

How to Enhance Services Competitiveness, Cut Services Trade Costs and Expand Inclusive Services Business Opportunities for Developing APEC Economy SMEs

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Services Business Perspectives

- From a business perspective, good trade policy always starts at home. The “Services Domestic Regulation” agenda is what most services business representatives see as the “Cutting through the Red Tape” agenda. Its about every economy getting its own domestic regulatory house in order so that business can thrive.
 - If domestic regulatory regimes are inefficient, local business compliance costs will be high relative to trading partners and local businesses wont be competitive. They wont attract investment partners. They wont find an offshore B2B export niche. They wont be able to integrate in regional or global value chains.
 - If domestic regulatory regimes *are* efficient, then yes, foreign firms will be more likely both to invest in and to service local markets. But there is a strong evidence base that **this kind of trade reform is a win-win** all around, leading *chiefly* to **a rise in the level of domestic production** of services.
 - This means that local businesses will grow. Local SMEs and MSMEs will tend to experience the deepest regulatory compliance cost reductions and productivity gains allowing for **local SME growth and internationalization**.
 - This is why so many services business associations around the world share similar perspectives on this particular topic. Services SMEs everywhere (and remember the services sector is THE SME sector) are all in the same boat.
 - **Cutting trade costs is a shared win-win for services business everywhere**
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Business Survey Findings; PECC 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?

	SME	Govt	Biz	Large	Services	Non-services
Transparency, multiple layers of authority, and predictability of regulations	1	1	1	1	1	1
Restriction on data flows	2	6	4	6	3	9
Complex requirements for visas and permits for foreign employees	3	3	3	3	2	7
Quotas on the entry of foreign employees	4	7	7	8	5	10
Limitations on firms operations	5	10	8	9	8	3
Certification and standards issues	6	2	2	2	6	2
Transfer of technology requirements	7	4	5	4	4	8
Screening of foreign investments	8	5	10	11	10	6
Recognition of qualifications for foreign employees	9	8	6	5	7	4
Localization requirements	10	9	9	7	9	5
Foreign equity limits	11	11	11	12	13	11
Restrictions on land ownership	12	12	13	13	12	14
Economic needs tests for foreign employees	13	13	12	10	11	13
Minimum capitalization requirements	14	14	14	14	14	12

Developments in the WTO

- The General Agreement on Trade in Services (GATS) was agreed as part of the Uruguay Round of multilateral negotiations which ended in **1994**. The outcome included a “built-in agenda” of ongoing negotiations on unfinished business including **domestic regulation of services**.
 - The “built-in agenda” negotiations commenced in early **2000** and in late **2001** were incorporated into the Doha Development Agenda (DDA).
 - In Geneva, the WTO saw relatively little progress on Services Domestic Regulation until in **2017**, at the WTO MC in Buenos Aires, 59 WTO Members took a joint initiative affirming their commitment to advancing negotiations on Services Domestic Regulation.
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Meanwhile, APEC was progressing

Principles for Domestic Regulation

- 1997 **OECD Principles on Regulatory Reform**
- 1999 **APEC Principles to Enhance Competition & Regulatory Reform**
- 2001 **APEC Principles on Trade Facilitation** (Regulatory Transparency, Communication and Consultation, Simplification, Practicability and Efficiency, Non Discrimination, Consistency and Predictability, Harmonization, Standardization and Recognition, Modernization and the Use of New Technology, Due Process, Cooperation)
- 2001 **APEC Menu of Options for Voluntary Liberalization, Facilitation & Promotion of Economic & Technical Cooperation in Services Trade & Investment**
 - 2002 **APEC General Transparency Standards**
 - 2003 **APEC Principles for Services Trade Liberalization, Facilitation & Economic & Technical Cooperation**
 - 2003 **APEC Principles for Regulatory Cooperation & Reform of Services Trade**

Long Gap during which focus shifted to Self-Assessment Tools (next slide)

