



Growing Trade in Services in APEC Economies

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Brief

- Discuss how to expand trade in services and its contribution to the enhancement of productivity in the APEC economies.
 - Services: value-adding without ownership changing





Outline

- International business in services
- Contribution of integration
- Reform and its challenges
- Progress in APEC
- Next steps



<http://www.luxuo.com/sports/beijing-water-cube-opens.html>
http://commons.wikimedia.org/wiki/File:Construction_beijing_2008_water_cube_1.jpg



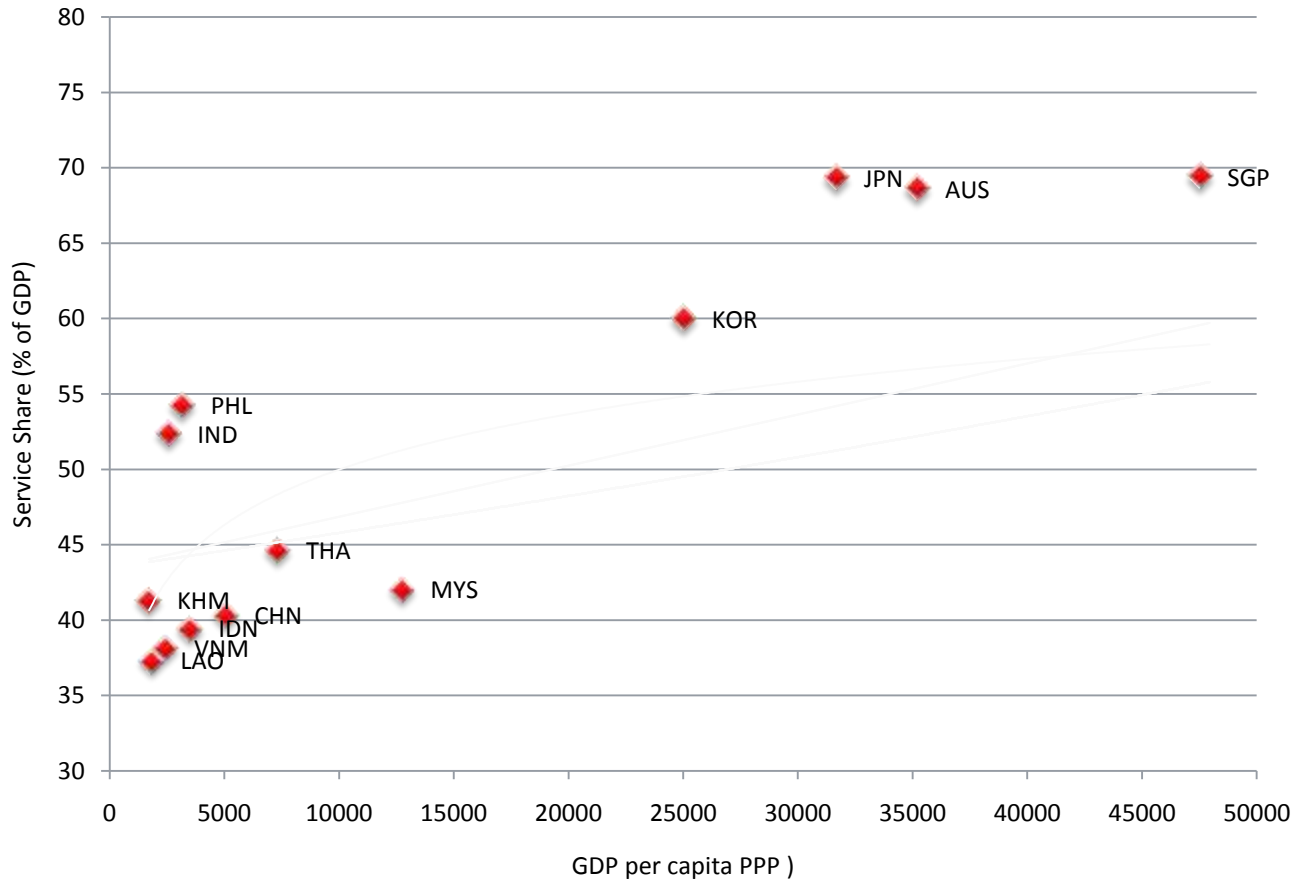


Context – service sector and development

- Services sector grows with rising income levels
 - demand side factors – income growth
 - supply side
 - buy-in rather than make
 - productivity growth



