

**2021 Mid-Term Review
APEC Services Competitiveness Roadmap 2016-2025**

**Business Assessment of Outcomes and Recommended
Roadmap Adjustments**

**Research Report for the Services Taskforce
ABAC Regional Economic Integration Working Group**

29 April 2021

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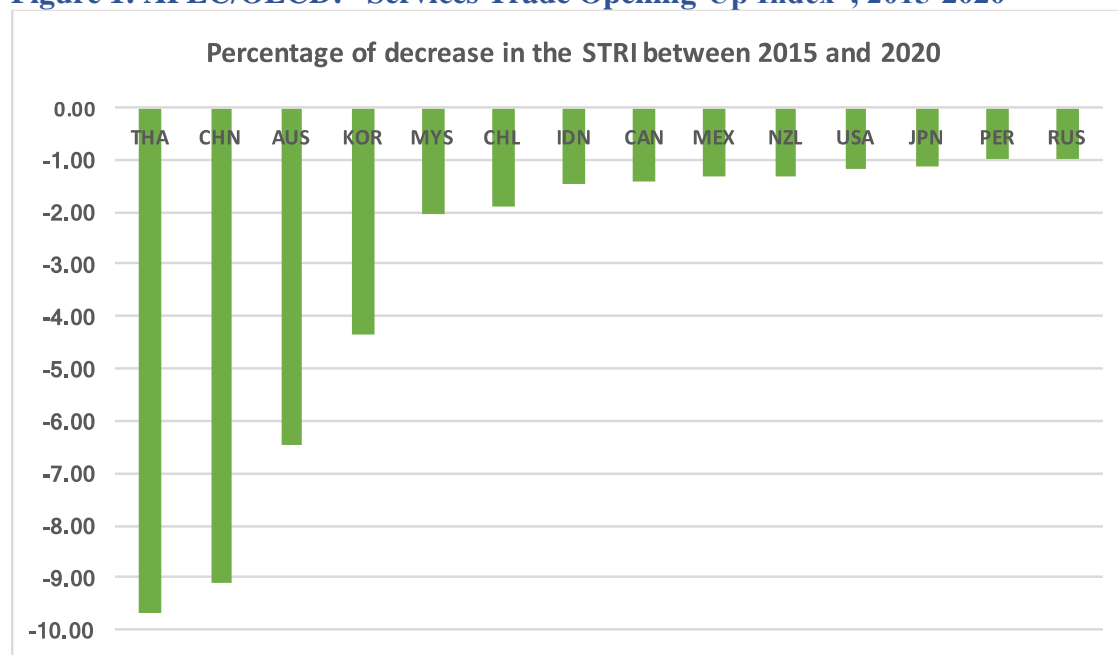
EXECUTIVE SUMMARY: ABAC ASSESSMENT AND PROPOSALS

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



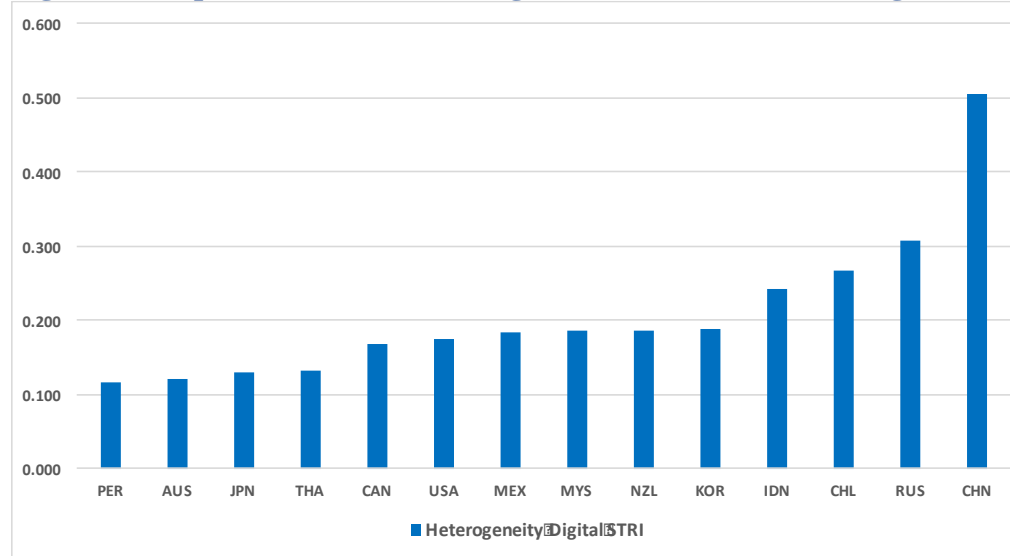
Source: OECD Trade and Agriculture Directorate, STRI database for 14 APEC economies, 2020.

