



THE UNIVERSITY  
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# *How to cut services trade costs in the APEC region*

## *Challenges & Opportunities*

**APEC Study Centre Consortium  
Conference**  
6-7 July 2021

CRICOS PROVIDER 00123M

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Co-funded by the  
Erasmus+ Programme  
of the European Union

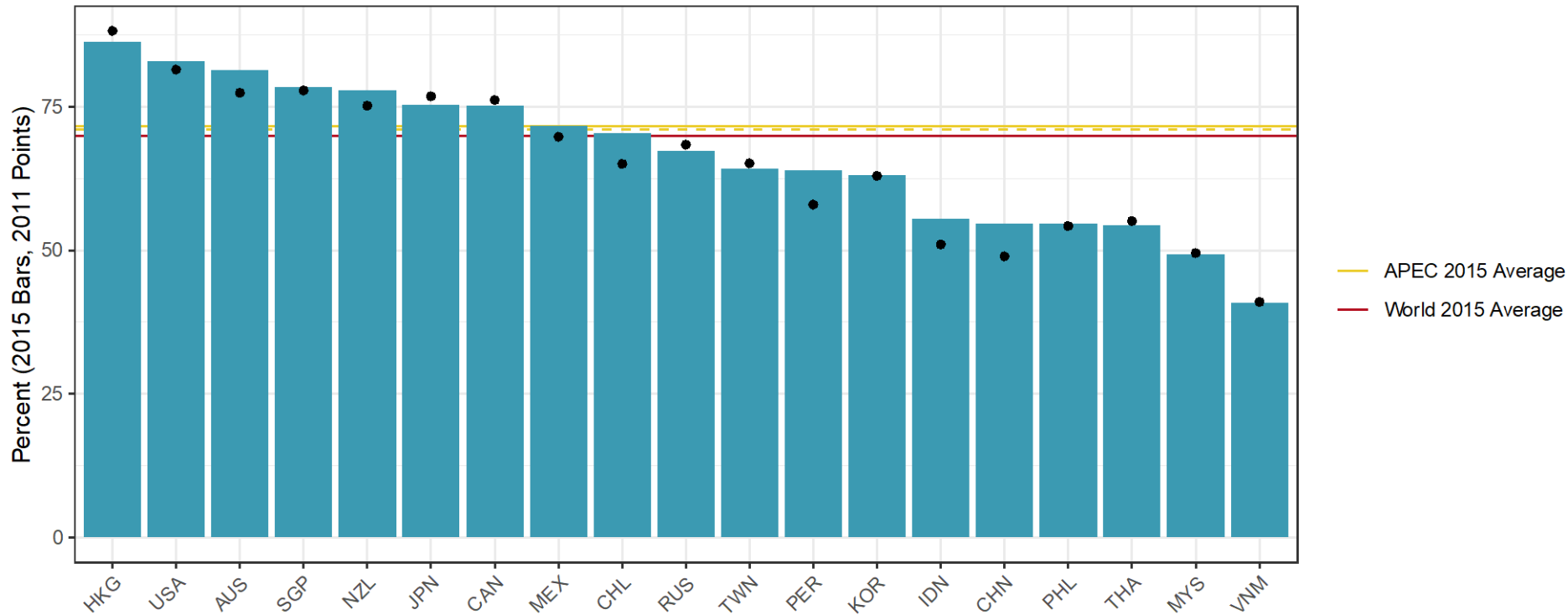


Trade & Investment in Services (TIISA)

