



# **Growth Strategies: G20 Emerging Market Economies**

World Bank Staff Assessment

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## Overview

Against a backdrop of growing concerns about the global growth outlook, the preparation of country growth strategies has been at the center of the G20 agenda in 2014 under the Australian Presidency. The strategies prepared have been very useful vehicles for systematically identifying policy gaps, articulating policies and actions, and assessing policy priorities and linkages. They have benefited from an extensive process of discussion and peer review within the G20. G20 members have made notable progress over the year in setting out tangible policy commitments in pursuit of their objective of strong, sustainable, and balanced growth. This note, prepared by World Bank staff, provides an assessment of the growth strategies submitted by G20 members that are emerging economies (10 in all). The note's focus on structural reforms complements the IMF's work on macroeconomic policies. Also, the qualitative assessment presented in this note complements the quantitative assessment of the growth impact of the policy commitments prepared by the IMF and the OECD.

Details of the assessment for individual G20 emerging economies are presented in the attached matrix, including an evaluation of the actual policy commitments made in the growth strategies and identification of the policy gaps that need more attention going forward.<sup>1</sup> The assessment focuses on the four policy areas emphasized by the Australian Presidency in the growth agenda, namely, investment/infrastructure, employment, competition/business environment, and trade. It also covers other areas of structural reform addressed by countries in their growth strategies. The emphasis in the strategies on investment and structural reforms is appropriate: while the proper calibration of macroeconomic policies is important to support aggregate demand in the short term, in the medium term it is the productivity-enhancing structural reforms and investments that will drive strong and sustainable growth.

The nature and strength of the policy commitments vary considerably across individual country growth strategies, as detailed in the attached matrix. Looking across individual countries, the assessment provides the following cross-cutting messages in the aforesaid four focal areas of reform—in terms of where the policy commitments in general are stronger and where more action is needed to address continuing gaps:

- *Investment/Infrastructure:* The strategies are in general stronger on increasing investment levels and boosting financing but weaker on ensuring the quality of investment. Plans to increase spending need to be accompanied by stronger actions to improve public sector management of investment and the climate for private investment and public-private partnerships.
- *Employment:* The strategies are relatively strong on active labor market policies, vocational training, and policies to improve participation/employment of targeted groups—women and youth. These efforts (and demand-side measures) need to be complemented by deeper reforms of laws and regulations to improve labor flexibility and job formality—supported by well-designed and targeted safety nets—and of education and training to enhance quality and relevance.
- *Competition/Business Environment:* The strategies are generally stronger on reducing the cost and complexity of doing business and improving logistics to increase *competitiveness* but weaker

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<sup>1</sup> Preliminary versions of these assessments of individual country growth strategies were presented and discussed at the G20 Framework Working Group (FWG) meetings in Goa, India, in June 2014 and Pilanesberg, South Africa, in September 2014. The assessments take into account updates to the country growth strategies submitted to the FWG up to November 5, 2014. The assessments of individual country growth strategies presented in this note reflect evaluations prepared by the World Bank country teams based in the respective countries.

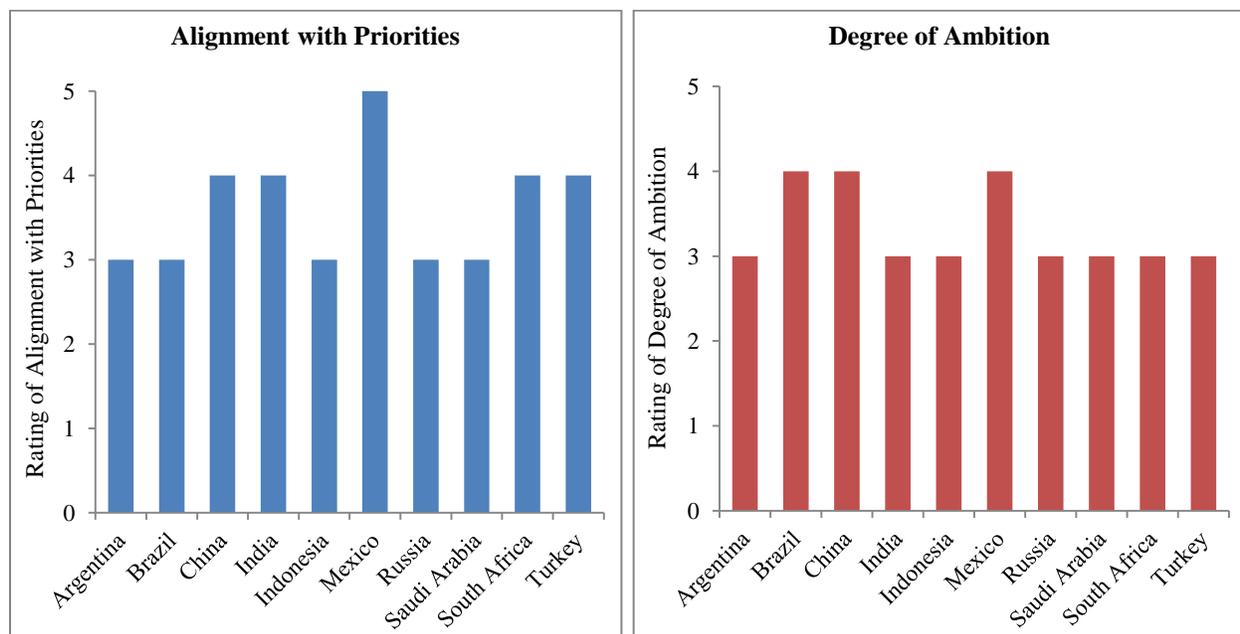
on boosting *competition*. Areas needing more attention include strengthening competition policy, enhancing competition in service and network industries, and implementing deeper legal and institutional reform (such as to improve contract enforcement and the insolvency regime).