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 2nd half of the last decade than the 1st 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 12th 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.

CHAPTER 1: INTRODUCTION AND BACKGROUND

In Manila in 2015, APEC Leaders commenced a major new initiative, adopting the APEC Services Competitiveness Framework, and the following year, in Lima, APEC Leaders adopted the associated APEC Services Competitiveness Roadmap (Roadmap) 2016-2025, designed to achieve the objectives set out in 2015.

The Roadmap committed APEC to undertake concrete action in pursuit of mutually agreed targets to enhance competitiveness of the services sector and address factors constraining the growth of services trade and investment, bearing in mind differences in economic and social circumstances across APEC economies. The Roadmap was informed by the 2016 *APEC Economic Policy Report on Structural Reform in Services* and accompanied by an Implementation Plan.

The 3 agreed Roadmap targets, along with a variety of goals set out in the Implementation Plan are largely quantitative in nature, so while it is not sufficient and must be complemented by qualitative judgements, a quantitative element to ABAC's assessment is necessary to determine the extent to which APEC is on track to meet the targets by 2025 and if not, what more needs to be done to supplement the existing action agenda.

TARGET 1: Ensuring an open and predictable environment for access to services markets by progressively reducing restrictions to services trade and investment.

TARGET 2: Increasing the share (%) of services exports from APEC economies in the total world services exports so that it exceeds the current share in world services exports by 2025.

TARGET 3: Increasing trade in services in the APEC region so that by 2025, the compound average annual growth rate exceeds the historic average of 6.8 per cent and the share (%) of value-added of the services sector in the total GDP of the APEC region exceeds the global average level by 2025.

Senior Officials (SOM) were tasked by Leaders with monitoring and evaluation implementation across the APEC fora. This function has been undertaken to date by the Group on Services (GOS), reporting directly to SOM for this purpose. Leaders agreed in 2016 to undertake a mid-term review in 2021 “with a view to assessing what individual and APEC-wide actions will be required to complete the objectives by 2025.” Leaders called on SOM to consult with ABAC, PECC and the Asia Pacific Services Coalition (APSC).

ABAC has worked closely with SOM and GOS in making recommendations on matters of private sector priority in implementing the Roadmap over the period to date. It is essential that a business sector perspective inform the mid-term review and ABAC is best placed to provide that input and to consult with the APSC members in doing so.

The Roadmap also tasked the APEC Policy Support Unit (PSU) to assist with monitoring progress and for that purpose the PSU prepared quantitative baseline indicators, building on those indicators proposed in the Implementation Plan itself. Given the PSU study now underway to update that extensive list of indicators, ABAC does not need to provide a comprehensive coverage of all the relevant indicators. ABAC's aim is to focus early attention

on selected aspects of most importance to the private sector and in so doing to draw on a diversity of services sub-sectors and APEC economies to provide business examples and illustrations of main findings. Once the PSU study becomes available, ABAC will be equipped, via this Report, to make further comments as required.

At the end of 2019, no-one could have predicted the Covid-19 health pandemic in 2020, nor its devastating impact on global and regional trade in services, nor the consequent intensification of digitalization especially of trade in services, nor the critical role of digitally-enabled services in global and regional post-pandemic economic recovery. ABAC's assessment of Roadmap outcomes and insights on priority business matters which remain outstanding and require greater attention going forward, must now take the impact the pandemic into full account.

Beyond the GOS itself which took responsibility for implementation of a handful of high priority concerted action items, many other APEC fora have contributed to implementation, including the Small and Medium Enterprises Working Group (SMEWG), Energy Working Group (EWG), Policy Partnership for Science, Technology and Innovation (PPSTI), the Investment Experts Group (IEG) and the Telecommunications Working Group (TELWG). The GOS developed a Consolidated Matrix of APEC-Wide Actions, to assist with coordination of implementation across the organization.