Size of Service Sector and GDP per capita (PPP) - 2007





Services international business

- International 'tradeability' has increased
 - with technological change and changes in barriers to FDI
 - *Data on this is a problem!*
- There are new models in services for international business
 - supply chains matter like they do in goods
 - outsourcing
 - 'network' structures
 - all 'modes of supply' used at the same time





Gains from integration – links to productivity growth

- Gains from international business
 - Specialisation
 - Competition
 - Including in infrastructure
 - Access to variety
- Reduce costs in trading systems
 - Links to trade facilitation
- Participation matters
 - Value of reducing the costs of entering the trading system

Note – foreign entry must contribute to competition not just share the market – competition is the goal





Reform and its challenges

- Complex barriers
 - Not just at the border, also behind the border
 - Influence establishment and operations
- Many agencies involved
- Market failures are common



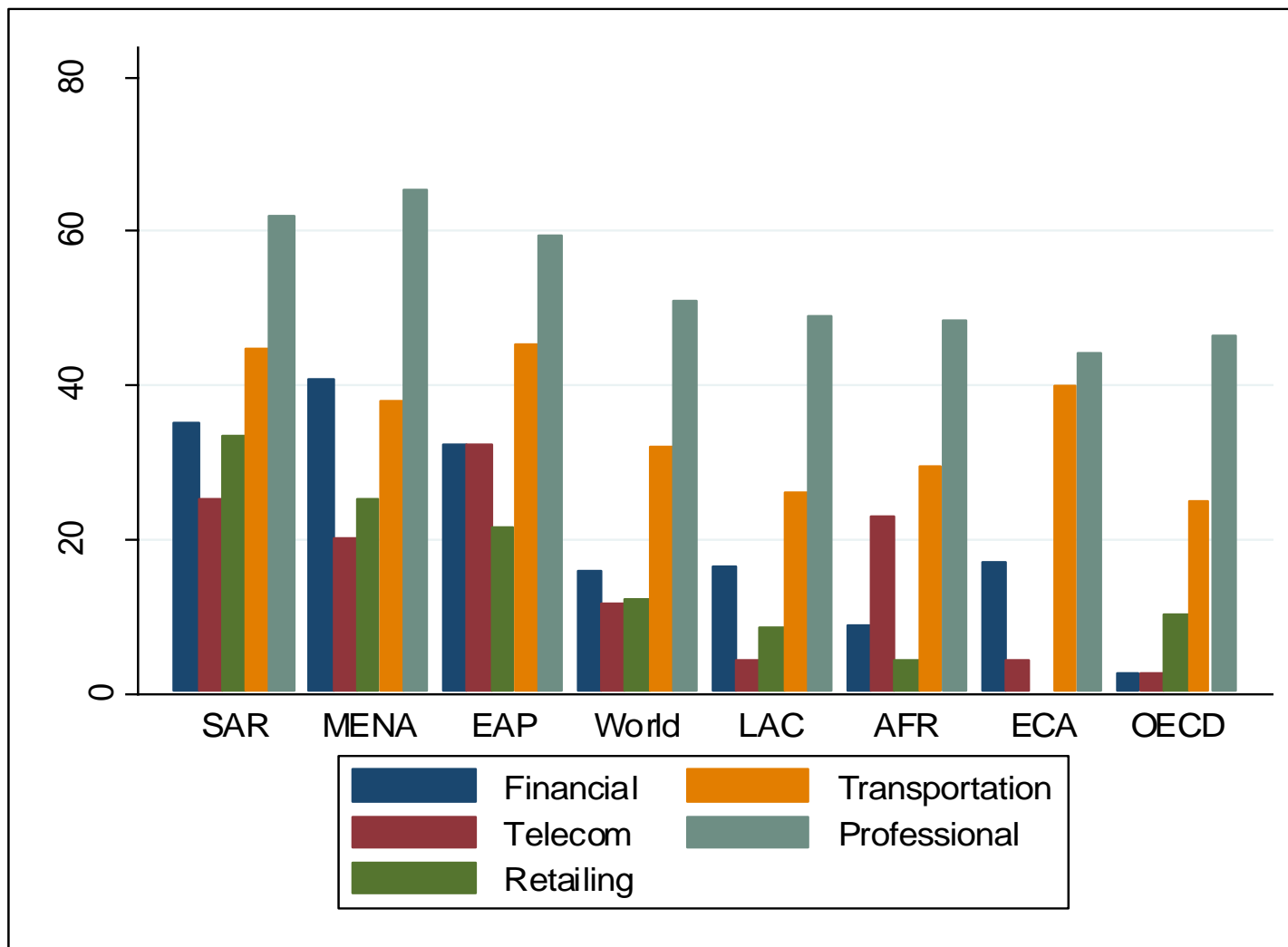


Bottom line on policy

- Restrictions remain (higher scores are more restrictive)