- *Trade*: The strategies typically have a strong focus on trade facilitation and other actions to promote exports. Complementing these actions, the trade reform agenda would benefit from more attention to import liberalization and integration into global value chains, including liberalization of services trade. Beyond individual country actions, the G20 can do more on the collective action agenda on trade.

The growth strategies vary in their degree of comprehensiveness. All of them include measures in the above four focal policy areas, but the coverage of other policy areas is uneven. While some strategies include significant new measures in areas such as tax and expenditure policies, financial sector reform, and sustainable energy development, others include few or no new measures in such areas.

Overall, the G20 emerging economy growth strategies have a relatively high degree of *alignment* between the policy commitments and the country policy priorities to boost strong, sustainable, and balanced growth. The degree of *ambition* of the policy commitments is in general somewhat lower.<sup>2</sup> On a five-point scale from low to high, on average, the strategies score medium-to-high (4) on strategic alignment and medium (3) on ambition (Figure 1). In general, the degree of ambition is higher for investment and infrastructure than in the areas of employment, competition, and trade. The specificity and concreteness of the policy commitments in the growth strategies have improved with each iteration but there remains much room for improvement.

**Figure 1: Structural Reforms in Growth Strategies – Overall Assessment**



Source: World Bank staff assessment.

<sup>2</sup> Alignment measures the degree to which the policy commitments are addressing priority reform areas in the country. Ambition measures the strength of the envisaged policy actions.

The growth strategies are geared to the achievement of the G20 objective of strong, sustainable, and balanced growth. The promotion of *inclusive* growth is a dimension that is not fully integrated into the growth strategies—although the strategies do include a variety of measures that would not only promote growth but also help to make it inclusive. This is the case also with the growth strategies prepared by the G20 advanced economies. With rising inequality in many countries (including in a majority of G20 countries) and increasing evidence that rising inequality may be harmful to economic stability and the sustainability of growth, the inclusiveness of growth needs to be a more integral part of the G20 growth strategies.