ABAC's first key objective in this Report is to assess APEC's progress towards the Roadmap targets. Essentially this requires a quantitative assessment. Chapter 2 is dedicated to this purpose. In light of the findings highlighted in Chapter 2, Chapter 4 of the Report offers a qualitative business evaluation of Roadmap action and associated business "Reset" recommendations. Chapter 5 offers ideas for new initiatives, including in light of the disruption caused by Covid-19.

Agreement to the Services Competitiveness Roadmap was an important milestone for APEC and the result of strong advocacy and support on the part of ABAC. Intensifying efforts to liberalize and facilitate trade and investment in the increasingly important services sectors are critical for the operation of all businesses in the region, a fact accentuated by the overwhelming importance for both businesses and consumers of the shift to online orders and online delivery of nearly all services witnessed during 2020. For consumers, the shift to online delivery of education services, health services, social networking and entertainment services became in 2020 a daily reality in all APEC economies. For businesses, the full range of knowledge intensive business services gravitated remarkably rapidly to online supply.

The mid-term review is important in its own right. It is also important because it provides a valuable opportunity to gather, under one high priority umbrella, from across the APEC fora, a number of services trade-related issues, which are not necessarily always otherwise recognized as relevant to services competitiveness. And finally, based on 4 years' experience with the Roadmap, the mid-term review offers a key platform for business stakeholders to make it clear to the official audience what changes have taken place in the business environment and what changes are consequently needed in the policy and regulatory arena.

Background on Business Stakeholder Engagement

ABAC was closely associated with and gave strong support to the APEC Services Competitiveness Framework from its outset. It is fair to say that ABAC research and advocacy was critical to launching the Framework in 2015. ABAC's early push for a big new

APEC initiative on services culminated in 2011 with its 2011 Report *“Understanding services at the heart of a competitive economy”*, calling on APEC to launch an initiative to:

“prioritize regulatory reform and cover all services markets and all modes of delivery.”

“include drafting of joint APEC principles for all-of-services best practice regulation, with a view to generating global interest in development of such principles.”

“bring together under a “Services” umbrella fragmented work already underway in both the Committee on Trade and Investment and the Economics Committee and experiment at a regional level with ways of bringing services regulators together with trade officials, both sector-by-sector and at whole-of-services level and initiate drafting of joint APEC principles for all-of-services best practice regulation.”

APEC subsequent commenced, under ABAC leadership, a series of Annual Public Private Dialogues (PPD) on Services through which the business community could continue to engage closely with APEC officials to articulate the business case for such an initiative and to provide inputs into its design. PPDs took place in Kazan (2012), Surabaya (2013), Qingdao and Beijing (2014), followed in 2015 by a series of 4 dedicated SOM level PPDs on Services in the Philippines, in Clark, Borocay, Cebu and Manila and continued in Arequipa (2017).

Critical associated outcomes were achieved as a result of APEC’s intensive stakeholder engagement during those years. 2015 saw the first meeting of APEC Structural Reform Ministers in Cebu 2015, which initiated work on the services sector. 2015 also saw the formation of the APSC in the margins of the PPD in Cebu.

Since Arequipa, there have been lower-level limited invitation PPDs on individual action items, but the only full APEC-initiated PPD on Services took place in 2018 in Papua New Guinea with ABAC and APSC support. The others have all been initiated either separately or jointly by the APEC observers: ABAC and APSC initiated a PPD on Services in April 2019 in Jakarta. There has been no subsequent PPD on Services since as the ABAC/APSC PPD on Services planned for Manila in 2020 was cancelled due to the pandemic.

The relative absence of PPD on Services through the first 4 years of Roadmap Implementation has contributed, in ABAC’s perspective, to a diminution of official attention and priority given to services competitiveness. The results are consequently thinner than they might have been, had more opportunities been provided for business community. ABAC welcomes the PPD on Services proposed by Chinese Taipei for 2021. ABAC/APSC will also host a virtual PPD on Services in 2021.

Many APEC activities with respect to the 19 agreed concerted action items were championed by individual economies including through self-funding of capacity building events and research reports. Several of these activities were initiated under earlier APEC workstreams and pre-date the Roadmap. The work on principles for domestic regulation of services, the Environmental Services Action Plan and the Manufacturing Services Action Plan stand out in this respect. ABAC notes the persistent efforts on the part of individual economies to engage the business community in the work they have championed and to see so many key areas of work through to some kind of outcome by the end of 2020. The mid-term review is a moment not only to take stock but to recognize and congratulate that effort, even where more work is required or where tangible business outcomes have not yet materialised.