- 2018 **APEC Non-Binding Principles for Domestic Regulation of Services** (Outcome under the 2015 **APEC Services Competitiveness Framework** & 2016 **APEC Services Competitiveness Roadmap**)
 - 2020 **Draft Reference Paper, WTO JI on Services Domestic Regulation**
 - 2021 **“OECD Best Practice Principles on International Regulatory Co-operation”, Non-Binding Principles, Draft for consultation**
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Self Assessment Tools for Regulatory Best Practice

- 2005 “OECD/APEC Integrated Checklist on Regulatory Reform”
 - 2011 **APEC business & academic stakeholders both call for APEC Principles on Domestic Regulation**
 - 2012 “OECD Recommendation of the Council on Regulatory and Policy Governance”
 - 2014 **World Bank “Regulatory Assessment Toolkit: A Practical Methodology for Assessing Regulation on Services Trade and Investment”**
 - “Services are famously where the rubber of trade meets the road of a country’s domestic economic conditions. Domestic regulation of services has a significant impact on the vibrancy of trade in services and simultaneously in trade in goods, since services such as telecommunications, transport, financial, and energy are inputs to the manufacturing process”
 - 2014 **World Bank “Valuing Services in Trade: A Toolkit for Competitiveness Diagnostics”**.
 - The Toolkit provides a framework, guidelines, and set of practical tools to conduct a thorough analysis and diagnostic of trade competitiveness in the services sector with a methodology that sheds light on a country’s ability both to export services and improve its export performance through policy change.
 - This prompts the **2015 APEC Services Competitiveness Framework** (back to previous slide)
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Regional Comprehensive Economic Partnership

- RCEP signatories (November 2020) from APEC: Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand*, Viet Nam, Australia*, China*, Japan*, New Zealand* and the Republic of Korea*.
 - RCEP is an important pillar in regional economic integration efforts and work towards a model framework of global trade and investment rules
 - Facilitating services trade is an essential component, including disciplines on Domestic Regulation
 - These are designed to lock in and improve good regulatory practice across the region to optimize the benefits of services market access commitments made under RCEP
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Similar Disciplines in other RTAs involving developing economies

- Pacific Alliance
 - Hong Kong, China – New Zealand
 - Vietnam – EU
 - Singapore – EU
 - Indonesia – Australia (I-A-CEPA)
 - US – Ecuador (Protocol on Trade Rules & Transparency)
 - ASEAN – China
 - ASEAN – Korea
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COMPARISON OF SCOPE AND COVERAGE

	JSI (Section II)*	RCEP
Scope of measures covered	Measures relating to: <ul style="list-style-type: none"> ▪ Qualification requirements and procedures ▪ Technical standards ▪ Licensing requirements and procedures 	Measures relating to: <ul style="list-style-type: none"> ▪ Qualification requirements and procedures ▪ Technical standards ▪ Licensing requirements
Coverage of disciplines	<ul style="list-style-type: none"> ▪ Disciplines apply to a Member's specific commitments as set out in its GATS schedule ▪ Members are encouraged to apply the disciplines to additional sectors as well ▪ Disciplines do not apply to any terms, limitations, conditions or qualifications set out in a Member's GATS schedule 	<ul style="list-style-type: none"> ▪ Disciplines apply to RCEP parties' commitments, as set out in their schedules of specific commitments or schedules of non-conforming measures ▪ Some RCEP parties made commitments on entry into force on a negative list basis (Australia, Brunei Darussalam, Indonesia, Japan, Korea, Malaysia and Singapore) ▪ The remaining RCEP parties made commitments at entry into force on a positive list basis for Modes 1, 2 and 4 and a negative list basis for Mode 3 (Cambodia, China, Lao PDR, Myanmar, NZ, Philippines, Thailand and Viet Nam). ▪ Those remaining RCEP parties have agreed to transition to a full negative list within six years of entry into force (15 years for Cambodia, Lao PDR and Myanmar)
Flexibilities for developing countries and LDCs	<ul style="list-style-type: none"> ▪ Transition periods for implementation of the disciplines ▪ Non-application of the disciplines by the LDCs until after graduation 	<ul style="list-style-type: none"> ▪ No transition periods ▪ No flexibilities for LDCs