## Argentina

Policy Area	Summary Assessment of Policy Commitments	Alignment with Priorities	Degree of Ambition	Policy Gaps Needing More Attention
Investment and Infrastructure	The strategy correctly emphasizes investment in energy and transport and highlights the role of private sector participation. It includes projects to address the large infrastructure gaps in poorer Northwestern and Northeastern provinces. It also aims to address financing constraints by fostering development of financial intermediation for infrastructure and SMEs. More clarity is needed on prioritization of infrastructure investments. Interventions to boost financing need to be framed within sustainable financial market development.	Medium	Medium	Need to introduce stronger cost recovery measures to ensure sustainability of infrastructure investments. Mobilizing private capital will depend on further efforts to improve business environment. Redoubling efforts to improve relations with foreign creditors, companies, and institutions is important to promote FDI inflows.
Employment	Measures to reduce informality through improved incentives and enforcement and to strengthen professional training for youth ( <i>Plan Progesar</i> ) are important, but non-registered employment targets appear optimistic given the current economic context. Actions include providing protection to those without access to formal jobs, but these are not new commitments. Countercyclical measures to preserve employment help reduce workforce vulnerability but need to be assessed in terms of their efficiency and sustainability.	Medium	Medium	On formalization and youth training, a key issue is restrictions on the system's capacity to provide quality training to a large number of participants.
Competition/Business Environment	Envisaged regulatory reform will help to improve competition in the TLC sector.	Low to Medium	Low to medium	Given the complexity and cost of business regulations, the absence of broader reform in this area is a notable gap in the growth strategy.
Trade	Measures focus on increasing and diversifying exports through specific export promotion programs and participation in preferential trade agreements.	High	Medium	Inconsistency of current trade restrictions with the objectives of trade promotion and diversification; need to clarify how these will be handled.
Other Measures	Focus on adoption of the three Pillars in Basel II and the new elements in Basel III.	Medium	Medium	Need to articulate a clearer and comprehensive direction for financial sector reform, especially development of longer-term capital market.
Structural Policies Overall	The strategy seeks to address some key structural constraints to growth but the desired results may be limited without addressing underlying macro-fiscal imbalances. Also, the strategy takes a rather narrow approach to promoting investment and trade as against a broader effort to improve the investment climate and competitiveness.	Medium	Medium	More attention needs to be paid to: improving the broader business environment by removing regulatory barriers and trade restrictions and enhancing competition (declining DB and GCI ratings); implementing tax and subsidy reforms and ensuring fiscal sustainability of social programs; and improving the quality of education and enhancing support to technology and innovation.

## Brazil

Policy Area	Summary Assessment of Policy Commitments	Alignment with Priorities	Degree of Ambition	Policy Gaps Needing More Attention
Investment and Infrastructure	National Plan of Integrated Logistics will provide an integrated approach to a major program of investment in logistics infrastructure. The creation of a working group on infrastructure financing and implementation of Infrastructure Guarantee Fund and Brazilian Agency for Management of Guarantee Funds are useful steps.	Medium to High	Medium to High	Initiatives on infrastructure investment need to be supplemented by stronger actions to improve public investment management (project preparation and implementation) and regulatory framework for private investment. BNDES's role could be refocused on supporting capital markets and crowding in private sector intermediation.
Employment	The PRONATEC program aims to substantially enhance vocational training. Conditioning unemployment benefits on training will improve productivity and employability while containing fiscal pressure. Progress on formalization to be furthered through better enforcement and enhanced effectiveness of ALMPs. Simplification of information collection on compliance with labor regulations.	Medium to High	Medium to High	Enhance PRONATEC effectiveness through stronger coordination with private sector skill needs and improved monitoring. Reform of national employment agency (SINE) to improve placement rates. Reform of labor regulations and social insurance to improve labor market flexibility. Tax system simplification to reduce informality.
Competition/Business Environment	Useful reform actions to reduce bureaucratic costs and facilitate access to capital market for SMEs. Strategy needs to rely more on broader regulatory reform to improve competition and less on subsidized credits and tax incentives.	Medium	Medium to High	Improving business environment and competition is a key reform area in Brazil; reforms need to be developed and furthered in a more comprehensive framework – spanning product and factor market reform, competition, and taxation.
Trade	<i>Plan Brazil</i> will improve the ability of SMEs to participate in global value chains. Other measures focus on trade facilitation through improvement of information flows and bureaucratic simplification.	Medium	Medium	Further liberalization of trade in goods and services and investment needs to be part of the strategy to lift productivity growth.
Other Measures	Proposal to increase education expenditure to 10% of GDP (including by earmarking part of future oil and gas exploration royalties). Strengthening focus on technology and innovation. Welcome specific commitment to boost early childhood education.	Low	High	Education upgrading will depend more on better quality than higher spending. Sustainability of higher spending also an issue. Technology and innovation also will require more than higher R&D spending, encompassing quality and relevance, competition, and global integration
Structural Policies Overall	The growth strategy correctly focuses on the need to enhance productivity growth. The increased emphasis on supply-side policies to energize growth is a welcome balancing of the policy mix.	Medium	Medium to High	Success will depend importantly on how comprehensive the growth strategy is and how well it is implemented. Need for good coordination and sequencing of reforms across policy areas and stronger monitoring and evaluation of policies and programs.