 - Particularly in East Asia
- Gains from reform are expected to be significant
- GATS is not contributing
 - 'Uruguay Round commitments are on average 2.3 times more restrictive than current policies.'
 - 'Doha offers not greater access to markets but a weak assurance that access will not get worse'
- Nor are regional agreements
 - '(M)ost regional agreements have not been effective mechanisms for liberalizing access to services markets'
- Unilateralism matters
 - 'Instead policy reforms (that have occurred) have mostly been unilateral'



Services trade restrictiveness index (STRI) by regions and sectors



Source: Borchert, Gootiiz, Mattoo 2010



Significance of barriers (PSU study)

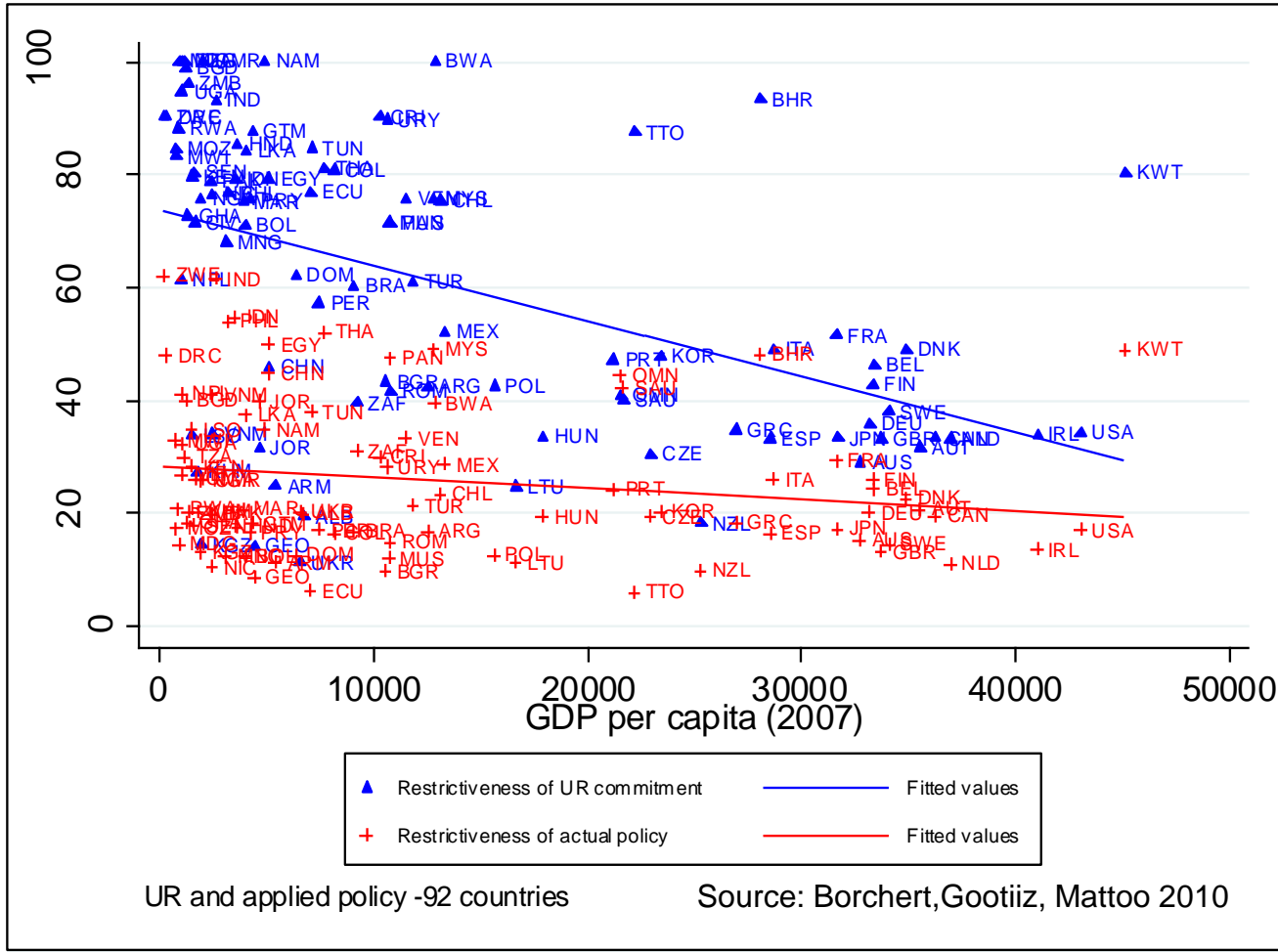
- conversion to full openness in air transport would lead to an average reduction in air freight margins for all APEC economies of 15%
- a movement from the current policy regime to full liberalisation for all APEC economies would on average reduce maritime freight rates by about 20%
- In electricity, third party access, unbundling generation and a wholesale market would lower prices by 23%
- In gas, retail competition lowers prices by 15%

