

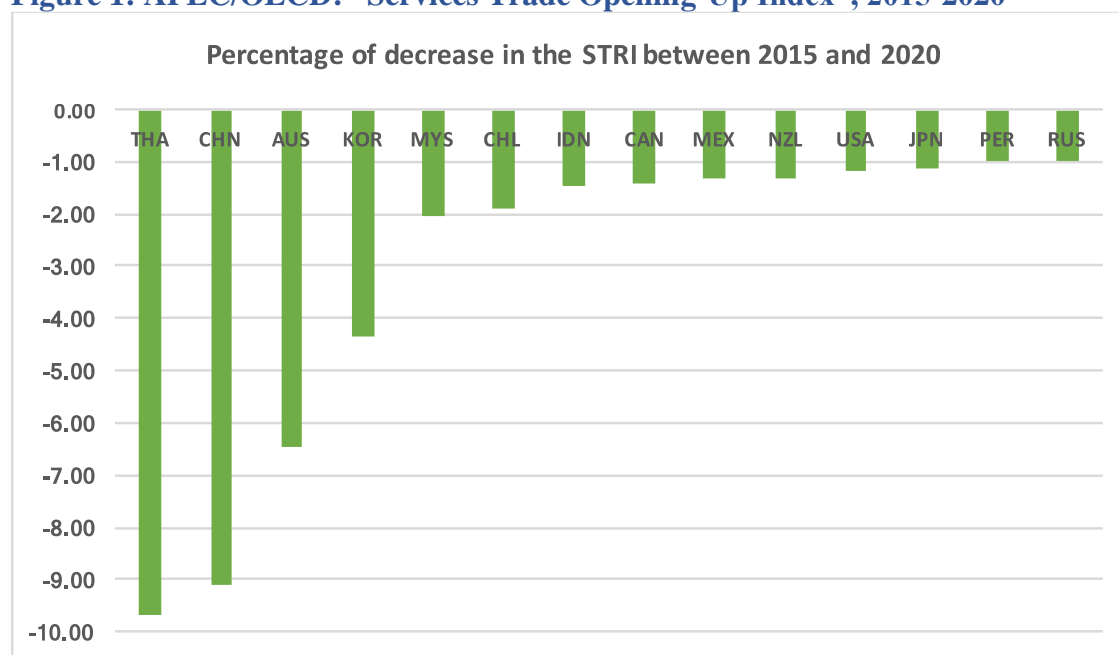
## EXECUTIVE SUMMARY: ABAC ASSESSMENT AND PROPOSALS

### MONITORING ROADMAP TARGETS

**APEC economies have jointly made significant progress towards TARGET 1 by reducing restrictions to services trade and investment.**

The detailed picture is mixed; regulatory transparency is incomplete and there are multiple business concerns. Many new restrictions have also been introduced since 2015 and the net impact differs across services sub-sectors. Nevertheless, this is a real achievement, illustrated below by the new APEC/OECD Services Trade Opening-Up index.

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



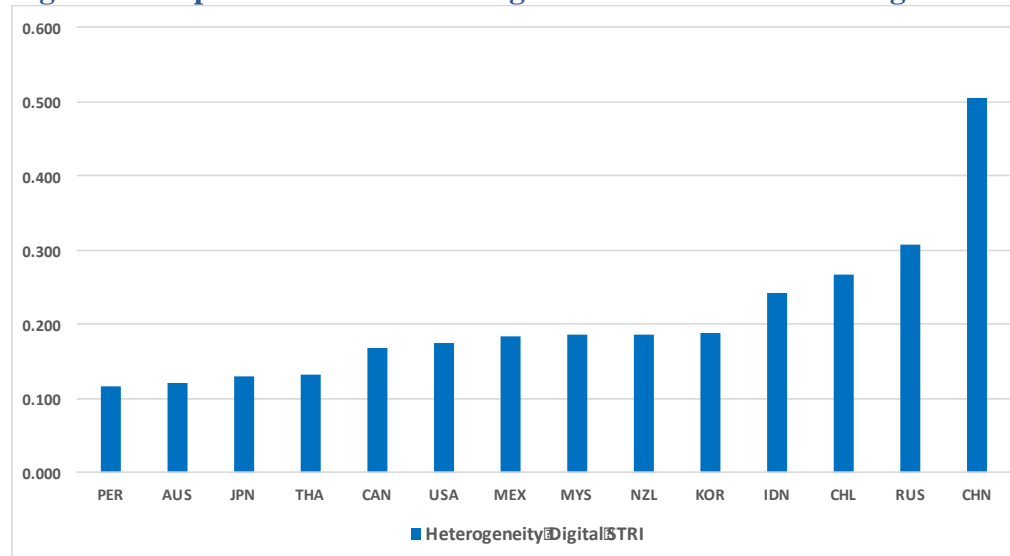
Source: OECD Trade and Agriculture Directorate, STRI database for 14 APEC economies, 2020.