CHAPTER 2: MONITORING ROADMAP TARGETS

Of the 3 Roadmap targets, TARGET 1 identifies required (and measurable) reform action APEC needs to take. TARGETS 2 and 3, on the other hand, simply identify the anticipated (and measurable) regional economic and trade outcomes should such concerted government action be achieved. TARGETS 2 and 3 are much more straight forward to assess than TARGET 1. This Chapter looks first at these 2 targets, and assesses the extent to which APEC is or is not on track - before moving to the more complex and nuanced matter of evaluating the progress in government reform efforts.

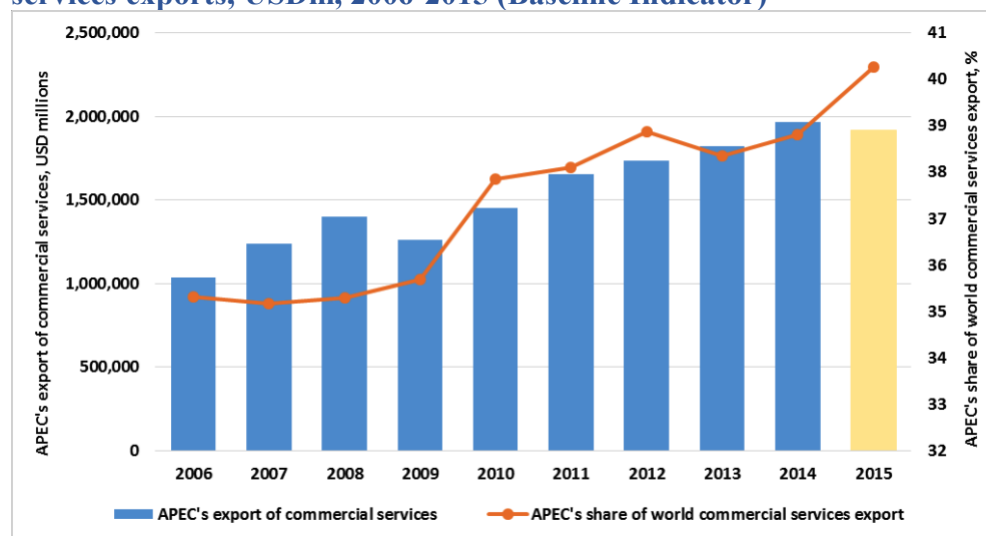
TARGET 2: Increasing the share (%) of services exports from APEC economies in total world services exports so that it exceeds the current share in world services exports by 2025.

Business Verdict: APEC is not on track to meet this target. APEC’s share of total world commercial services exports has consistently trended downwards through the 1st half of the Roadmap Implementation period. This is a very disappointing outcome.

The PSU baseline indicators in Figure 3a showed APEC’s total commercial services exports more or less doubling over the preceding decade from just under USD1trillion in 2006 to closer to USD2 trillion by 2015, with APEC's share of world services exports increasing about 5 percentage points over the decade. The Roadmap target was a modest and realistic one of boosting APEC services competitiveness to enable continuation on a well-established 10 year growth path to further increase APEC’s share of world services exports. But the disappointing outcome shown in Figure 3b is that APEC’s services export growth has decelerated relative to the rest of the world. APEC as a group has lost not gained in international competitiveness and APEC’s share in world services exports is now on a trend decline (and this is before taking any pandemic impacted data for 2020 into account.)