## China

Policy Area	Summary Assessment of Policy Commitments	Alignment with Priorities	Degree of Ambition	Policy Gaps Needing More Attention
Investment and Infrastructure	Policy commitments address key challenges: increasing efficiency of investment, private sector role in infrastructure, and transparency of public investment spending. New priorities of public investment emphasize mitigation of pollution and supporting people-centric urbanization.	Medium to High	Medium to High	Need to address sustainability of current practice of financing investment using debt. Actions to contain weakness in housing market. Local governments' own revenue sources remain constrained. Land lease revenues to finance public infrastructure not sustainable over longer term. Supporting people-centric urbanization will require complementary reforms in fiscal, labor, and land policies.
Employment	A more proactive employment strategy envisaged, including increasing support for urban residents to find jobs, improving quality of vocational training, providing coordinated employment services to rural migrant workers, and managing reemployment of laid off workers. Commitment to gradually reform the household registration system; measures initially limited to small and medium size cities	Medium	Medium	Constraints to labor mobility will remain in large cities. Broader focus of targeted interventions - not just college graduates but also young migrants. Complement ALMPs with broader reform of business environment.
Competition/Business Environment	Commitment to open access to competitive operations in more areas to allow fuller participation of private capital (including SOE reform), strengthen anti-monopoly enforcement, improve corporate governance, and streamline administrative processes through local government empowerment.	Medium	Medium	More clarity needed (specifics, timeline) on plans to enhance competition in product markets. Articulation of complementary reforms to address key distortions in factor markets (land, capital, labor).
Trade	Notable actions on trade liberalization and facilitation to promote balanced growth of trade. Many of these actions have already been implemented.	Medium	Medium	Potential to increase gains from trade and global integration and competition (including through joining multilateral negotiations on TPP).
Other Measures	Wide-ranging fiscal reforms spanning tax and expenditure measures and institutional framework. New reforms to be completed by 2016 and a modern fiscal system built by 2020. Other important commitments cover financial sector reform (interest rate liberalization, deposit insurance, capital market development, financial inclusion) and exchange rate policy.	Medium to High	Medium to High	Intergovernmental fiscal reforms need greater specificity. Land lease revenues important for local governments and unlikely to be replaced by the proposed real estate tax. Need to promote more competition in financial sector. Address issues in shadow banking.
Structural Policies Overall	Strategy includes measures to rebalance growth toward domestic demand and increase the role played by consumption. Proposed structural reforms are not intended to reverse a moderation of growth China will experience over next five years but rather to improve the quality of growth – make it more balanced, inclusive, and sustainable.	Medium to High	Medium to High	Rebalancing growth toward consumption will require reform coordination across a range of areas: fiscal policy, financial sector, business climate, labor market, and land policy. Boosting consumption will require addressing income inequality, including urban-rural income gap. Need to mitigate any negative social and employment impact of the transformation of the growth pattern.

## India

Policy Area	Summary Assessment of Policy Commitments	Alignment with Priorities	Degree of Ambition	Policy Gaps Needing More Attention
Investment and Infrastructure	Main pillars of the strategy are mainstreaming PPPs via a new institution (3P India), devising innovative financing instruments, promoting FDI, and investments in new coal and solar capacity. 3P India could become a vehicle for advancing PPP regulatory reform, improving project implementation, and framing PPPs within sectorwide, programmatic approaches. However, the strategy lacks details on the proposed institution.	Medium to High	Medium	New energy schemes represent important steps toward more sustainable energy generation but do not address broader issues of improving coal supply and strengthening the performance of distribution companies.
Employment	Policies span promotion of manufacturing and MSMEs, skill-building, labor law reform, reduction of informality, and women's employment. Proposed amendments to labor laws and the Skill India program are highly important but would benefit from additional details. Some MSME actions may have unintended effect of encouraging firms to remain small.	High	Medium to High	Labor law reform should also address the overly restrictive laws on dismissals. Since labor is a joint responsibility between central and state authorities, proposed actions will need to be followed up with state-level reforms to be fully effective.
Competition/Business Environment	New commitments include greater openness to FDI in select sectors, launching ebiz and Make in India online platforms (e.g., integration of all business and investment related clearances into a single portal), reducing discretion and simplifying labor inspections and compliance, and encouraging development of a national market in agriculture.	Medium to High	Medium to High	Key additional reforms could include: time-bound implementation of the Goods and Services Tax, with effective enforcement while minimizing compliance costs; a tiered institutional mechanism to review/simplify business regulations (beyond labor); and improvement of contract enforcement.
Trade	Actions include trade facilitation (better port infrastructure and faster clearances), launch of an export mission, revival of SEZs, and promotion of tourism. The new Foreign Trade Policy should aim for a stronger and broader framework for trade reform to strengthen global integration and create better links with global value chains.	Medium	Medium	Stronger pursuit of global integration - through national actions and participation in multilateral and plurilateral initiatives. Power trade agreements to facilitate regional integration.
Other Measures	Strategy reaffirms commitment to fiscal consolidation. The deregulation of retail diesel price and setting-up of the Expenditure Management Commission are important actions. Useful steps on financial sector reform but more attention needed to addressing NPLs. Other actions cover rural credit and insurance, financial inclusion, gender, governance, and sanitation, but need to be better integrated into overall strategy.	Medium to High	Medium to High	India's tax-GDP ratio is low and additional efforts to raise revenue through improvements in tax policy and administration could support the envisioned fiscal consolidation and domestic resource mobilization.
Structural Policies Overall	The revised growth strategy represents a major overhaul of the initial submission and is stronger overall. The strategy would benefit from a sharper focus on key priorities and actions, more specificity on some of the new initiatives, and a stronger outcome-based approach to monitoring and evaluation.	Medium to High	Medium	In addition to areas covered, the strategy could address: wider and deeper reform of business environment and competition; broader issues of energy supply; reform of food distribution system; and management of urbanization beyond "smart cities".