There is now a larger number of APEC economies that are more open than the world average to international trade in services, than the number that are more closed. **ABAC calculates that if by 2025, APEC economies with restrictiveness scores above world average could close half of their regulatory gaps with the best APEC performers, regional services trade costs would fall by close to 30%.** This would make a big difference for business.

Meanwhile, ABAC emphasizes that the business environment for digitally-enabled trade in services has been poor and deteriorating. Data restrictions mushroomed over the Roadmap implementation period 2016-2020, occurring 2 to 3 times more often in the 2<sup>nd</sup> half of the last decade than the 1<sup>st</sup> half. This is a red alert for business. While 2020 saw significant improvement, there were still 40 new restrictions imposed by APEC economies, mainly on cross-border data flows, interconnection between networks and data localization.

Regional businesses need a more seamless digital operating environment. ABAC proposes a new Roadmap indicator of digital regulatory convergence highlighting the need to intensify efforts towards interoperability and a higher degree of regional regulatory homogeneity.

**Figure 2: Proposed APEC/OECD Digital Services Trade Convergence Index, 2020**



Source: OECD Trade and Agriculture Directorate, DSTRI Dataset, 2020

Notes: Low index value means more regulatory similarity to the other APEC economies

**Importantly, progress on TARGET 1 is not yet sufficient for APEC to meet TARGETS 2 and 3.**

**APEC is not on track to meet TARGET 2:** APEC's share of total world commercial services exports trended downwards through the 1st half of the Roadmap Implementation period. APEC's competitiveness in services has not improved; it has declined.

**Nor (based on the balance-of-payments) is APEC on track to meet the trade part of TARGET 3:** The compound average annual growth rate of APEC's trade in services has not increased - on the contrary it has dropped significantly below the historic average.

(Based on trade in value added), **the APEC region has however now met the domestic production part of TARGET 3** and average APEC services share of GDP is now above the world average.

Unfortunately, this disconnect only serves to further enlarge the problem. **APEC is failing to meet the challenge identified in 2015 - services industries are still not reaching their potential for internationalization.** There is now a full 20 percentage point gap between the APEC average services share of domestic value added and exported value added.

Other indicators of underlying structural shifts suggest however **that with more effort on TARGET 1, APEC has a very good chance of meeting TARGET 3 by 2025.** Services have grown as a percentage of total exports for every APEC economy and the divergence across the region has significantly diminished.

## **ROADMAP ACTION EVALUATION AND GPS RESET**

### **Overall Evaluation**

There are some major success stories. Agreement in 2018 to the APEC Non-Binding Principles for Domestic Regulation of Services Sectors is the stand out achievement. Completion of the Pilot APEC Index to measure the regulatory environment of services trade

in the region is a real high point. Launch of the Virtual APEC Business Travel Card is a big plus for business. There are so many other successful outcomes, which are not widely publicized.

The original concept behind the 2015 APEC Services Competitiveness Framework was to gather under a single umbrella all the diverse work underway on services and bring to that work a strong unifying focus on the enabling factors driving services competitiveness and internationalization as the structural shift to services intensified. Management of the complex set of pre-existing work streams was always going to require close coordination. **There has been much retreat back into separate work streams and silo mentality. Some fora have lost sight of Roadmap objectives or the services dimension to their work.** There has been insufficient Public Private Dialogue on Services to help reconnect the issues involved.