seekLIGHT

# Services account on average for nearly $\frac{3}{4}$ of APEC economy GDP; this is higher than world average

## Share of Services Value Added in GDP, TiVA Data for 2015

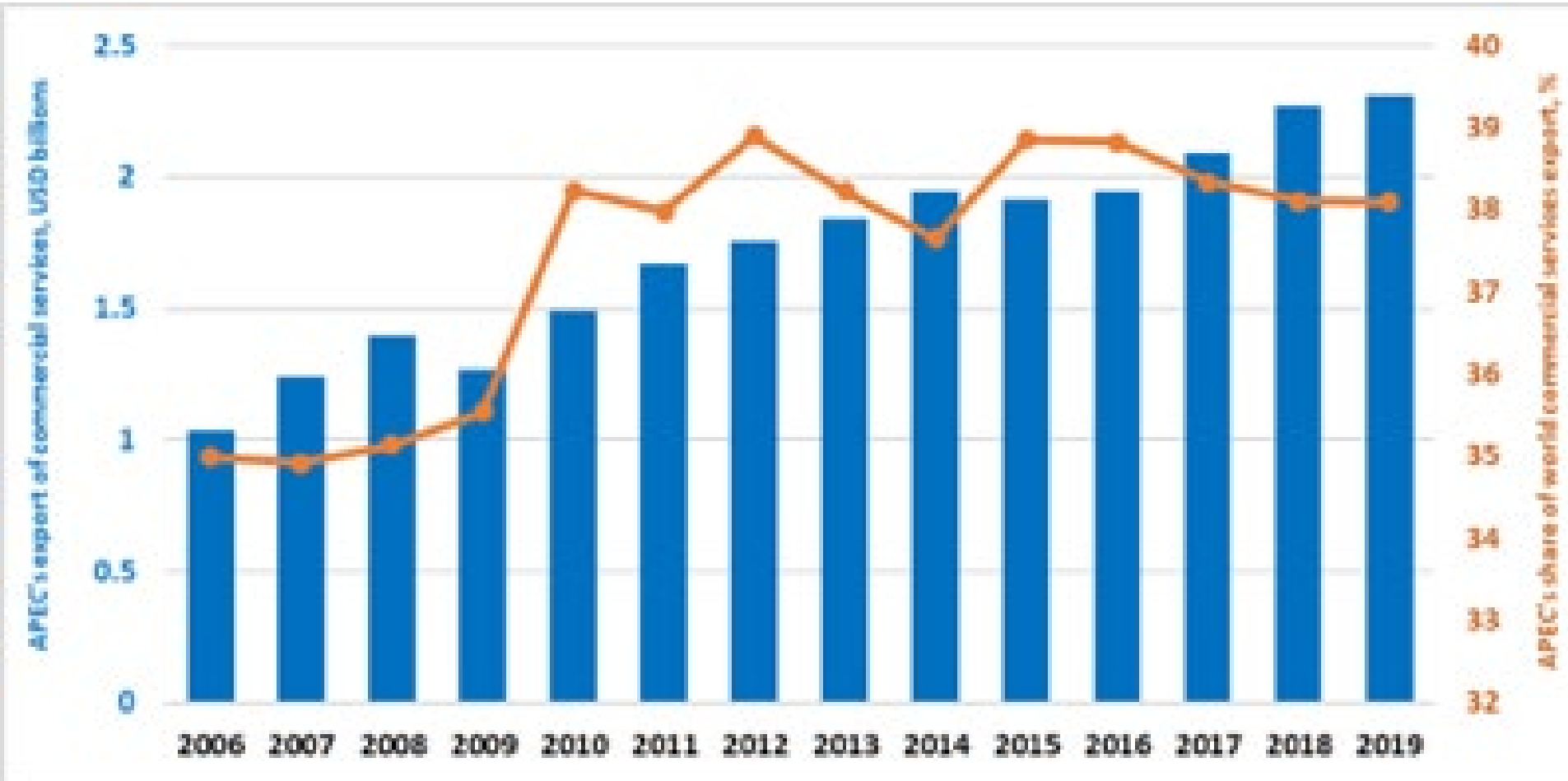


Source: Own calculations using OECD/WTO TiVA database 2018.