## Indonesia

Policy Area	Summary Assessment of Policy Commitments	Alignment with Priorities	Degree of Ambition	Policy Gaps Needing More Attention
Investment and Infrastructure	Four main policy commitments to close Indonesia's large infrastructure gap: improving the operation of the infrastructure prioritizing body (KP2IP), operationalizing a PPP center, implementing a new land law, and improving general business climate. These actions are important but not enough. Besides, a clearer implementation timeline is needed to expedite progress.	High	Medium	Public investment in infrastructure needs significant boost, requiring fiscal reforms including stronger actions on fuel subsidy reduction, tax reform, and expenditure management. Need to extend business climate reforms to pricing, regulation, and openness of key network industries, e.g., electricity.
Employment	Some of the priority areas to support employment (infrastructure development, optimization of vocational training centers, entrepreneurship program for university graduates and women, tax incentives for investment in R&D and training) are sensible. Key missing element is reform to improve functioning of the labor market.	Medium	Medium	Need for significant improvements in the functioning of labor market to boost jobs and increase formality (including reform of stringent labor regulations, wage setting, and severance pay).
Competition/Business Environment	Most of the policy commitments (e.g., skills, infrastructure and technological development, export promotion) aim to improve competitiveness but are not about enhancing competition. Specific actions to enhance market competition are lacking.	Low	Low	Further reform could include actions to open more sectors to greater competition and strengthen framework to address anti-competitive practices. Improvement of contract enforcement and insolvency resolution. Need to boost policymaking capacity and process for regulatory reform.
Trade	Policies include tariff and non-tariff reduction (within bilateral and regional agreements) and trade facilitation (improved logistics) that would help reduce trade costs and boost trade. On the other hand, the new trade law grants large discretionary power to Ministry of Trade to restrict trade. Advent of the 2015 ASEAN community can enhance trade in services.	Medium	Medium	Need to arrest recent trend toward a proliferation of non-tariff measures. Adoption of more transparent policies and procedures on NTMs.
Other Measures	No new measures included.			
Structural Policies Overall	If complemented by stronger efforts on energy subsidies and tax reform to augment fiscal space and boost public investment in infrastructure, and enhanced business environment reforms, the reforms listed can generate the anticipated increase in growth. Employment prospects will be tied to growth, labor market reform, and specification of concrete measures to support SMEs' access to skills, capital, and markets.	Medium	Medium	Five areas merit more attention: tax and subsidy reform; quality of spending and service delivery, especially at sub-national level; labor relations and functioning of labor market; skill upgrading, with emphasis on quality; and competition policy and the quality of business regulations.