ABAC 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 emphasises the importance of all APEC economies participating in the WTO Joint Initiatives, all of which are pertinent to the Roadmap action items. 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 12<sup>th</sup> WTO Ministerial Council, the first and only outcome on services since the WTO was created. OECD estimates suggest that this could deliver an average 8% reduction in regional trade costs across all services sectors.

ABAC also calls on all APEC economies to participate in the WTO negotiations on E-Commerce and to work toward permanent extension of the WTO Moratorium on Customs Duties on Electronic Transactions. The regional business community is pleased to see so many APEC economies joining the JI on Investment Facilitation for Development. As the work evolves, ABAC expects growing numbers to contribute to the JIs for Structured Discussions on MSMEs and on Trade and Sustainability.

#### **40 Recommendations for Roadmap GPS Reset:**

A mid-term review “Reset” will help move APEC closer to its services competitiveness objectives by 2025. ABAC offers 40 concrete business ideas for consolidating progress and navigating roadblocks which have become apparent in the 19 Roadmap action areas.

#### **Action 1: Services SMEs in GVCs**

1. ABAC recommends the GOS and SMEWG collaborate on a relevant new project to share best regional practices on Services Export Promotion Toolkits, including customized tool kits for “born globals” and women entrepreneurs. ABAC offers to organize opportunities for APEC PPD on this topic, alongside the APSC.
2. ABAC proposes that all APEC fora with work programs on SME and MSME digitalization, innovation and technology uptake, including the EC under the EAASA, be asked to consider the services competitiveness issues underlying these work programs and specifically target services SME trade outcomes.

#### **Action 2: Professional services**

3. ABAC recommends some work, perhaps via a commissioned study, involving private sector stakeholder consultation, on regional potential for cross-border fragmentation of professional services value chains and the implications of “globotics” for regulatory arrangements and MRAs, for cross-border e-delivery.

### **Action 3: Business mobility**

4. ABAC calls on all APEC economies to become full members of the ABTC before 2025 and to ensure the transition to Virtual ABTC is complete.

### **Action 4: Domestic regulation**

5. ABAC urges all APEC members to participate in the WTO Joint Initiative (JI) on Services Domestic Regulation to help bring those negotiations to a fruitful outcome for regional businesses at the 12th WTO Ministerial Meeting in 2021.
6. ABAC calls for continued capacity building on good regulatory practices and proposes these activities be developed in collaboration with the regional business community including through Public/Private Dialogue (PPD)
7. ABAC calls on all APEC economies to ensure the direction of their regulatory reform efforts are consistent with the Non-Binding APEC Principles.

### **Action 5: Structural reform**

8. ABAC calls for more collaboration between EC and CTI to avoid duplication and overlap in the interests of a final sprint to achieve Services Roadmap targets by 2025.
9. ABAC recommends that EC focus not only on digitalization, digital technologies and innovation, but also on the shift to servicification more generally and on the societal impact known as Super Smart Society 5.0.

### **Action 6: Environmental services**

10. ABAC recommends that APEC shift beyond efforts to agree on analytical definitions and adopt a more practical, experimental learning-by-doing approach going forward. APEC should start developing the basic *policy tools* required for regional facilitation of services incidental – indeed indispensable - to green growth outcomes.
11. *Tools for monitoring barriers and assessing trade costs*: ABAC recommends that APEC collaborate with the OECD to develop an APEC/OECD Green Services Trade Index.
12. *Self-judging Frameworks for Regulatory Review*: ABAC calls on all APEC economies to ensure that consultation with the business community is intrinsic to any domestic regulatory review.
13. *Capacity-building*: ABAC recommends that APEC build on the Non-Binding Principles for Domestic Regulation of Services Sectors and conduct awareness-raising activities not only on the principles and processes, but also the content associated with emerging domestic regulatory practices. Sub-sectoral specificity is required for effective capacity-building and ABAC recommends development of a pilot regulatory review framework with respect specifically to environmental adaptation and mitigation services.
14. ABAC recommends a dedicated PPD on these and other specific environment-related services such as those associated with the built environment - or a dedicated session on specific environment-related services in the context of a SOM level PPD on Services.

### **Action 7: Manufacturing-related services**

15. ABAC recommends introduction of a PPD Series on Implications of Regional Servicification. The first in the series would focus on Modern Manufacturing. This would provide a platform for awareness-raising on domestic regulatory inefficiencies and obstacles to commercial presence and talent mobility.