COMPARISON OF DISCIPLINES

JSI (Section II)*	RCEP	How do they compare?
Independence (Section II, paragraph 12)	No equivalent	RCEP has no equivalent
Publication and information available (Section II, paragraph 13)	Article 17.3.1 General Provisions and Exceptions Chapter	RCEP is substantively similar
Opportunity to comment and information before entry into force (Section II, paragraphs 14 – 19)	Article 17.3.2 General Provisions and Exceptions Chapter	RCEP is substantively similar
Enquiry points (Section II, paragraph 20)	Article 8.14.5 Trade in Services Chapter Article 18.8 Institutional Provisions Chapter	RCEP is substantively similar
Technical standards (Section II, paragraph 21)	Articles 8.15.5 and 8.15.6 Trade in Services Chapter	RCEP is substantively similar and has deeper provisions in some areas
Section II, paragraph 22 Development of measures	Article 8.15.5 Trade in Services Chapter	RCEP is substantively similar and has deeper provisions in some areas

COMPARISON OF DISCIPLINES

JSI (Section II)*	RCEP	How do they compare?
Submission of applications (Section II, paragraph 4)	No equivalent	RCEP has no equivalent
Application timeframes (Section II, paragraph 5)	No equivalent	RCEP has no equivalent
Electronic applications and acceptance of copies (Section II, paragraph 6)	Article 8.15.7(h) and (i) Trade in Services Chapter	RCEP is substantively similar
Processing of applications (Section II, paragraphs 7 and 8)	Article 8.15.7(b) – (f) Trade in Services Chapter	RCEP is substantively similar and has deeper provisions in some areas
Fees (Section II, paragraph 9)	Article 8.15.7(a) Trade in Services Chapter	RCEP is substantively similar
Assessment of qualifications (Section II, paragraph 10)	Article 8.15.8 Trade in Services Chapter	RCEP is substantively similar
Recognition (Section II, paragraph 11)	Article 8.16.6 and Annex 8C on Professional Services Trade in Services Chapter	RCEP has deeper provisions

CASE STUDY #1 – ACCEPTANCE OF COPIES

JSI (Section II)*

Paragraph 6:

If a Member requires authorization for the supply of a service, it shall ensure that its competent authorities:

...

(b) accept copies of documents, that are authenticated in accordance with the Member's domestic laws and regulations, in place of original documents, *unless the competent authorities require original documents to protect the integrity of the authorization process.*

RCEP

Article 8.15.7:

Where a Party requires authorisation for the supply of a service, it shall ensure that its competent authorities:

...

(i) *where they deem appropriate*, accept copies of documents authenticated in accordance with its laws and regulations, in place of original documents.

Paragraph 6(b) just pinpoints more specifically the circumstances in which Members would *not* consider it appropriate to accept copies of documents – they cannot be accepted if that would undermine the integrity of the authorisation process