# APEC services trade growth is below world average

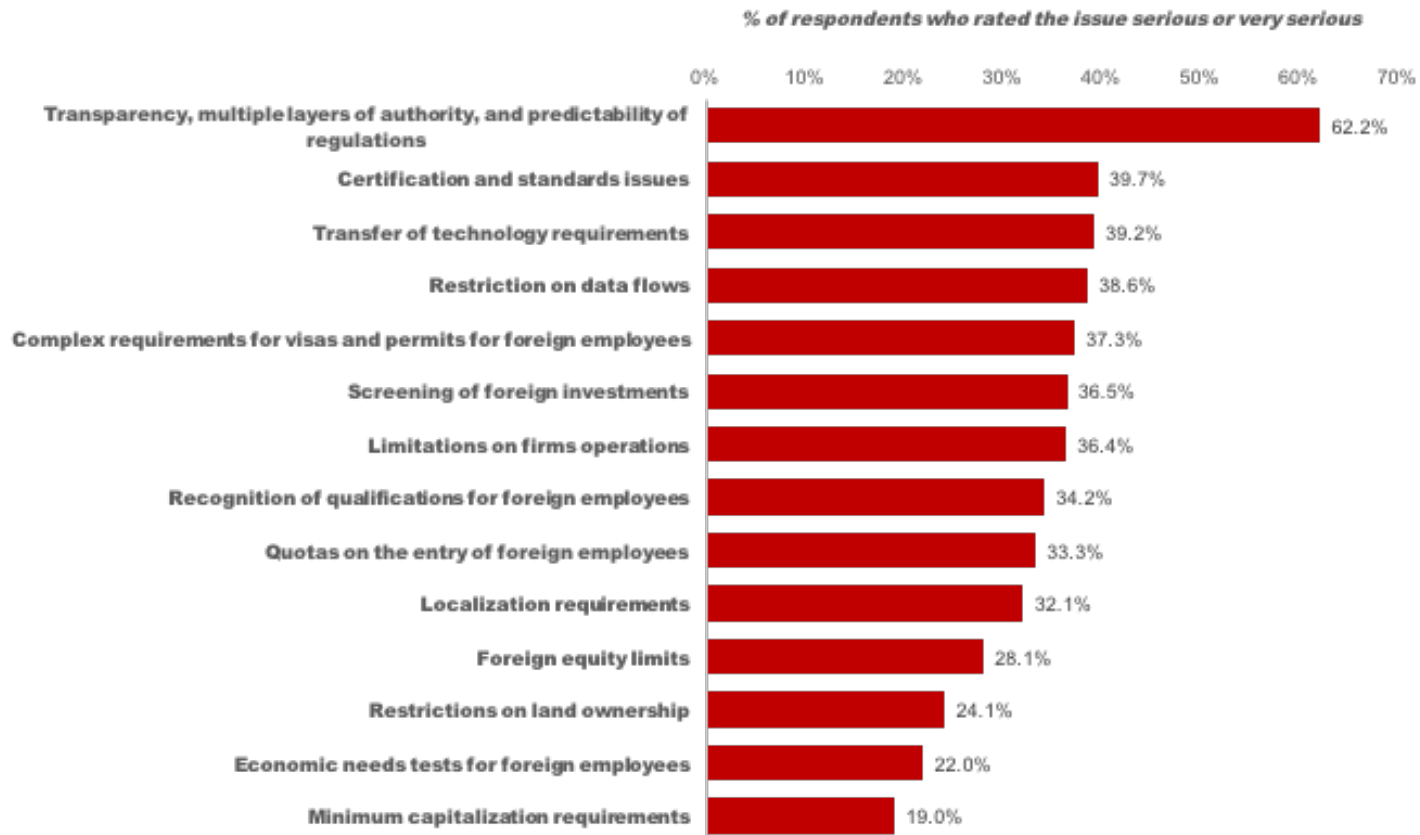
- Globally, services now account for more than 50% of global trade in value added terms.
  - **The good news** is that over 2015-2019, services have grown as a % of total exports for every APEC economy and the divergence across the region has significantly diminished.
  - **The bad news** is APEC's share of total world commercial services exports has trended downwards through 2015-2019.
    - And the compound average annual growth rate of APEC's trade in services has also dropped significantly, from 7% for 2006-2015 to 4.2% for 2006-2019.
  - This year's mid-term review of the **APEC Services Competitiveness Roadmap** is showing that services industries are still not reaching their potential for internationalization.
    - There is now a full 20% point gap between the APEC average services share of domestic value added and exported value added.
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# APEC commercial services exports & % share of world commercial services exports, USDb, 2006-2020



Sources: Own calculations based on WTO Time Series (2021)