### **Action 8: Education services**

16. To enhance collaborative mobility in the sector, ABAC recommends establishment of “APEC Scholar” designations to which internships of up to 9 months are attached and

“APEC Educator” designations to facilitate up to 3 month research or teaching visits as well as cross-border online guest lectures to enhance curriculum development.

#### **Action 9: Cross Border Data Flow**

17. ABAC calls for an intensification of collaborative work on digital standards development
18. ABAC encourages all APEC economies to adopt the Cross Border Privacy Rules to facilitate business take-up
19. ABAC proposes a Digital Trade Policy Dialogue to focus attention on and bring stakeholder perspectives to, the opportunity to build on RCEP and CPTPP outcomes on cross-border data flow to help develop a pan-regional perspective on emerging governance arrangements
20. ABAC recommends APEC adopt ABAC’s proposed APEC/OECD Digital Services Trade Convergence Index to monitor progress towards a more seamless regional market.
21. ABAC recommends a joint meeting of, or a joint stakeholder event led by, the Group on Services and the Digital Economy Steering Group with the objective of designing, with ABAC, a new Concerted Action Item on “E-Services”.

#### **Action 10: Financial services**

22. ABAC proposes that FMP focus more closely on e-payments ecosystem development and regulatory cooperation.
23. ABAC recommends an APEC Workshop to encourage expansion in the membership of the Asia Region Funds Passport and explore opportunities for interoperability with the similar European Union (UCITS) and ASEAN (CIS) passport schemes.
24. ABAC recommends the GOS conduct a collaborative capacity-building activity on implementation of the Non-Binding Principles on Domestic Regulation that focuses on financial services regulation.

#### **Action 11: Transport services**

25. ABAC recommends, with connectivity issues already central, an intensification of focus on freight transport and logistics efficiency

#### **Action 12: Tourism & Travel**

26. Given the drastic impact of the Covid-19 pandemic on this key services sector, ABAC recommends a refocus on Passenger Travel Safety Assurance and post-pandemic Regional Tourism branding for the remainder of the Roadmap period 2021-2025.

#### **Action 13: Services statistics**

27. ABAC calls for continued collaboration on the Pilot APEC Index with the OECD in the interest of rapidly extending the index to all APEC economies and all 22 services sectors covered by the OECD. The initial step should be to add 4 more economies no later than mid 2022, bringing the total up to 18 APEC economies.
28. ABAC calls on APEC to formally adopt the “APEC/OECD Services Trade Opening-Up Index” presented by ABAC in Chapter 1 for the period 2015-2020, as the new Baseline Indicator to measure progress towards Roadmap Target 1.
29. Given ABAC’s special interest in monitoring the regulatory environment for emerging digital services and noting that the OECD Digital STRI should be available by the end of 2021 for all APEC economies except Papua New Guinea, ABAC calls on APEC to formally adopt the APEC/OECD Digital Services Trade Convergence Index as a proxy indicator for monitoring APEC’s progress in regional business interoperability in cross-border online delivery of services (Mode 1).

30. ABAC calls for rapid completion of an interactive user-friendly website for the Pilot APEC index and invites the GOS and the OECD to launch the website at the ABAC/APSC PPD to be held in September 2021.
31. With an APEC index potentially nearing completion, ABAC calls on APEC to pivot to greater focus on using the index to identify reform priorities in consultation with ABAC to hasten achievement of TARGET 1.
32. With respect to Targets 2 and 3, ABAC recommends development of a 6 monthly APEC Services Trade Barometer providing for more continuous monitoring of progress for the overall Roadmap targets to 2025.

#### **Action 14: Services in Food system**

33. ABAC proposes an APEC PPD Series on Implications of Regional Servicification, with a session on Value-added Agriculture.

#### **Action 15: Energy Services**

34. ABAC suggests a refocus of attention on energy services efficiency and innovation – both energy generation and distribution

#### **Action 16: Commercial Presence**

35. ABAC suggests utilization of the APEC Pilot Index for measuring the regulatory environment for trade in services as a tool to help refocus as a matter of high priority on easing foreign equity limits to boost regional inward FDI flows. Next sectors for inclusion in the APEC Pilot Index should include at least one sector where constraints on foreign entry are dominant, such as commercial banking or accountancy.