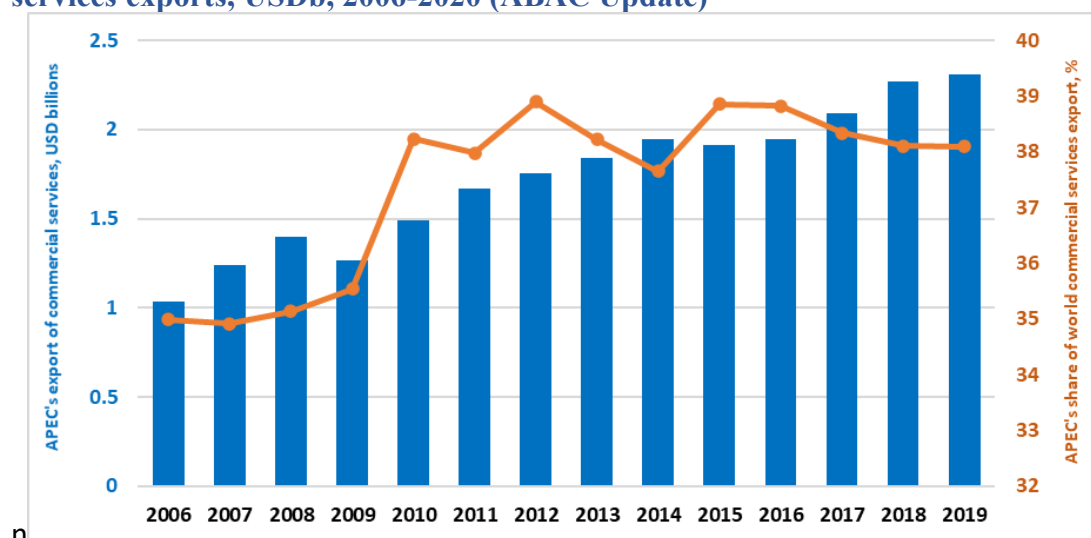
ABAC draws attention to the urgent need for action to reverse this trend decline if the region’s target is to be met by 2025.

Figure 3a: APEC's commercial services exports and % share of world commercial services exports, USDm, 2006-2015 (Baseline Indicator)



Source: PSU calculations based on WTO Time Series.

Figure 3b: APEC's commercial services exports and % share of world commercial services exports, USDb, 2006-2020 (ABAC Update)



Source: ABAC calculations based on WTO Time Series (2021).

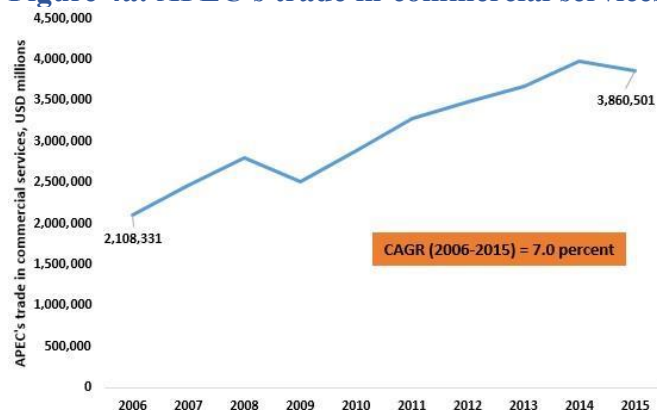
TARGET 3: Increasing trade in services in the APEC region so that by 2025, the compound average annual growth rate exceeds the historic average of 6.8% and the share (%) of value-added of the services sector in the total GDP of the APEC region exceeds the global average level by 2025.

Business Verdict: Balance-of-Payments (BoP) measurements show APEC is not on track to meet the trade-related goals in the 1st part of this target. The compound average annual growth rate of APEC’s trade in services has dropped significantly below the historic average. This is especially disappointing because ABAC identifies sufficient signals to consider that APEC economies have made positive progress on the 2nd domestic production-related aspect of this target – which signals improved potential to meet the 1st part. ABAC therefore takes the analysis further to look at the underlying structural shift towards servicification, as measured with a lag by the Trade in Value Added (TiVA) data, suggesting that APEC’s underlying services value-added export performance is better than is reflected in the BoP; the APEC region may not be there yet but would seem, based on the steady servicification evidently underway, to have every good chance of meeting its target by 2025.

With respect to the 1st part of the target, the PSU baseline indicators in Figure 4a showed APEC’s total trade in commercial services increased from USD2.1 trillion in 2006 to USD3.9 trillion in 2015, at a historic compound average growth rate over 10 years of 7% ie already slightly higher than 6.8%. ABAC calculations in Figure 4b show a marked decline in the compound average growth rate to 4.2% for the period 2015-2019, bringing the historic average for the whole 15 year period down to 5.9%.¹

