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

The University of Southern California | September 2012
Services are an Important Contributor to GDP

Services as a % of World GDP

- World Total
  - 100%
  - 70%
- World Sector Size

Services as a % of APEC GDP

- APEC Total
  - 100%
  - 67%
- APEC Sector Size
However trade in services trade is lacking behind that of goods

**World Export Ratios**

- World Goods: 64%
- World Services: 7%

**APEC Export Ratios**

- APEC Goods: 63%
- APEC Services: 6%
Project Focus

Objectives

1. Identify key chokepoints, barriers and impediments to trade in services.

2. Quantify the chokepoints, barriers and impediments which impact services.

Key Findings

1. Growth in services trade has lagged behind growth in goods trade.

2. “Behind the border” barriers impact trade more than barriers “at the border.”

1. Services provisions within FTAs are misfocused.
Impact of services growth within an economy

Expanding Services Sector Within Economy

- Job Creation
- Better Paying Jobs
- More Women in Workforce
- Improved Goods Sector
- Economic Growth
Benefits of increasing cross border trade in services

**Enabling Trade in Services**

- **Specialization**
  - Create comparative advantages
  - Increased efficiency

- **Competitiveness/Contestability**
  - Improved quality
  - Lower prices
  - Innovation
  - Less regulation

- **Aggregation**
  - Capturing volume across markets
  - Economies of scale

**Job Creation**

**Better Paying Jobs**

**More Women in Workforce**

**Improved Goods Sector**

**Economic Growth**
Trade in services is a huge opportunity

A 10% reduction in services transactions costs...

...results in $100B of additional services contribution to GDP across APEC.
Research Approach
Advance ABAC initiatives on the services trade in APEC Region

Understanding Services at the heart of a competitive economy

An ABAC Initiative

Champions: ABAC Hong Kong China and ABAC Philippines
October 2011
Research objective outlined below

- Examine available research reports and data on services trade across APEC
- Identify barriers and impediments to services trade
- Quantify factors impeding services trade
- Offer Recommendations for APEC to focus
Our studies contribute to existing research

Examine trade in services with the ABAC Integrated Supply Chain Framework

Capture the perspectives of APEC Business Executives
A three phased approach was used

1. Meta Analysis
2. Field Research
3. Analyze Data and Develop Recommendations
Examining Existing research
Capturing the voice of business in 19 APEC Economies

231 in-economy interviews
79 questionnaire respondents

<table>
<thead>
<tr>
<th>Service Sectors</th>
<th>No. of Interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and professional services</td>
<td>47</td>
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<td>Communication services</td>
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<tr>
<td>Construction and related engineering services</td>
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<td>Distribution services</td>
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<td>Tourism and travel-related services</td>
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<td>Recreational, cultural and sporting services</td>
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<td>Transport services</td>
<td>9</td>
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<td>Other Services</td>
<td>33</td>
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<td>Government</td>
<td>8</td>
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<td>Industry Experts and Associations</td>
<td>23</td>
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<tr>
<td>User of Services (Mining, Manufacturing and others)</td>
<td>17</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>231</strong></td>
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</tbody>
</table>
Scope our research limited to APEC economies

Scope

- Limited to APEC economies and trade in services
- Focused on capturing the voice of the business
- Targeted on 5 Services sectors:
  - Business/Professional
  - Financial
  - Transportation
  - Distribution
  - Telecommunications.

Limitations on Data Availability

- Bilateral services trade flows data are limited
- Data regarding Brunei Darussalam and Papua New Guinea were limited
- Sector focus for Telecommunication was limited by data availability
European Union: An illustrative Case Study

1. Market integration removed non tariff barriers
2. Talent Mobility enabled
3. Agreement on qualifications and skills recognition
4. Ongoing attempts to standardize industry standards and regulation
European Union: An illustrative Case Study

E.U.: An Illustrative Case Study

Intra EU Goods Exports

$US Million


intra services exports intra goods exports
European Union: An illustrative Case Study

E.U.: An Illustrative Case Study

Intra EU Goods Exports

Intra EU services Exports

$US Million


--- intra services exports --- intra goods exports
Despite removal of market access barriers, services trade growth lags behind goods growth.

Intra EU Goods Exports

Intra EU services Exports

---

intra services exports —— intra goods exports


US$ Million

1600000 1400000 1200000 1000000 800000 600000 400000 200000 0
Goods v. Services
Services are more difficult to trade than goods

- Services difficult to trade
- Service markets problematic
- Different barriers & impediments to trade
Services play a critical role in supporting the goods value chain

“Embodied” services contribute towards the production of the final product.