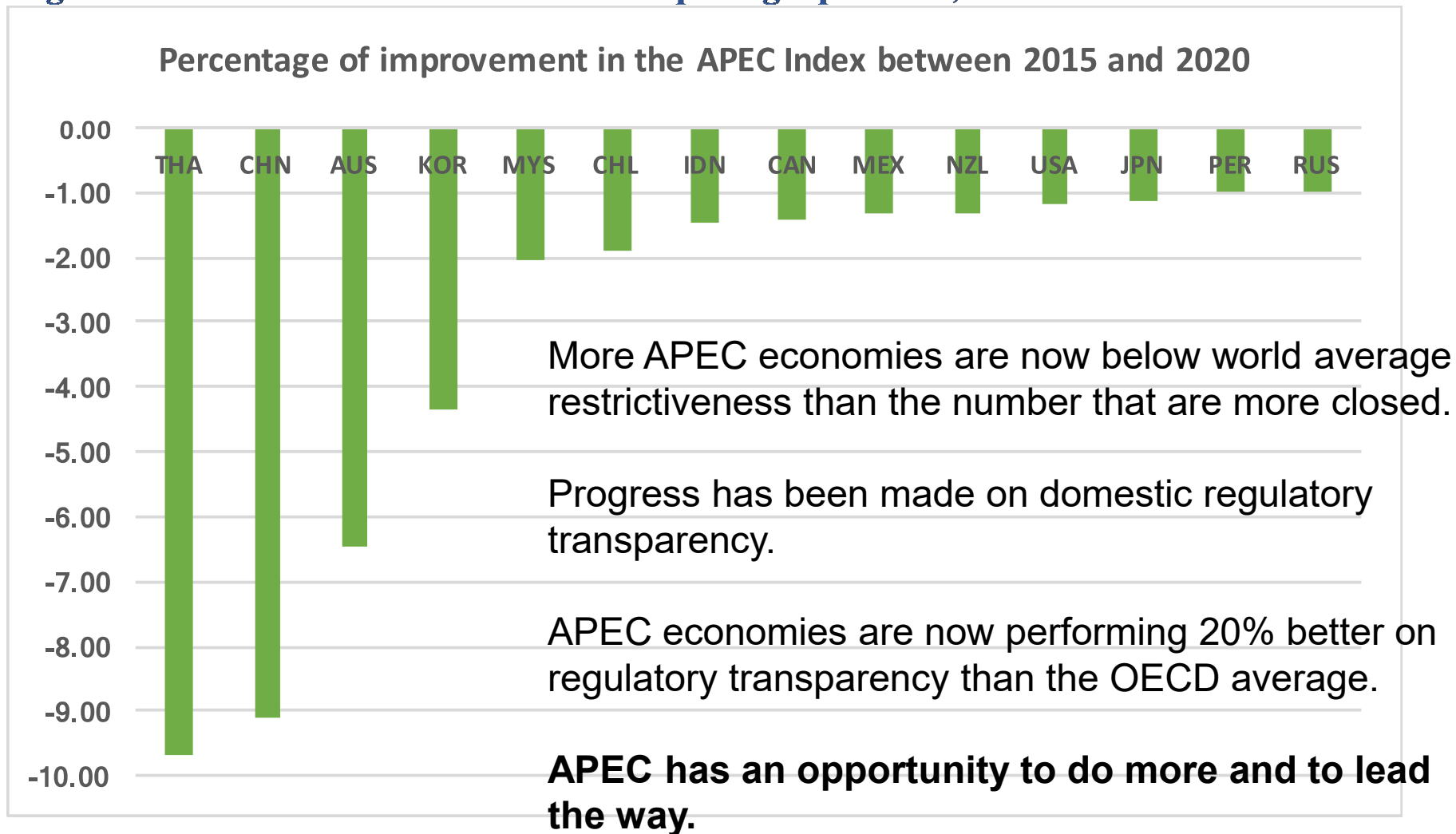
# Services trade costs are twice as higher as trade costs for goods: domestic regulatory inefficiency is contributes to these trade costs



*PECC State of the Region Survey 2016: Question - On a scale of 1 to 5, how much of an impediment do you think each of the following are to services trade in the region?*