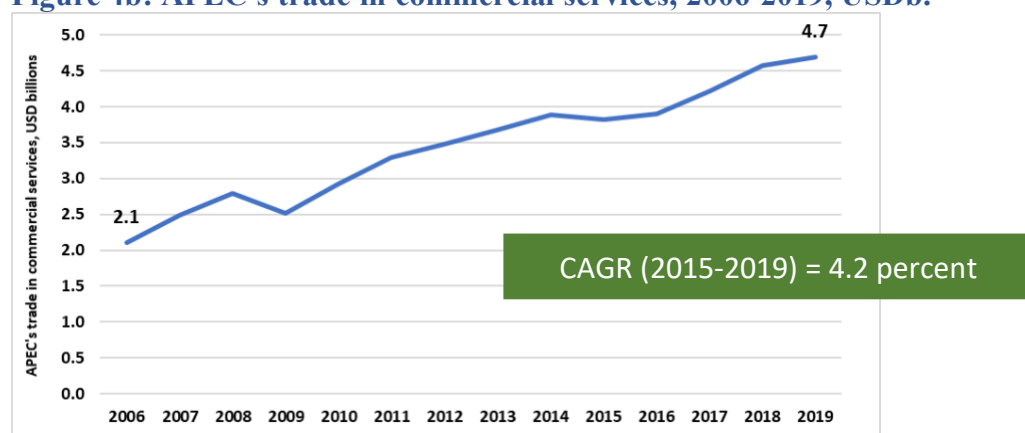
¹ Revised 2021 data from the WTO shows that the historic average growth rate in 2015 was actually only 6.1%. So a drop in the 15 year historical average to 5.9% does not look so bad. Nevertheless, a drop in growth rate even from 6.1% to 4.2% for the Roadmap Implementation period is very disappointing.

Figure 4a: APEC's trade in commercial services, 2006-2015



Source: WTO Time Series (accessed 20 April 2017).

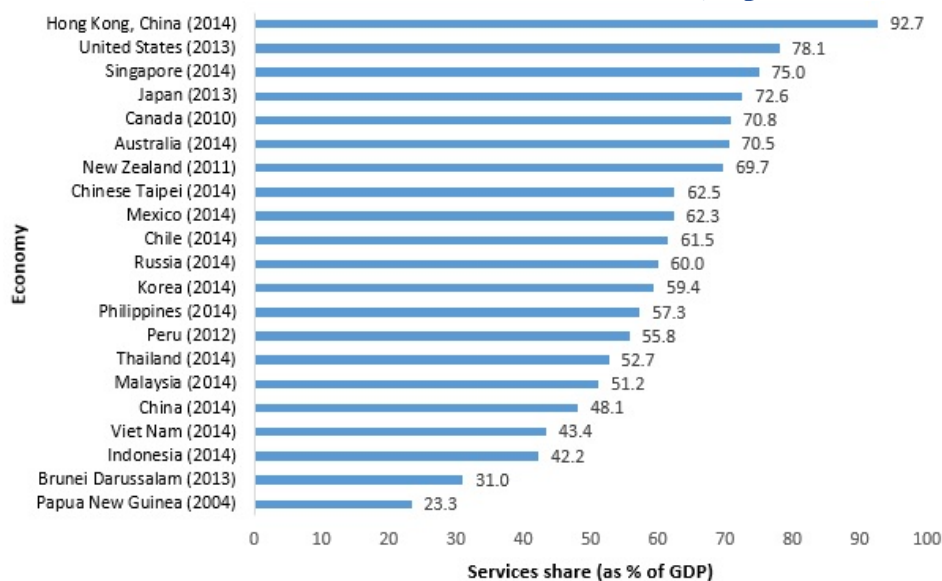
Figure 4b: APEC's trade in commercial services, 2006-2019, USDb.



Source: ABAC calculations based on WTO Time Series (accessed 5 April 2021).

There is more than one way to review the outcome on the 2nd aspect of the target. The Implementation Plan showed the services sector accounting for 60% of the average GDP of APEC economies. (Figure 5a).

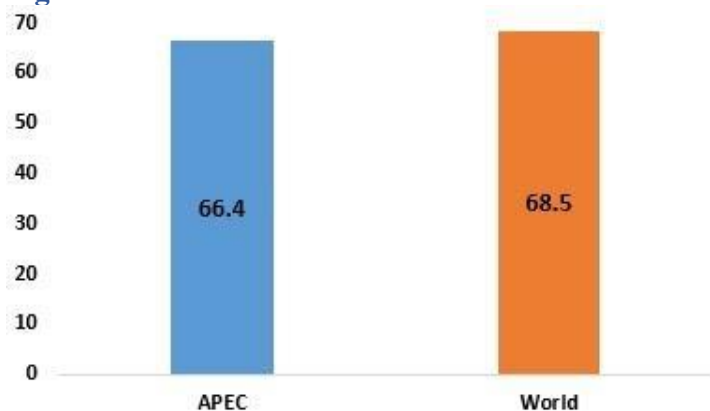
Figure 5a: Share of Services in GDP in APEC Economies (Implementation Plan)



Source: APSC Implementation Plan 2017

The PSU baseline indicators used instead, consistent with the agreed adjustment to the ambition level of the target, that APEC’s services value added (as a % of the total APEC GDP) was 66.4% in 2014 and lower than the world average at 68.5% (Figure 5b).