CASE STUDY #2 – FEES

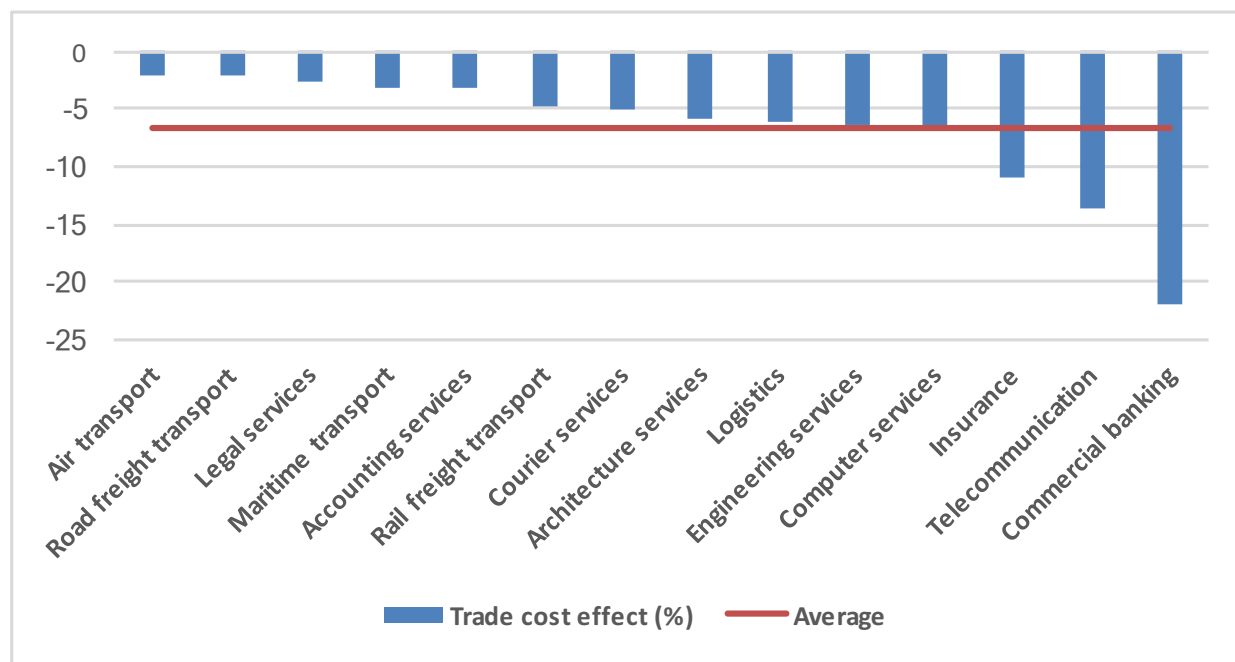
JSI (Section II)*	RCEP
<p>Paragraph 9:</p> <p>Each Member shall ensure that the authorization fees ^[FN] charged by its competent authorities are reasonable, transparent, based on authority set out in a measure, and do not in themselves restrict the supply of the relevant services.</p> <p><small>[FN] Authorization fees do not include fees for the use of natural resources, payments for auction, tendering or other non-discriminatory means of awarding concessions, or mandated contributions to universal service provision.</small></p>	<p>Article 8.15.7:</p> <p>Where a Party requires authorisation for the supply of a service, it shall ensure that its competent authorities:</p> <p>...</p> <p>(a) ensure that any authorisation fees charged for the completion of relevant application procedures are reasonable, transparent, and do not in themselves restrict the supply of a service. For the purposes of this subparagraph, authorisation fees do not include fees for the use of natural resources, payment for auction, tendering, or other non-discriminatory means of awarding concessions, or mandated contributions to universal services provision;</p> <p>...</p>

Paragraph 9 is substantively the same

Multilateralizing these outcomes on Services Domestic Regulation: Benefits for the APEC region

- The ABAC report to APEC for the Mid Term Review of the APEC Services Competitiveness Roadmap emphasizes that where strong interlinkages exist between trade initiatives at APEC level and processes in multilateral fora such as the WTO, APEC economies should work in concert to help build critical mass for multilateral outcomes.
 - ABAC also emphasizes the importance of all APEC economies participating in the WTO Joint Initiatives, all of which are pertinent to the Roadmap action items.
 - **ABAC reports that the WTO JI on Services Domestic Regulation is deeply connected with the APEC Non-Binding Principles and warrants an APEC commitment to bring APEC weight to delivering for the 12th WTO Ministerial Council, the first and only outcome on services since the WTO was created.**
 - ABAC cites the OECD estimates that over a 3-5 year period, implementation of these principles could deliver a significant reduction in regional trade costs across all services sectors.
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Trade cost cuts on offer for businesses in APEC economies (average 7% over 3-4 years)