# APEC services trade is opening-up

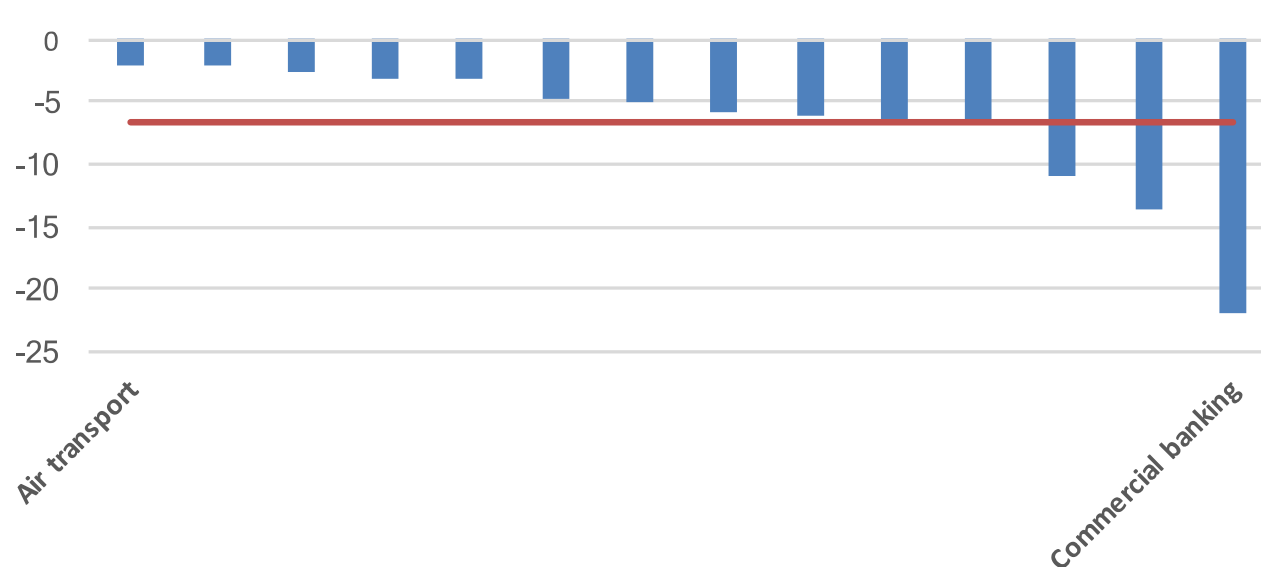
Figure 1: APEC/OECD: “Services Trade Opening-Up Index”, 2015-2020



# How can APEC economies cut services trade costs faster for post pandemic recovery

- Back of the envelope estimates, based on global OECD findings, suggest that if by 2025, APEC economies with restrictiveness scores above world average close half their regulatory gaps with the best APEC performers, services trade costs would fall nearly **30%**.
    - <https://www.oecd.org/trade/topics/services-trade/documents/oecd-stri-policy-trends-up-to-2020.pdf>
  - **An obvious first step is on immediate offer.**
    - In 2018 APEC adopted the Non-Binding Principles for Domestic Regulation of the Services Sector in an effort to create a regulatory environment to facilitate services trade.
    - Recent OECD findings show that if all APEC economies implement these core transparency principles, regional services trade costs would fall over 3-4 years by an average **7%** across all services sectors, with costs for SMEs down by **9-10%**.
    - <https://www.oecd.org/trade/topics/services-trade/documents/oecd-brief-apec-domestic-regulation.pdf>
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# Potential services trade cost reductions by sector (average 7% over 3-4 years); OECD Estimates



As % of export values

Air transport	-2
Road freight transport	-2
Legal services	-3
Maritime transport	-3
Accounting services	-3
Rail freight transport	-5
Courier services	-5
Architecture services	-6
Logistics	-6
Engineering services	-6
Computer services	-7
Insurance	-11
Telecommunication	-14
Commercial banking	-22

Note: Calculations based on the 14 APEC economies currently covered in the OECD STRI.