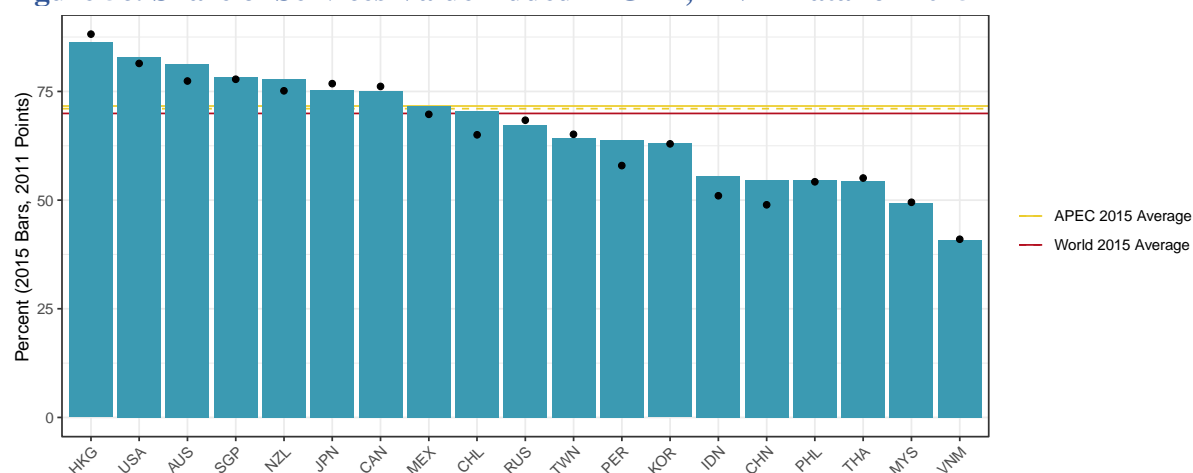
Figure 5b. APEC vis-à-vis world services value-added in 2014 (as % of GDP)



While waiting for the PSU’s updated calculations of Figure 5b, ABAC has chosen instead to examine the average services share of value-added in APEC economies GDP, using the WTO/OECD Trade in Value-Added (TiVA) database. ABAC presents this material, even though the latest update in 2018 shows data only for 2015, because it sheds much light on the underlying structural shifts underway and the continued internationalization potential of services in the region.

Figure 5c shows APEC’s average services share of GDP is now above the world average. While the earlier figure showed services share of exports persistently below the world average. There is no explanation in terms of domestic production for APEC’ services share of total exports not to be higher.

Figure 5c: Share of Services Value Added in GDP, TiVA Data for 2015

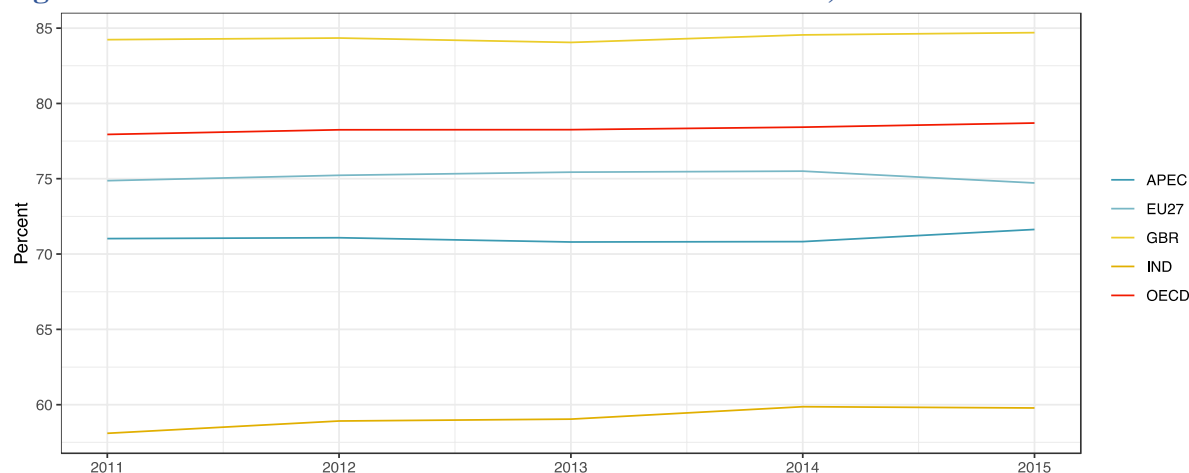


Source: ABAC calculations using OECD/WTO TiVA database 2018.