As % of export values

**Economy-wide
infrastructural services**

banking -22%

telecoms -14%

insurance -11%

**Other services critical
to e commerce**

computer services -7%

logistics -6%

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

- If we look at **computer services**, we see that for 8 of the 14 economies in the data set, trade costs would fall by over 11% and for 5 of those economies, by over 15%.
 - For **architecture**, for 8 economies, trade costs would fall by over 12% and for 4 of those economies, by over 16%.
 - In **engineering**, for 8 economies there would be a drop in trade costs of over 12% and for 6 of those economies, a drop of over 16%.
 - For **telecommunications**, there are 2 economies for which trade costs would fall by over 80%.
 - **Insurance** services trade costs would fall by over 10% in as many as 11 of the 14 economies and for 7 of those economies the drop would exceed 18%.
 - In **other commercial services**, the drop in trade costs exceeds 13% in as many as 11 economies and **for 9 of these economies, the cut in trade costs would exceed 29%.**
 - **Much is at stake here for APEC developing economies trade growth & post pandemic recovery**
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What's in it for developing economy services SMEs?

- OECD estimates for the APEC region suggest that on average, “trade cost reductions for SMEs could be between **2 and 3 percentage points higher** compared to large companies”.
 - “With an average trade cost cut of around 7%, **“SMEs could benefit from trade cost reductions of up to 9%”**.”
 - “The advantage of SMEs would be even larger in sectors experiencing the more profound reductions of services trade costs” eg computer services, telecoms, financial services.
 - “Improving services domestic regulation and reducing the costs of market entry would help improve the **inclusiveness** of services trade, allowing more SMEs to take up global opportunities.”
 - This includes women-led services SMEs as well as female services sector employees. In Australia, 91% of women in the workforce are employed in the services sector. If we want to see more women in trade, we need to cut the costs of doing international business in services.
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Average opening-up impact by sector if APEC economies join the WTO JSI

For computer services, APEC average estimated opening-up is **21%.**

For accounting, motion pictures, rail freight, logistics, insurance, commercial banking, telecoms, architecture, sound recording, engineering & computer services, average opening up exceeds **11%.**

These numbers are too big to ignore.

The single decision by all APEC economies to join the WTO JSI on Services Domestic Regulation in 2021 would deliver measurable progress in achieving the opening up targets set out in the APEC Services Competitiveness Roadmap.

The associated benefits would be verifiable at industry level as measured by trade costs.

All regional firms, including in merchandise goods sectors, will benefit from removal of inefficient regulatory red tape.

APEC Ministers Responsible for Trade Declaration of 5 June 2021

APEC MRT Statement on Services to Support the Movement of Essential Goods

“APEC economies should prioritise identifying unnecessary barriers to trade in any relevant services that may hinder expediting and facilitating the movement of essential goods, and should ensure consistency of any such barriers with their World Trade Organization (WTO) and preferential trade agreement obligations and commitments.”

“These efforts should be supported by a strong international set of disciplines.”