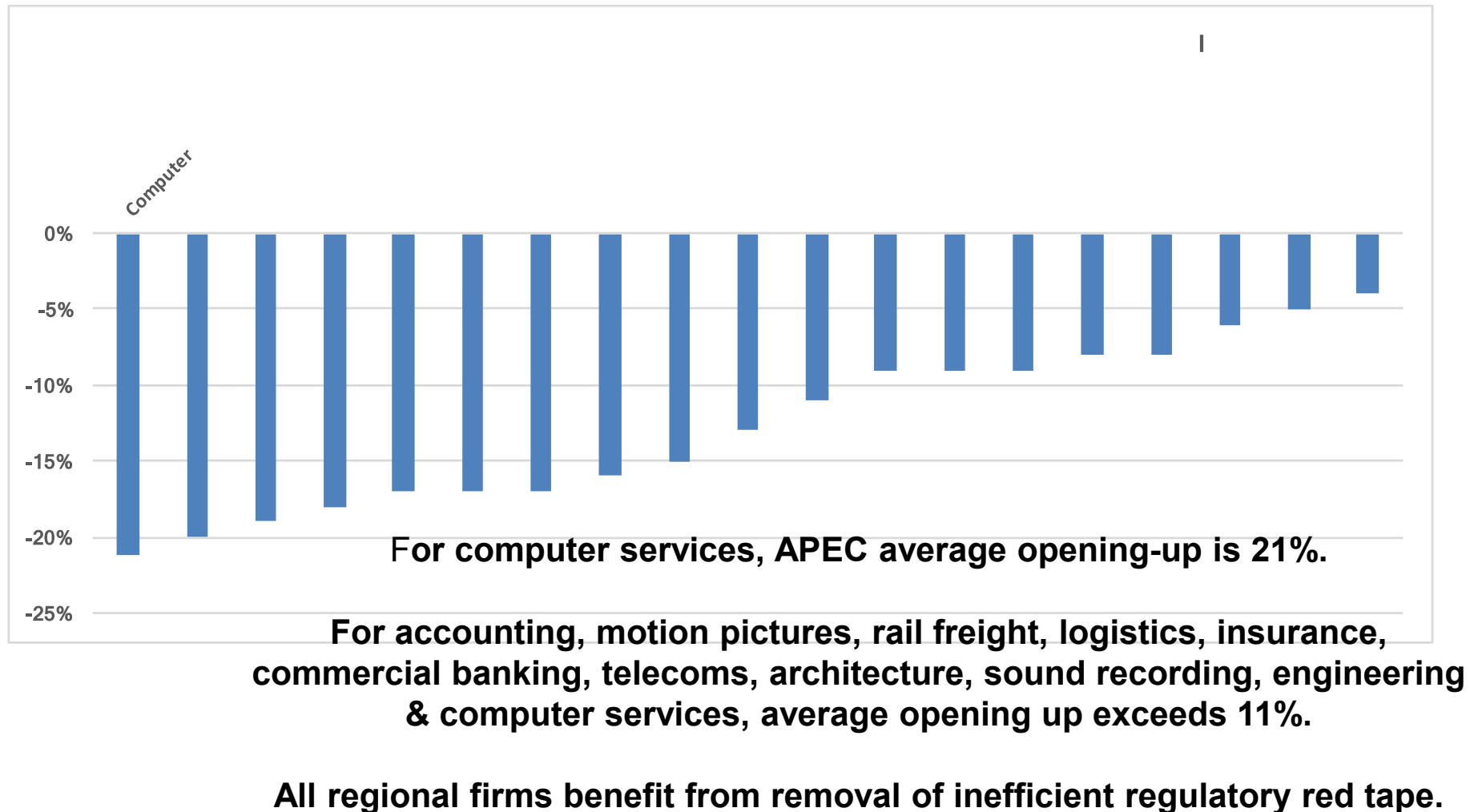
Source: Calculations are based on the methodology in Benz & Jaax (2020).