#### **Action 17: MSME digitalization**

36. This item should be integrated under item 19 on Services Innovation and action should be refocused on developing collaborative entrepreneurial innovation ecosystems to facilitate SME uptake of digital technologies.
37. While action undertaken will require collaboration across APEC fora, ABAC recommends that future responsibility for this combined action should fall to the EC, given the focus on Innovation and on Digitalization of MSMEs in the EAASA.

#### **Action 18: ICT infrastructure**

38. In the context of the TELWG Strategic Action Plan for 2021–2025, ABAC recommends renewed focus on fast mobile broadband infrastructure and testing and deployment of 5G.

#### **Action 19: Services Innovation**

39. To enhance the services dimension across several action items, ABAC recommends integration with item 17 (MSME digitalization) and refocus of attention on developing entrepreneurial innovation ecosystems to facilitate SME uptake of digital technologies.
40. The integrated set of actions require collaborative spread across a wider set of APEC fora – but ultimate responsibility should be reallocated to the EC given the synergies with the updated objectives of EAASA and the Putrajaya Vision.

### **NEW INITIATIVES FOR POST PANDEMIC RECOVERY 2021-2025**

ABAC proposes **8 New Initiatives** and offers a new **Business Partnership** to help bring the Services Roadmap goals to fruition. These 8 new initiatives are initial ideas. As ABAC draws on the detail in this Report and engages with APEC to reinvigorate the Implementation Plan, these ideas will no doubt evolve. This initial input is designed to help spark the imagination.



### **1. “Essential” Services**

ABAC calls on APEC Ministers Responsible for Trade to build on their 2020 Declaration on Facilitating the Movement of Essential Goods to also commit to a Declaration on Facilitating Essential Services as an appropriate and necessary policy response to the ongoing pandemic.

### **2. Health Services**

ABAC calls for concerted APEC action to support innovation in the provision of health services and in particular to facilitate APEC citizens’ access to safe and effective telehealth and e-health options both diagnostic and therapeutic.

### **3. E-Services**

ABAC calls for an APEC effort to facilitate cross-border online delivery of a wider range of digitally-enabled services. An APEC initiative is long overdue. Digitally-enabled and digitally delivered services increasingly account for the bulk of digital trade. In 2018, “digitally deliverable” services exports amounted globally to USD2.9 trillion, or 50% of global services exports. The potential for digitalization of services trade is huge, which evidence for 2020 continues to confirm. What ABAC is proposing is not a work program on all e-commerce. This is about digital services - not about e-commerce for goods.

### **4. E-Commerce related services**

ABAC calls for concerted action to open up regional trade in specific services which enable all e-commerce for both goods and services. Services which should attract particular attention are, for example, ICT services, transport services, logistics-related services, e-payments services and especially computer services, which are not already covered under any of the existing Roadmap action items and have strong growth potential in regional markets.

### **5. Built Environment-related Services**

ABAC’s proposes a PPD to facilitate trade in specific environment-related services including built environment related services. ABAC sees benefits in clustering professional services such as engineering, surveying and architecture with construction services, to raise awareness of regional excellence in these industries, incentivize MRA development in the professions and promote trade in construction services for sustainability purposes.

### **6. Creative services, Audio-visual, Multimedia entertainment, Gaming and Cultural services**

ABAC proposes an APEC export promotion and business networking event in the context of a high-level PPD on trade facilitation for Born Digital, Born Global SMEs and MSMEs in the creative services, audio-visual, multimedia entertainment, gaming and cultural services sector. An appropriate opportunity would be during an annual CEO Summit.

### **7. Mining Services**

ABAC is calling for a new APEC PPD Series on Regional Implications of Servicification delivered in partnership with business. It would include a session on Mining and Technology Services which show big growth potential and deserve more regional policy attention.

### **8. Biannual Collective Peer Review of Services-related Action Listed in IAPs**

To simplify ongoing monitoring and final review of the Roadmap in 2025, ABAC proposes that dedicated, all APEC economy, 2 day peer review process take place, in 2022 and 2024, to harvest progress on services dimensions of the IAPs and celebrate the success stories.