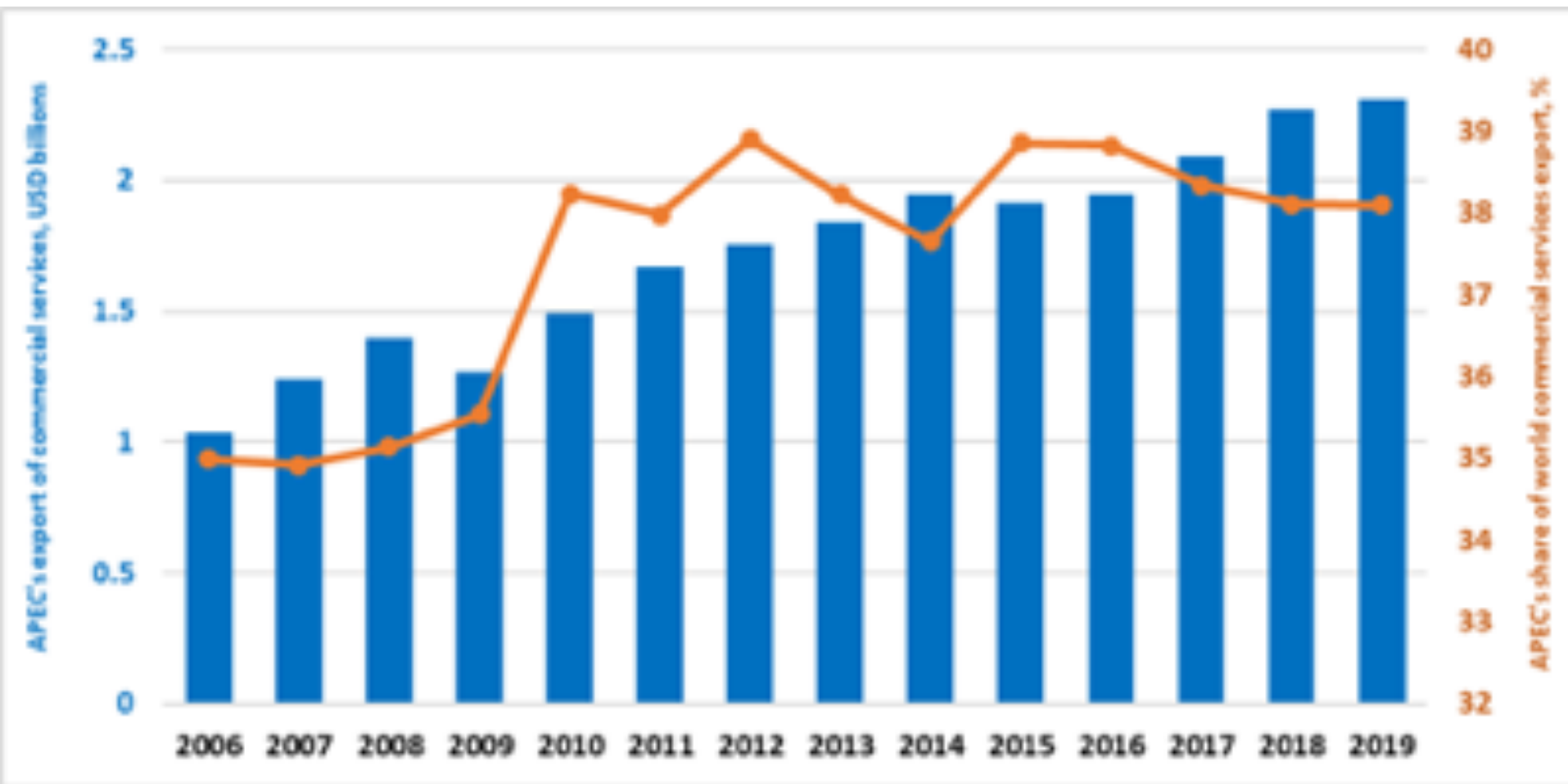
“In this context, we note the progress made in the WTO under the Joint Statement Initiative on Domestic Regulation in Services.”

”APEC member participants in this Initiative encourage conclusion of these negotiations as soon as possible.”

Why we do we need to do this? Because APEC services trade growth has dropped below world average and the region is losing services competitiveness

- Despite the achievements in the first half of the **APEC Services Competitiveness Roadmap** period, the fact is that over 2015-2019, APEC's share of total global services exports has trended downwards and the compound average annual growth rate of APEC's trade in services has also dropped significantly.
 - 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.
 - We saw in the first session that services now account for 2/3 of average APEC GDP. But there is a full 20 percentage point gap between the APEC average share of services in domestic value added and exported value added. We need to do better on the export front.
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APEC services exports & % share of world services exports, USD b, 2006-2020