## Mexico

Policy Area	Summary Assessment of Policy Commitments	Alignment with Priorities	Degree of Ambition	Policy Gaps Needing More Attention
Investment and Infrastructure	The National Infrastructure Program 2014-18 envisages almost \$600 billion in investment (8.3% of GDP), with more than one-third contributed by the private sector. Target for private investment is supported by a recently updated regulatory framework for PPPs and financial sector reform that aims, among other things, to increase direct and indirect lending by development banks for infrastructure and SMEs as well as infrastructure financing by banks and institutional investors.	High	High	Planned investment will require a strengthening of project preparation and implementation capacities in general and financial structuring capabilities for PPPs in particular. Need to ensure competitive neutrality in the market in expanding public banks' role. Other areas for attention include transparency in bidding processes, investment guidelines for institutional investors, and exploration of new products such as infrastructure bonds.
Employment	Significant reform underway based on 2012 Labor Law reform, including: temporary/trial labor contracts, modernized labor courts, and stronger policies against discrimination and child labor. However, no changes were introduced in employment protection legislation. New measures being considered are introduction of unemployment insurance, more frequent labor law inspections, and formalization facilities for small firms.	Medium	Medium	Complementing labor law and tax reforms, ALMPs (training, intermediation) can do more to encourage SME formalization. Introduction of unemployment insurance should involve a revision of other severance payments to avoid increasing exit costs. Continuing need to improve secondary, tertiary, and vocational education (quantity and quality)
Competition/Business Environment	To enhance competition in the economy in general and telecom in particular, new regulatory bodies set up (COFECE and IFETEL, respectively) and legal reform enacted (Economic Competition Law, telecom legislation). Reforms include opening up of telecom sector to FDI and setting up of specialized courts for competition disputes.	High	High	The new regulatory bodies need adequate capacity to fulfill mandates. A remaining issue is regulatory barriers to competition at state and municipal levels where COFECE has limited mandate. Need for a body with enforcement capacity at state and municipal levels and further reforms at that level, as promoted by Alianza por la Competencia.
Trade	Actively engaged in TPP negotiations. A Cross-Border Long Haul Trucking program being launched. Reforms approved last year reduced barriers to foreign investment in several sectors.	Medium to High	Medium	Substantial trade agenda already implemented; Mexico is among the most open economies in the region. INADEM efforts to boost competitive positions of tradeable industries in global value chains need to be expanded to state level.
Other Measures	Landmark energy sector reform approved that opens the sector to private investment and competition and strengthens the sector's regulatory and institutional framework.	High	High	With the new laws passed, investment and productivity gains will depend on implementation quality (institutional capacity, transparency).
Structural Policies Overall	Overall, a strong effort spanning priority areas of structural reform that can give a notable boost to potential growth.	High	Medium to High	An overarching challenge will be governance, to ensure timely and effective implementation of the major reform agenda. Areas where reform effort needs to go further include human capital development and reform at subnational levels (fiscal, regulatory, institutional).

## Russian Federation

Policy Area	Summary Assessment of Policy Commitments	Alignment with Priorities	Degree of Ambition	Policy Gaps Needing More Attention
Investment and Infrastructure	Target to raise investment from 22% to 27% of GDP by 2018 is highly ambitious. Key elements include increase in public infrastructure investment, promotion of PPPs, improvements in private business climate, and support to SME investment financing through a publicly traded guarantee agency.	High	High	Ambitious investment and PPP targets need to be underpinned by stronger measures to improve public investment management and private investment climate. Need to ensure provision of financing on a sound and sustainable basis.
Employment	The employment strategy is comprehensive, well-aligned with the growth strategy, and addresses key challenges of productivity gaps, demographic change, labor force participation of women and youth, skills mismatch, and limited labor mobility. However, more specificity is needed in several areas to translate strategy into concrete actions.	High	Medium	Areas for more attention include: regional structural employment issues and low labor mobility between regions; restrictiveness of the current labor law; and pension issues. Close collaboration with the private sector will be important to design of interventions to create high value-added jobs that are demand-responsive and to the overall financing and sustainability of the proposed strategy.
Competition/Business Environment	Emphasis on creating a favorable business environment for SMEs is sensible. However, the nature and rationale for proposed provision of subsidies to SMEs are unclear. Business environment reforms in several areas of Doing Business are well specified but need to be complemented by actions to enhance competition and improve enforcement.	Medium	Medium	More detail needed on privatization plans. Further reform to enhance competition: competition/anti-monopoly policies, collateral quality and insolvency laws, corporate governance, and institutional capacity for fair and effective enforcement of regulations affecting business (e.g., the tax system).
Trade	The trade reform agenda covers reduction of administrative trade barriers and promotion of exports and export diversification. Commitment to continue implementation of WTO agreements needs to be buttressed by more concrete actions and timelines.	Medium	Medium	Shift focus of the amended State Program for promotion of external economic activities from supporting and protecting domestic exporters to promoting an open environment for trade integration and a level playing field. More attention to policies to tap the potential of services trade.
Other Measures	Financial sector reform is described as a priority area of strategy but the specific new measures outlined are rather narrow in scope, limited to aspects of bankruptcy and financial market taxes.	Low	Low	Financial sector reform would benefit from a more holistic view of sector issues, e.g., implementation of Basel III norms and systemic risk mitigation, upgrading of capital market regulation, development of securities market, and reform of non-state pension investment regimes.
Structural Policies Overall	Overall, the strategy has a good focus on priority areas of reform. Proposed reforms could help reverse the slowing of growth in Russia but would need to be strengthened with additional institutional reforms and stronger promotion of private sector growth.	Medium	Medium	Need to build stronger institutions to foster competition and good governance, complemented by further progress in reducing the state's footprint. Improvement of fiscal management and quality of public services: budget efficiency, expenditure management, pension system sustainability, and intergovernmental fiscal relations.