**Embodied Services**
- Energy
- Transport
- Design
- Insurance

**Goods Value Chain** with supporting services

Supporting services

- Legal services
- HR Management / Benefits Management
- IT Services
- Financial services/invoicing, payment, collection, credit provision
Services play a critical role in supporting the goods value chain

“**Embedded**” services occur after the point of merchandise sale and are provided for consumption along with the good

**Embedded Services**
- Financing
- Training
- Maintenance & Repair
- After-sales support

**Goods Value Chain with supporting services**

- R&D
- Materials procurement
- Manufacturing
- Shipping/Logistics
- Retail
- Marketing/Sales
- Customer Support

Supporting services

- Legal services
- HR Management / Benefits Management
- IT Services
- Financial services/invoicing, payment, collection, credit provision
### Four modes of service delivery in cross-border trade

#### Service Consumer

<table>
<thead>
<tr>
<th>Service Provider</th>
<th>Immobile</th>
<th>Mobile</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mode 1</strong>: Cross-border supply</td>
<td><em>Non-tradable</em> services require physical proximity and synchronous delivery</td>
<td><strong>Mode 2</strong>: Consumption Abroad</td>
</tr>
<tr>
<td>Example: Getting a haircut at a local barber shop</td>
<td>Example: A tourist visits Las Vegas</td>
<td></td>
</tr>
<tr>
<td><strong>Mode 3</strong>: Commercial presence</td>
<td><strong>Mode 4</strong>: Presence of a natural person</td>
<td></td>
</tr>
<tr>
<td>Example: A bank opens an office in a foreign country</td>
<td>Example: A customer service call center in the Philippines</td>
<td></td>
</tr>
<tr>
<td><strong>Mode 4</strong>: Presence of a natural person</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Service markets are problematic

Market Failure Problems

Information Scarcity

Need for Governance

Unintentional Barriers
Complex and Intractable Problems Exist
Complex and Intractable Problems Exist

Market Data

- Conduct market feasibility or identify suppliers/consumers
Complex and Intractable Problems Exist

- Market Access
  - Restrictiveness
Complex and Intractable Problems Exist

- Talent Mobility
  - Move employees to the location
Complex and Intractable Problems Exist

Business Environment
- Human capital
- ICTs
- Language & Culture
Complex and Intractable Problems Exist

- Government Regulations
- Industry standards
- Qualifications
Complex and Intractable Problems Exist

Regulations / Qualifications / Standards
- Government Regulations
- Industry standards
- Qualifications

Efficiency of Implementation
- Monitor and enforce regulations
Complex and Intractable Problems Exist

**Market Data**
- Conduct market feasibility or identify suppliers/consumers

**Regulations / Qualifications / Standards**
- Government Regulations
- Industry standards
- Qualifications

**Access & Mobility to Skilled Talent**
- Move employees to the location

**Market Access**
- Restrictiveness

**Efficiency of Implementation**
- Monitor and enforce regulations

**Business Environment**
- Human capital
- ICTs
- Language & Culture
Analyzing Services Trade patterns in the APEC Region
APEC Economic Structure

Economic Structures of APEC Economies

% GDP

Hong Kong, China
The United States
Australia
Singapore
Japan
Canada
New Zealand
Chinese Taipei
Mexico
Russia
Republic of Korea
Peru
The Philippines
Chile
Malaysia
People's Republic of China
Thailand
Viet Nam
Indonesia
Brunei Darussalam
Papua New Guinea

Services
Goods
Services Exported vs Goods Exported

- Singapore
- Hong Kong, China
- Malaysia
- Brunei Darussalam
- Thailand
- Viet Nam
- Papua New Guinea
- Republic of Korea
- Chinese Taipei
- The Philippines
- Chile
- New Zealand
- People’s Republic of China
- Indonesia
- Canada
- Australia
- Russia
- The United States
- Peru
- Japan
- Mexico
- APEC

Services % Exported vs Goods % Exported
A Comparison: APEC vs EU

Service Export as percent GDP of EU and APEC

- Service Exports from EU to World as % EU GDP
- Service Exports from APEC to World as % APEC GDP
A Comparison: APEC vs Intra EU, a what if scenario

Comparison of Intra EU services exports  APEC as % GDPs

Opportunity for APEC
\[ \Delta 1.3 - 1.4\% = US\$455B - US\$490B \]
Analyzing Services Trade Flows (Attempted)
Analyzing Services Trade Flows by Sectors (Attempted)
No Meaningful Result: Lack of Data