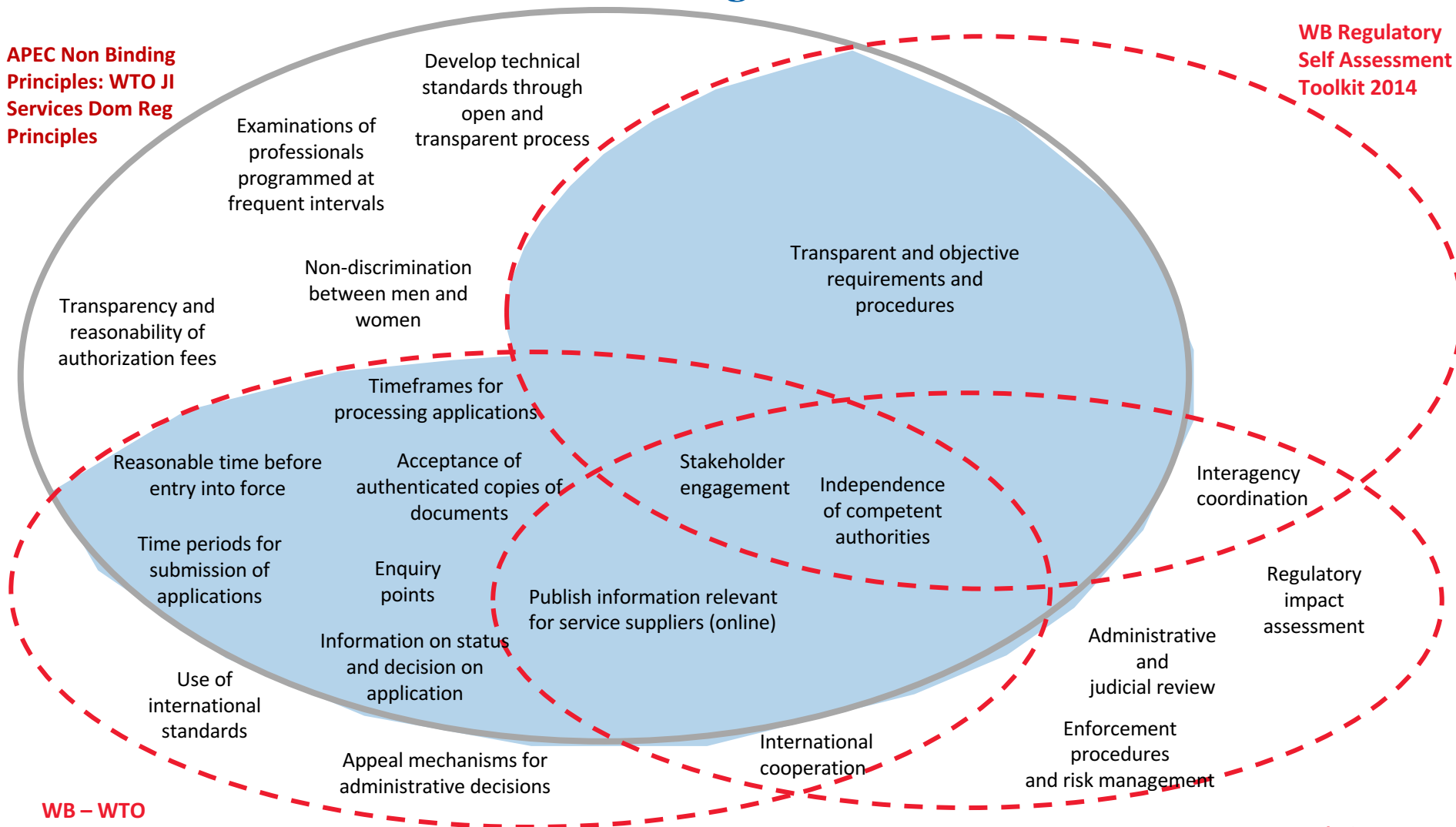


Sources: Own calculations based on WTO Time Series (2021)

The WTO JI on Services Domestic Regulation is reflective of the APEC Principles. It is in the interest of local services business for all APEC economies to get on board and fast.

APEC Non Binding Principles: WTO JI Services Dom Reg Principles

WB Regulatory Self Assessment Toolkit 2014



WB – WTO STRI 2016-2020

OECD Recommendation 2012