Trade in Services in the APEC Region
Challenges and Opportunities for Improvement

This report offers detailed analysis of the current environment of trade in services across the APEC region. Specifically, this study focuses on identifying and quantifying the most significant barriers and impediments to trade in services. This report attempts to offer a deeper understanding of the challenges facing trade in services by incorporating a business-executive view of the services supply chain. The objective is to highlight the areas where focused attention would have the greatest impact on enabling trade in services.

Current levels of trade in services within the APEC region are surprisingly low, and the associated benefits of trade are potentially being lost. However, domestic services markets are growing and becoming an increasingly important source of jobs and economic growth.

Why are current levels of trade in services so limited? Services are difficult to trade because of the inherent nature of services themselves. Services are not goods; they are “experience products” where their true value is only known during or after delivery. Additionally, and more importantly, services markets are characterized by potential market failure problems, which compel governments to implement regulations to ensure fair and efficient markets. This regulation is one of the major challenges to trade in services; domestic standards and regulations become non-tariff barriers for foreign services firms. The cumulative impact of different regulations and standards across economies creates a level of heterogeneity, which raises transaction costs to levels that discourage trade.

The challenge of enabling trade in services requires a holistic view of supply chains. Market access problems exist but our research indicates they are less important than impediments “behind the border,” such as efficient, effective and coherent regulation. Progress in services trade liberalization can be made but it will require domestic-level changes and a coordinated APEC-wide effort.

Our research included the following:

• In depth interviews with 231 business executives, government officials, academics and thought leaders knowledgeable about trade in services in APEC and throughout the world.
• Meta-analysis of regional trade patterns to identify how services chokepoints impact regional trade and investment.
• Targeted analysis of four critical service sectors – retail & distribution, transportation, financial, and business & professional services – to identify areas of relative success and transferrable best practices.
• An analysis and synthesis of the opportunities that could result from in an immediate and effective liberalization of services

Findings
1. Trade in services has significant potential for growth. A 10% reduction in trade costs could result in $100 billion US dollars of additional services-related GDP within APEC.
2. Trade in services within APEC remains low. In 2010 only 6 percent of total services produced within APEC were exported, compared with 63 percent of total goods. By APEC economy, Singapore (75% of services produced), Hong Kong (51%) and Malaysia (31%) are the largest services exporters, while Peru (5%), Japan (4%) and Mexico (2%) currently export the least services.
3. Scarcity of data on trade in services has major implications for policy making. Differences in definitions, measurement and the lack of detailed service trade statistics for all economies make it difficult to identify trade pattern trends. Without reliable statistics, governments cannot assess the effectiveness of their policies.
4. APEC economies differ significantly in their openness to trade in services. Singapore, Hong Kong and New Zealand were found to be the most open while Indonesia, Viet Nam and The Philippines are currently relatively less open.

5. Services are not receiving adequate attention in trade negotiations given its percentage of total GDP and employment. In relative terms, there are far fewer preferential trade regulations focused on services compared to goods. This presents APEC with an opportunity to seek commitments from member economies to move forward in a collective and inclusive way by creating a region wide trade in services framework.

6. “Behind the border” barriers and impediments are the most significant problems for trade in services. Domestic regulations and efficiency of government agencies with services sector oversight have larger impacts on trade in services than do market access barriers.

7. Domestic service regulations, industry standards, and professional requirements act as non-tariff barriers (NTBs) in trade in services. Economy-specific regulations discriminate against foreign services providers by either raising transaction costs or by requiring domestic presence.

8. Differences in service regulations across economies create regulatory heterogeneity, which raises transaction costs for firms seeking to export to multiple markets. Regulatory heterogeneity is a disproportionately larger problem for service firms in developing economies and SMEs.

9. Service provisions within FTAs lack sufficient scope. Our analysis of APEC FTAs found that up to 80% of service provisions focus on market access barriers while only 20% focus on “behind the border” issues such as regulatory heterogeneity between economies.


**Action Agenda**

This report argues for a strong role by APEC in liberalizing trade in services to foster economic development. The alternative of continued isolated and independent approaches has proven ineffective and inefficient. Collective attention and focus is needed to break away from the inertia that embraces trade in services.

1. We urge APEC to re-declare its commitment to enabling trade in services.

2. We urge APEC member economies to also make trade in services a priority, and to create mechanisms to ensure coordination of trade in services efforts across government agencies.

3. We urge APEC to seek commitments from all APEC economies to adopt common definitions and measurement approaches and to collaborate in the collection of trade in services data. We recommend that APEC Secretariats assume a central role in service master data management for APEC.

4. We urge APEC to take the lead in creating “model measures” for new regulations in services.

5. We urge APEC to create “model measures” for FTA service provisions that include the service regulatory environment.

6. In collaboration with service sector industry associations in member economies, we urge APEC to create a one-stop resource on accredited service providers in APEC.

7. We urge APEC to expand and accelerate its efforts on regulatory coherence to include services to a greater extent.

8. We urge APEC to establish a platform for economies to share best practices of government agencies.

9. We urge APEC to continue focusing on talent mobility initiatives and expand its efforts to help all economies upgrade their educational capabilities.

10. We urge APEC to continue raising awareness on the importance of the business environment and continue investing in initiatives that assist government leaders in strengthening their economies.