<table>
<thead>
<tr>
<th>Service Importing Economy</th>
<th>AUS</th>
<th>BRU</th>
<th>CAN</th>
<th>CHI</th>
<th>CHN</th>
<th>HKG</th>
<th>INA</th>
<th>JPN</th>
<th>KOR</th>
<th>MAS</th>
<th>MEX</th>
<th>NZL</th>
<th>PNG</th>
<th>PER</th>
<th>PHI</th>
<th>RUS</th>
<th>SIN</th>
<th>TPE</th>
<th>THA</th>
<th>USA</th>
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<td>Personal, cultural and recreational services</td>
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<td>Government services, n.i.e.</td>
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</tbody>
</table>

No data

Data Available for less than 6 economies

Data Available for 6 to 9 economies

Data available for more than 10 economies

Services Outgoing FDI: Anomaly

- **Chile**: 70% Service FDI, 30% Other FDI
- **Japan**: 48% Service FDI, 52% Other FDI
- **The United States**: 23% Service FDI, 77% Other FDI
- **Republic of Korea**: 34% Service FDI, 66% Other FDI
Identifying and Quantifying Barriers and Chokepoints
Literally hundreds of points of pain
Difficulty estimating costs

Effect of Market Access Barriers, in percentage of economic impact

Answers we received:
- Not possible
- Unknown
- Never calculated
- Rough Estimate
Analytical framework at the border and behind the border

Barriers

Increase transaction costs

At the border

Behind the border

Market Access

Regulatory Environment

Efficiency of Implementation

Business Environment
Four separate indices created to quantify barriers

- Market Access
- Regulatory Environment
- Efficiency of Implementation
- Business Environment

World Bank market access restrictiveness index

- Interview data
- Questionnaire data
- World Economic Forum
- World Bank
Comparison of APEC economies

Market Access  Regulatory Environment  Efficiency of Implementation  Business Environment
Market Access barriers vary greatly across economies
Market Access barriers

Relative Importance of Market Access barriers

- Limits on Foreign Personnel
- Limits on Scope of Operation
- Limits on Foreign Ownership
- Limits on Mode of Entry
- Size Limits
- Quotas on Providers
These limitations vary greatly by sector

Service Sector Market Access Index Restrictiveness:

<table>
<thead>
<tr>
<th>Economy*</th>
<th>Retail &amp; Distribution</th>
<th>Financial</th>
<th>Transportation</th>
<th>Professional Services</th>
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<td>0.3</td>
<td>1.4</td>
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</tbody>
</table>

*No data exists for Hong Kong, Chinese Taipei, and Singapore

Regulatory issues are fairly consistent across APEC

Regulatory Environment Index

- Singapore
- Hong Kong, China
- New Zealand
- Chile
- Malaysia
- Japan
- Australia
- Chinese Taipei
- APEC Average
- Canada
- People's Republic of China
- Thailand
- Peru
- The United States
- Indonesia
- The Philippines
- Mexico
- Republic of Korea
- Viet Nam
- Russia

0.00 0.50 1.00 1.50 2.00 2.50 3.00 3.50
Impediments for the Regulatory Environment

Relative Importance of Regulatory Environment Impediments

- Inconsistent Regulations
- Recognition of Skills and Qualifications
- Poor Regulations
- Visa Work and Travel Restrictions
- Standards and Specifications
- Domestic Focused Regulations
- National Favoritism
- IP Protection
- Excessive Tax Burden
- Repatriation of Profits
- Investment Protection
- Double Taxation
Efficiency of Implementation varies gradually across APEC

### Efficiency of Implementation Index

- Singapore
- Hong Kong, China
- New Zealand
- Canada
- Australia
- Chile
- Chinese Taipei
- Malaysia
- Japan
- The United States
- APEC Average
- People's Republic of China
- Thailand
- Peru
- Mexico
- Indonesia
- Republic of Korea
- Viet Nam
- Russia
- The Philippines

0.00 0.50 1.00 1.50 2.00 2.50 3.00 3.50
Impediments to Efficiency of Implementation

Relative Importance of Efficiency of Implementation Impediments

1. Inconsistent Monitoring/Enforcement
2. Coordination of Gov. Agencies
3. Government Bureaucracy
4. Dispute Resolution
5. Regulatory Transparency
6. Regulatory Instability
7. Corruption
8. Inefficiency of Visa Process
Business environment can increase costs for everyone

