Taiwan's assets in global competition

- ❑ **Highly innovative**
- ❑ **Strong intellectual property protection**
- ❑ **Entrepreneurial**
- ❑ **Flexible business culture reacts rapidly**
- ❑ **Large pool of researchers**
- ❑ **Strong science and technology education, research institutions**
- ❑ **Some deep technology clusters in closely related industries**
- ❑ **Logistics strengthened In past 10 years**
- ❑ **Strong outbound FDI**
- ❑ **Gateway to China: strongest democracy, freedom of speech of any Chinese-speaking**

**BUT ...**

# Problematic factors of doing business

## The most problematic factors for doing business



## Further reasons to engage in RR

### ❑ **Risks affecting all economies**

- Ever more complex policies (green growth, climate, etc)
- Fierce competition (need to keep pace)
- Impact of the crises (stress test of governance)

### ❑ **Opportunities**

- Regulation: the most promising remaining factor
- The least expensive reform (leverage effect)
- APEC cooperation and mutual expertise
- OECD-APEC dialogue

# A menu for regulatory reform

## Appetizers

- Review domestic/ foreign policies
- Adopt government policy

## Starters

- Set up/ strengthen institutions
- Develop capacities (RIA)

## Mains

- Launch review of existing law
- Implement tools: RIA, etc

## Desserts

- Monitor and report progress
- Communicate to sustain reform

# RR will support key economic reforms

- ❑ **Public service modernisation**
  - Removing stovepipes
  - More reactive civil service, attuned to social needs
- ❑ **Privatisation of SOE (utilities, postal services,etc) public procurement reform**
- ❑ **Removal of obstacles to trade**
- ❑ **Upgrade of university education**
- ❑ **Public Private Partnership legal framework**
- ❑ **Financial services regulatory framework**
- ❑ **Modernisation of legal stock (removal of outdated historical data)**

# To continue the study...

- **This presentation is online**
  - <http://montin.com/documents/taipei.pps>
- **Updates on current events and trends:**
  - <http://smartregulation.net>
- **Contact:**
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