## Saudi Arabia

Policy Area	Summary Assessment of Policy Commitments	Alignment with Priorities	Degree of Ambition	Policy Gaps Needing More Attention
Investment and Infrastructure	Planned increases in public infrastructure investment and PPPs are strategically sound and substantive actions. But more specificity needed on prioritization, public-private mix, and spatial distribution. Welcome emphasis on boosting private investment and developing long-term financing but policy framework needs fleshing out. Projected increase in investment from 23% to 32% of GDP over 2013-18 is highly ambitious.	Medium	High	Investment in transport and environment-friendly infrastructure would merit priority. Need to improve public investment management. Land issues need more attention (acquisition costly and time consuming). Mention is made of reducing subsidies (energy, water) to improve resource-use efficiency and manage demand but details lacking.
Employment	The target of creating 1.3 million jobs for nationals (62% of all job creation) during 10 <sup>th</sup> Development Plan (2015-19) may be tough but would still produce only a moderate reduction in the jobs challenge among nationals. Composition of the target between public and private sectors important but not specified. To bring a sustained increase in employment, policies need to address two challenges: the excess desirability of public over private sector jobs (with many public sector jobs effectively functioning as a means of distortionary resource wealth distribution to citizens); and reform of the admission system for foreign workers.	Medium	Medium	Labor market activation and minimum wage proposals indicate growing recognition of structural nature of the employment challenge. But without a change in the ‘social contract’ status quo of implicitly subsidized public sector employment that undermines incentives to pursue private sector jobs, the goals of a knowledge-based economy and increasing employment of Saudis in private sector will be difficult to achieve. Need to build on recent initiatives that emphasize education quality and upgrading technical and vocational training.
Competition/Business Environment	Draft strategy included a range of policies to enhance competitiveness: business environment reform, skill upgrading, finance, R&D. More specificity and clearer prioritization on these would help. Welcome addition of commitments in the revised strategy to strengthen competition policies and their application. Overall, thinking on business climate remains largely oriented toward promotion of zones and clusters, as opposed to generalized improvements in business climate.	Medium	Medium	Gaps in SME finance seem binding: Saudi banks indicate that only 1-2% of their borrowers are SMEs – and only 20% of local SMEs have bank accounts. Need to address both supply and demand side of SME finance. Another area for attention is insolvency regime. Significant variations in the quality of business environment across regions. Need to strengthen capacity of local institutions.
Trade	Adoption of a nonoil export development initiative over next five years. Concrete new measures yet to be specified.	Low to Medium	Low	Flesh out specifics of the new initiative. Develop a more concrete strategy for services liberalization.
Other Measures	No measures included.			
Structural Policies Overall	The strategy draws mostly on the 10 <sup>th</sup> Development Plan and much of it reflects past commitments or ongoing measures. The revised strategy adds new commitments relating to investment and finance, labor market, and competition.	Medium	Medium	While the strategy covers a wide range of policies, it would benefit from a stronger narrative on priorities, grounded in a clearer diagnosis of key constraints to achievement of the vision for a more diversified, knowledge-based economy.