Business Environment Index

- Singapore
- Hong Kong, China
- Chinese Taipei
- Australia
- The United States
- New Zealand
- Canada
- Japan
- Malaysia
- Chile
- APEC Average
- People’s Republic of China
- Republic of Korea
- Thailand
- Indonesia
- Viet Nam
- The Philippines
- Russia
- Mexico
- Peru

Chile

People’s Republic of China

Business Environment Index

0.00 0.50 1.00 1.50 2.00 2.50

0.00 0.50 1.00 1.50 2.00 2.50

ABAC Business Advisory Council

University of Southern California
Impediments within the Business Environment

Relative Importance of Business Environment Impediments

Access to Human Capital
Access to Skilled Talent
Language Differences
Transportation Infrastructure
Domestic Market Competitiveness
Cultural Differences
Educational Institutions
Indep. Validation Agencies
Services Ind. Associations
Access to Financing
Macro Environment
Cost of Crime and Violence
Info on Providers
ICTs
Income classification of APEC economies for our analysis

World Bank Income Classification of APEC economies

<table>
<thead>
<tr>
<th>High Income economies</th>
<th>• Australia; Brunei Darussalam; Canada; Hong Kong, China; Japan; Republic of Korea; New Zealand; Singapore; Chinese Taipei; The United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upper-middle Income economies</td>
<td>• Chile; People’s Republic of China; Malaysia; Mexico; Peru; Russia; Thailand</td>
</tr>
<tr>
<td>Lower-middle Income economies</td>
<td>• Indonesia; Papua New Guinea; The Philippines; Viet Nam</td>
</tr>
</tbody>
</table>
Various factors affect economies of different income categories

Impediments Index

<table>
<thead>
<tr>
<th></th>
<th>Business Environment</th>
<th>Efficiency of Implementation</th>
<th>Regulatory Environment</th>
<th>Market Access</th>
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</thead>
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<tr>
<td>Lower-middle-income economies</td>
<td>1.83</td>
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<td>2.56</td>
<td>2.42</td>
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<td>Upper-middle-income economies</td>
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<td>2.30</td>
<td>1.61</td>
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<tr>
<td>High-income economies</td>
<td>1.16</td>
<td>1.43</td>
<td>1.87</td>
<td>0.96</td>
</tr>
</tbody>
</table>

ID, PG, PH, VN
CL, CN, MY, MX, PE, RU, TH
AU, BN, CA, HK, JP, KR, NZ, SG, TW, US
### Top impediments by economy income classification

<table>
<thead>
<tr>
<th>Impediments</th>
<th>High Income</th>
<th>Upper-middle Income</th>
<th>Lower-middle Income</th>
<th>Shared Impediments</th>
</tr>
</thead>
<tbody>
<tr>
<td>(EI) Inconsistent Monitoring and Enforcement</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>3</td>
</tr>
<tr>
<td>(EI) Coordination Among Government Agencies</td>
<td>●</td>
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<td>2</td>
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<tr>
<td>(EI) Dispute Resolution</td>
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<tr>
<td>(EI) Government Bureaucracy</td>
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<tr>
<td>(RE) Recognition of Skills and Qualifications</td>
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<td>2</td>
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<tr>
<td>(RE) Inconsistent Regulations</td>
<td>●</td>
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<td></td>
<td>1</td>
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<tr>
<td>(RE) Repatriation of Profits</td>
<td>●</td>
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<td>1</td>
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<tr>
<td>(RE) Regulatory Transparency</td>
<td>●</td>
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<td>1</td>
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<tr>
<td>(BE) Cultural Differences</td>
<td>●</td>
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<td>1</td>
</tr>
<tr>
<td>(EI) Regulatory Instability</td>
<td></td>
<td></td>
<td>●</td>
<td>1</td>
</tr>
</tbody>
</table>
Efficiency of Implementation example: Inconsistent monitoring and enforcement

<table>
<thead>
<tr>
<th>Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Complicated balance between oversight and efficiency</td>
</tr>
<tr>
<td>• Difficulties and costs of coordination across and within governments</td>
</tr>
<tr>
<td>• Once domestic focused regulatory agencies are now tasked with international trade as well</td>
</tr>
<tr>
<td>• Variety of independent regulatory approval and control organizations</td>
</tr>
</tbody>
</table>

“Tax enforcement is inconsistent and is sometimes abused as an instrument for discrimination.”