Case study PNG: The introduction of (foreign) competition into the mobile sector in 2007 led to a 7 fold growth in subscribers = universal coverage. Charges fell by 11% in the peak times for domestic calls and 51% in the off-peak. In a difficult terrain, the benefits include greater social interaction eg the rate of response to medical emergencies, is better. Mobile banking initiatives are underway. Market pricing information is more readily available.





Uruguay Round Commitments and Actual Policy





Doha any better?

- The best offers submitted so far as part of the Doha negotiations improve on UR commitments by about 13% but are still on average 1.9 times more restrictive than actual policies.
- At present, Doha offers not greater access to markets but a weak assurance that access will not get worse.'



Mode 3/FDI: Actual policies in services trade (2008-2009)

					Open	Restrictive	Closed
Countries	Banking	Telecom-Fixed	Retailing	Maritime Shipping Int.	Accounting		
China							
India							
Malaysia							
Indonesia							
Philippines							
Thailand							
Cambodia							
Australia							
Japan							
Korea							
United States							

Mode 3/FDI: GATS commitment and Doha Offers

					Open	Restrictive	Closed
Countries	Banking	Telecom-Fixed	Retailing	Maritime Shipping Int.	Accounting		
China							
India			NC		Unbound		
Malaysia			NC				
Indonesia			NC				NC
Philippines			NC				NC
Thailand							
Cambodia				Unbound			
Australia							
Japan				Unbound			
Korea							
United States				NC			

Mode 1: Actual policies in services trade (2008-2009)

					Open
					Restrictive
					Closed
Countries	Bank: Loans	Life insurance	Maritime Shipping	Accounting	Law (domestic)
China	Restrictive	Closed	Open	Restrictive	Closed
India	Restrictive	Restrictive	Restrictive	Closed	Closed
Malaysia	Restrictive	Restrictive	Restrictive	Open	Closed
Indonesia	Open	Restrictive	Restrictive	Open	Closed
Philippines	Restrictive	Closed	Restrictive	Open	Closed
Thailand	Closed	Open	Restrictive	Closed	Closed
Cambodia	Open	Closed	Open	Closed	Closed
Australia	Open	Restrictive	Open	Open	Restrictive
Japan	Open	Restrictive	Open	Open	Restrictive
Korea	Open	Restrictive	Open	Open	Closed
United States	Open	Restrictive	Open	Open	Restrictive

Mode 1: GATS commitments and Doha Offers

					Open
					Restrictive
					Closed
Countries	Bank: Loans	Life insurance	Maritime Shipping	Accounting	Law (domestic)
China	Unbound	Unbound			NC
India	Unbound	Unbound			NC
Malaysia	Unbound	Unbound			NC
Indonesia		Unbound		NC	Unbound
Philippines	CP req	CP req		NC	NC
Thailand	Unbound			Unbound	Unbound
Cambodia		CP req	Unbound		
Australia	Unbound	Unbound			
Japan	Unbound	Unbound			
Korea, Republic	Unbound	Unbound			NC
United States	Unbound	Unbound	NC		

Source: Bochert, Gootiiz and Mattoo (2009)

“CP req”: commercial presence required; NC: no UR Round commitments and Offer reflects the commitment.