## South Africa

Policy Area	Summary Assessment of Policy Commitments	Alignment with Priorities	Degree of Ambition	Policy Gaps Needing More Attention
Investment and Infrastructure	The strategy correctly identifies the need for significant investment in infrastructure. Major programs of investment in energy and transport – and SEZs. Need to achieve more consistent quality in infrastructure, which ranges from world class to poor. Useful initiatives include a commission to coordinate major infrastructure projects across agencies, a task team on mobilizing more private financing, and a technical center to assist in project preparation and implementation.	High	Medium	Need to underpin increased investment in infrastructure with improved institutional capacity for service delivery, ensuring viable public utilities capable of effective O&M and cost recovery. These challenges are especially important in energy distribution and water and sanitation. Improve policies and instruments for increased private financing of infrastructure.
Employment	The employment agenda has particularly high priority in South Africa. Commitments include substantive measures, for example, improving training and providing work opportunities via public works programs for unemployed youth, providing tax incentive for hiring of unemployed young workers, and expanding and improving basic education and vocational training.	High	Medium	Improving labor relations and reforming stringent labor market regulation is a priority area for policy. Wage growth exceeding productivity gains. Reform of wage bargaining system to moderate wage growth, and improvement of the quality of education and training to boost labor productivity, would help close this gap.
Competition/Business Environment	A notable improvement of the competition policy framework is the new powers granted to the competition commission to conduct inquiries of its own accord without receiving a complaint. Enhancement of competition especially important given concentration in industry and finance. Other, planned actions include establishment of a single transport regulator and introduction of more competition in electricity generation.	Medium	Low	Further empowerment of the competition authority to assess combined impact of multiple measures rather than only individual measures, supplemented by enhancement of institutional capacity. Need to improve competition in network industries. More attention needed to address barriers and red tape at local levels.
Trade	A range of measures is envisaged with a focus on export promotion, including regional trade, trade facilitation and trade-related infrastructure, and SME exports.	Medium	Low to Medium	Strategy has a narrow focus on promoting exports rather than two-way trade integration and GVCs. Also, a relative neglect of the potential of agriculture and services. Consider more competition in freight transport (Transnet monopoly).
Other Measures	The strategy sets out measures, mainly tax incentives, to promote savings, which would help reduce the current account deficit – a key vulnerability.	Medium	Low to Medium	While the specific tax incentives could help, success in raising savings would depend more on broader policies –boosting job growth, improving investment climate, fiscal reform.
Structural Policies Overall	The strategy is stronger on infrastructure development and promotion of investment and exports. More robust actions will be needed in labor market reform and skill upgrading to address the employment challenge.	Medium to High	Medium	One area that is not addressed much but merits more attention is improvement of governance and public service delivery, especially at local levels.

## Turkey

Policy Area	Summary Assessment of Policy Commitments	Alignment with Priorities	Degree of Ambition	Policy Gaps Needing More Attention
Infrastructure and Investments	Due priority given to infrastructure, emphasizing transport and logistics. Heavy focus on public investment may be insufficient to reach investment targets. Some reforms to promote long-term funding for investment are identified but a more holistic financial sector reform is needed to diversify instruments and lengthen tenor.	High	Medium	More attention to regulatory framework for PPPs and contract enforcement issues more generally. Further reform to improve business environment to attract more FDI and spur technological progress. Attention to secured transactions, insolvency, and framework for development of NBFIs.
Employment	Agenda framed by National Employment Strategy. Challenges are correctly identified, e.g., reducing informality, increasing labor force participation, especially of women, and reform of social benefits system. Move toward flexicurity. Improved child care to boost female employment. Added emphasis on skills and vocational training. However, the measures envisaged are in many cases insufficiently concrete or far reaching.	High	Medium	Reform of severance pay (Turkey assessed as having the strictest employment legislation among OECD countries). In ALMPs, consider a broader menu of training options for those seeking jobs. An emphasis in basic education policies on addressing skill gaps, with attention to teaching quality, school autonomy and financing.
Competition/Business Environment	Legislation and guidelines issued in 2013 produced notable liberalization of network industries and furthered progress in harmonizing competition legislation with that of EU. The revised growth strategy has a little more detail, including on the role of the competition agency, but implementation remains unclear and there are limited new actions.	Medium	Medium	Areas for more attention include: regulatory reform and institutional strengthening at regional level; extending progress in aligning regulations in electricity market with EU acquis to gas market; State Aid legislation, public procurement, and SOE reform; land allocation; insolvency regime; and ensuring effective TCA enforcement.
Trade	The strategy correctly emphasizes upgrading of Turkey's participation in GVCs (including through fostering R&D for SMEs), promoting FTAs, trade facilitation, and services liberalization. The revised strategy brings more detailed proposals for FTA promotion and trade facilitation.	Medium to High	Medium to High	Turkey could benefit more from Customs Union with EU by widening the agreement to cover agriculture and services. Performance of services sector would benefit from a unilateral reduction in relative regulatory restrictiveness in services.
Other Measures	Emphasis on diversifying the energy mix and improving energy efficiency is well placed, given the key role of energy. The same applies to policies to promote technology and innovation, which are expected to play an increasingly important role in Turkey's growth.	Medium to High	Medium	On innovation, more focus could be put on the wider innovation system, which would also benefit sectors other than industry (agriculture, services).
Structural Policies Overall	The strategy includes a number of measures with potential positive impact on growth, but these will likely not be enough to lift Turkey's growth to the 5.5% range envisaged.	Medium to High	Medium	Achievement of growth objectives will depend on stronger ambition in reform areas covered in the strategy as well as substantive efforts in those that have received less attention, such as measures to strengthen governance and rule of law, boost FDI, and enhance the quality of education.