Retail Services, Peru
## Top impediments across APEC

<table>
<thead>
<tr>
<th>Market Access</th>
<th>Regulatory Environment</th>
<th>Efficiency of Implementation</th>
<th>Business Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Standards and specifications</td>
<td>• Regulatory Transparency</td>
<td>• Language and Culture</td>
<td></td>
</tr>
<tr>
<td>• Recognition of Skills and Qualifications</td>
<td>• Inconsistent Monitoring and Enforcement</td>
<td>• Access to Human Capital</td>
<td></td>
</tr>
<tr>
<td>• Inconsistent Regulations</td>
<td>• Coordination Among Government Agencies</td>
<td>• Access to Skilled Talent</td>
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<tr>
<td></td>
<td>• Regulatory Instability</td>
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<td></td>
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</table>
Key challenges facing trade in services development

1. Behind the border barriers are a large constraint

2. The drive for domestic standards creates regulatory heterogeneity which can become a non-tariff barrier for foreign suppliers

3. Regulatory execution can be overly burdensome so that implementation becomes inefficient
Reduced Cost of Trade – Increased GDP

Current Size of Services Trade and with a 10%* Trade Cost Reduction
Size represents MM US$

A 10% reduction in trade costs results in $100B of additional services GDP across APEC

* Based on Novy’s Gravity Redux
Out of a sample of OECD countries, it was found that if each country harmonized or recognized each other’s regulations, total services trade through commercial presence could increase by between 13% and 30%

Empirical Benefits for Individual Economies

**Increased Growth**
Growth rates in countries with fully open telecommunications and financial services sectors are up to 1.5% points higher than those in other countries.


**Increased Productivity**
The aggregate effect of services liberalization was an increase in productivity of 11.7% for domestic firms and 13.2% for foreign firms for a one-standard deviation increase in the liberalization index.


**Increased Manufacturing Productivity**
A 10% increase in services trade is associated with a 6% increase in goods trade.

There are risks moving forward

- Adopting regulations or standards in isolation
- Enacting regulations that require proximity to perform a service
- Over-regulating “ICT” services
- Not recording or measuring services data according to a global standard
Recommendations for APEC, Governments, and Industry.

<table>
<thead>
<tr>
<th>Priority</th>
<th>Make trade in services a priority for APEC and individual member economies.</th>
</tr>
</thead>
</table>
| Data & Information | Define, collect, and disseminate the data on trade in services.  
                     | Make data accessible and facilitate the sharing of best practices |
| Non-tariff Barriers | Avoid introducing new NTBs to trade in services and focus on regulatory heterogeneity, rather than market access.  
                      | Expand and accelerate APEC’s harmonization initiatives ensuring they include service sectors. |
| Business Environment | Facilitate human capital mobility and support efforts to improve the business environment |
Make Trade in Services A Priority

APEC
- Problem: APEC working groups are not equally focused on services.
- Suggested Action: Increase coordination and focus across APEC working groups.

Economies
- Problem: Regulation of services are domestic focused and do not emphasize trade opportunities.
- Suggested Action: Bring services into the trade agenda within economies.

Business Community
- Problem: Implementation of industry standards are domestically focused.
- Suggested Action: Bring services into the trade agenda within service industry associations.
Data and Information

Problem

There is a lack of data, yet data is pivotal to growth.

The shortage of data makes it difficult to assess the effectiveness of policy implementation.

Lack of reliable and available information on service providers hinders trade.

Suggested Action

Assume a central role in services master data management.

Adopt common definitions and measurement approaches for data collection.

Industry associations should collaborate with APEC and governments in creating a one-stop data resource on accredited service providers.
Coherence of Government Regulations and Industry Standards

APEC
Unilateral regulations create heterogeneity.
Establish a services trade framework with protocols and model measures for regulatory coherence.

Economies
Oversight of trade in services is not coordinated among agencies. FTA’s place too much focus on market access.
Include service regulatory environment provisions when writing FTAs. Create mechanisms to coordinate trade in services efforts across government agencies.

Business Community
Differing industry standards and skills recognition directly limit growth.
Engage in public-private partnerships to create coherency. Share best practices to develop industry standards.
Support efforts to improve the business environment

Problem

- Corruption, access to quality human capital, and lack of domestic market competitiveness impede trade in services.

Suggested Action

- Continue to raise awareness on the importance of the business environment.
- Continue to invest in initiatives that strengthen the business environment.
- Increase dialoged between private and public sectors to create awareness and solutions to problem areas.
Conclusion

“It is high time that we put services at the heart of our trade opening agenda.”

- Pascal Lamy, Director-General of the World Trade Organization
  June 2012