Regional agreements

- ‘...most regional agreements have not been effective mechanisms for liberalizing access to services markets. Instead policy reforms have mostly been unilateral’ (Francois and Hoekman, p. 674)
 - Better sectoral coverage in regional agreements than GATS, but with limitations
 - Cross border trade and investment show similar degrees of openness (0.4-0.5 on a scale of 0 to 1) but movement of people is generally less open
 - Domestic regulation does not go much beyond the GATS
 - Rules of origin are more open and MFN clauses are common





Why lack of progress?

- Governments are concerned (HM)
 - Commitments `will deprive them of the freedom to regulate
 - e.g. cross-border flows of financial and data services and activities such as cross-border gambling services;
 - `regulators are unprepared for unrestricted entry and competition;
 - especially in the smaller developing countries and especially in financial services
 - there are `inadequate mechanisms for the international regulatory cooperation
 - between financial regulators, competition authorities, and immigration authorities that would be needed to reap the full benefits of liberalisation.





Other 'headwinds' (HM)

- Business interest has been limited
 - industrial country services markets are 'mostly open', except a few 'hardened pockets of protection' (e.g. in transport and labour mobility), and
 - developing countries are unilaterally liberalising their markets.
- Growing mutual interdependence in any case
 - developing countries increasingly suppliers of outsourced services to OECD nations that are the source of investment and know-how in sectors such as transport, telecom, and finance
 - creating a self-enforcing equilibrium of openness with a reduced likelihood of policy reversal.
- Pessimism in the business community
 - because regulatory policies are not the focus of attention and those policies matter to them





Other factors in slow progress on commitments

- Impact of option for FDI on the value of international commitments in the political economy setting
- Awareness of the long term costs of discrimination in services (first mover effect)



<http://www.skytelecoms.com/wp-content/uploads/2011/03/09.jpg>





Suggestion #1 (HM)

- Deal with domestic regulation
 - “strengthen regulatory institutions and identify, design and implement policies that address market failures and ensure wider access to services.
 - “international cooperation to address regulatory externalities.
 - Eg prudential regulation problems arising from differences in regulatory standards, dangers that liberalisation gain will be appropriated by international oligopolies (e.g. transport and information services), and cooperation between host and source countries as concerns temporary labour mobility.





Implication - Role for APEC and ASEAN

- Consider structures such as an APEC and ASEAN processes
- Eg Hoekman and Mattoo propose
 - “Services knowledge platforms”bring together sectoral regulators, trade officials and stakeholders to assess current policies and identify beneficial reforms could help establish the preconditions for future liberalisation commitments.
 - Participation in such mechanisms could be voluntary and not be linked to negotiations in the WTO.





Suggestion #2 (HM)

- In the WTO itself
 - Standstill:
 - A pledge not to impose any new restrictions by inscribing binding language to this effect in the schedules of specific commitments in the General Agreement on Trade in Services.
 - Pre-commitments:
 - Pledge to implement reforms by a certain date (to be negotiated) in the future to liberalise trade in services, especially on foreign direct investment and in the air and maritime transport sector (currently often excluded from WTO commitments); and
 - Temporary movement of suppliers:
 - Agree to expand the scope for temporary movement of services suppliers, conditional on a set of source country obligations and transparent criteria relating to host country economic conditions.





Suggestion #3 (GSN press release from the PECC/ADB meeting in Hong Kong (1-3 June))

- Services only (and possibly plurilateral) approach in the WTO
 - Include in that negotiation
 - improvements in timeliness and conditions associated with cross-border transfer and storage of data;
 - the movement of services business people;
 - sounder and clearer rules on the role of State-owned and linked enterprises creating competitive markets;
 - Improving the conditions for commercial presence for foreign companies; and
 - the development of a set of principals providing best practice regulation.

<http://globalservicesnetwork.com/Media%20ReleaseGSC%20HK%206%20June%202011.pdf>





Themes

- Value of the growth of the extensive margin and of reducing costs (including those of uncertainty) of entering the international market
- Value of cooperation on regulatory reform
- Focus on the movement of people according to a common set of principles
- Relationship between WTO, APEC and FTAs.





Sources

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- Findlay and others, *The Impacts and Benefits of Structural Reforms in Transport, Energy and Telecommunications Sectors*, APEC PSU, 2011
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