# A closer look behind these averages

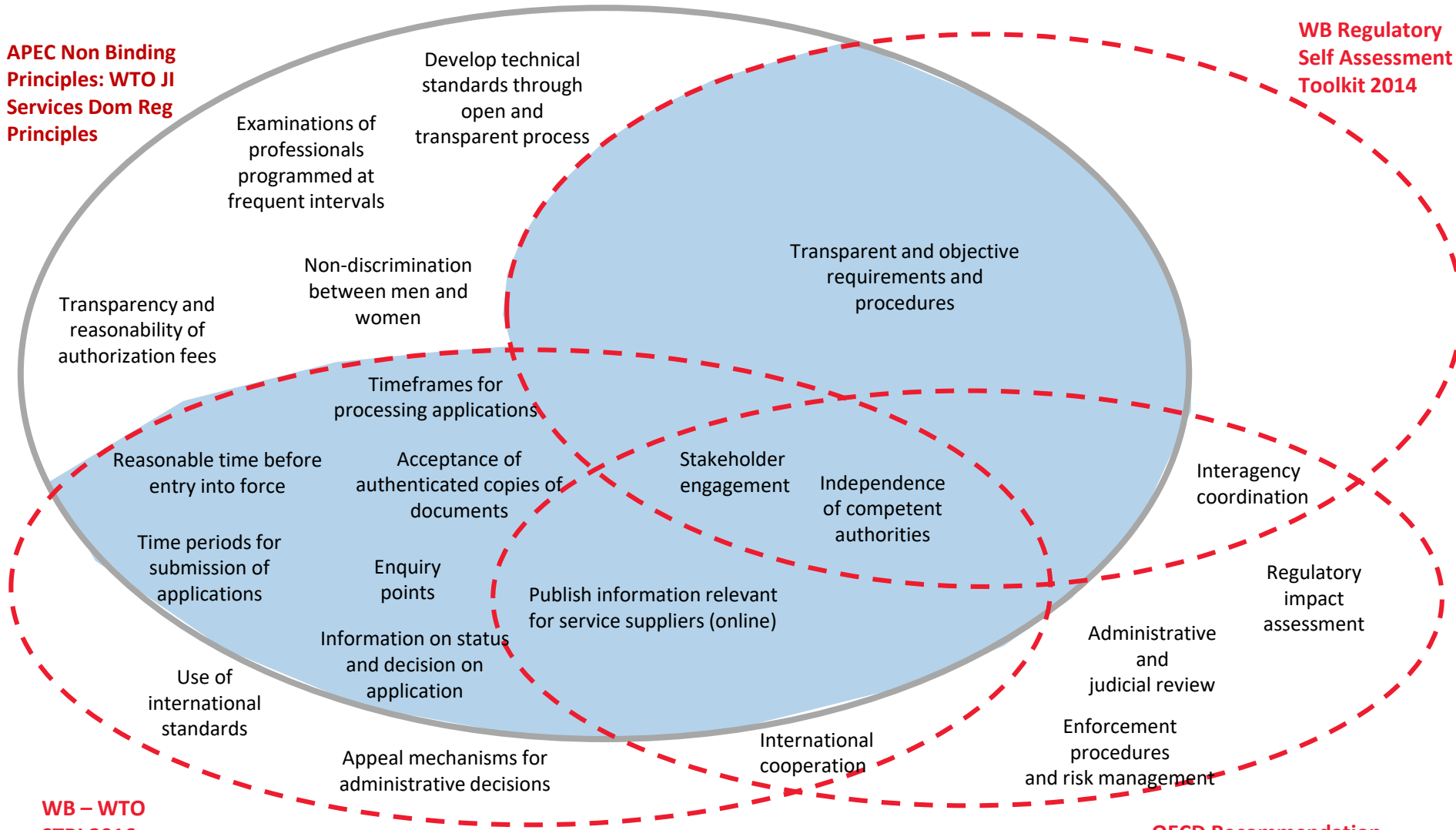
- **computer services**: for 8 of the 14 economies in the data set, trade costs fall by over 11% and for 5 of those economies, by over 15%.
  - **Architecture**: for 8 economies, trade costs fall by over 12% and for 4 of those economies, by over 16%.
  - **Engineering**: for 8 economies there is a drop in trade costs of over 12% and for 6 of those economies, a drop of over 16%.
  - **Telecommunications**: there are 2 economies for which trade costs fall by over 80%.
  - **Insurance** services trade costs fall by over 10% in 11 of the 14 economies and for 7 of those economies the drop exceeds 18%.
  - **Other commercial services**, the drop in trade costs exceeds 13% in 11 economies and **for 9 of these economies, the cut in trade costs exceeds 29%**.
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# Average Opening-up by sector if APEC economies implement the domestic regulation principles



# The WTO JI on Services Domestic Regulation is reflective of the APEC Non-Binding Principles. APEC can help deliver at WTO MC12, the first and only outcome on services since the WTO was created.

**APEC Non Binding Principles: WTO JI Services Dom Reg Principles**



**WB Regulatory Self Assessment Toolkit 2014**

**WB – WTO STRI 2016-2020**

**OECD Recommendation 2012**