Figure 5d shows a trend increase in services value-added share of average APEC GDP trending upwards and faster than for example the OECD, but from a low relative base. ABAC shows in the subsequent analysis below that APEC’s problem was already evident in 2015 i.e. the growth of APEC’s share of services in total exports was not then and is still not now keeping pace with the increasing share of services industry value added in APEC GDP

Services industries are still not reaching their potential for internationalization. The analysis below shows that India for example, despite having a lower share of services value-added in GDP than the APEC average, has achieved a higher share of services value-added in total exports. With services value added contributing over 70% to GDP but less than 50% to exports, APEC has a long way to go in terms of services competitiveness.

Figure 5d: Trends in Share of Services Value Added in GDP, TiVA Data for 2015



Source: ABAC calculations using OECD/WTO TiVA database 2018.

In an effort to achieve a deeper insight into APEC apparent difficulties in meeting its trade-related Roadmap targets, this section turns to the TiVA data to review the progress in APEC's services export performance. There are some encouraging messages in this analysis.

Back in 2015, the latest OECD TiVA data available was for 2011, showing services value-added in total APEC exports at 45%, i.e. 3 percentage points below the global average of 48%. The services-value added share of gross exports for many APEC economies sat at little more than 30% and only 4 APEC economies (US, New Zealand, Singapore and Hong Kong, China) sat above the global average.

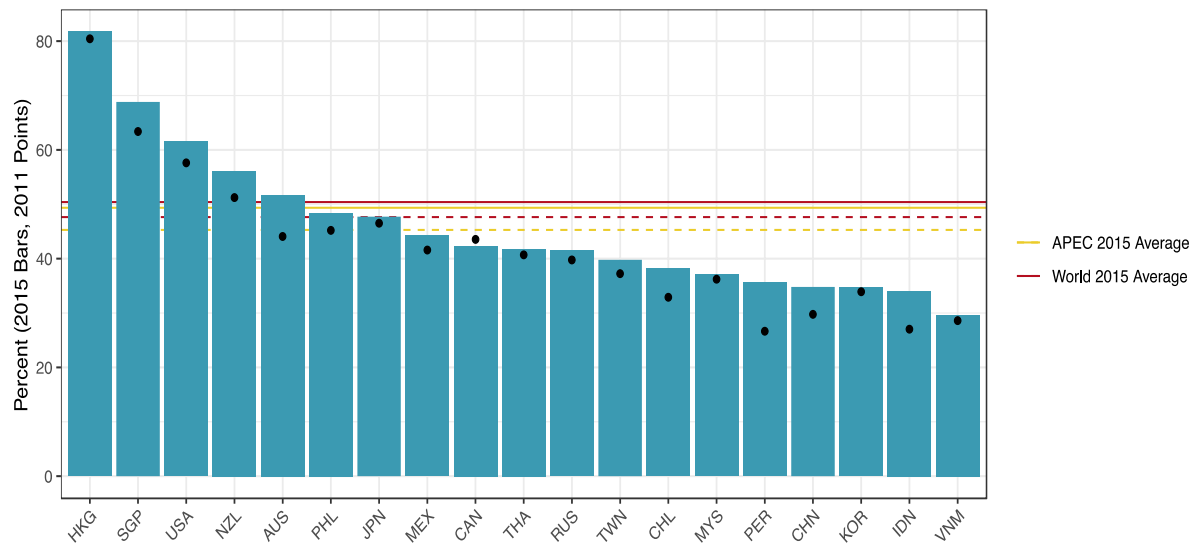
The TiVA data, updated in 2018, to reflect 2015 data, shows in Figure 6 that the APEC average now could be seen approaching 49% which is only 1 percentage point below the global average which had risen to 50%.

These underlying structural shifts, measured with a considerable time lag, would suggest that APEC's underlying performance may be better than meets the eye; the APEC region may not be there yet but has every good chance of meeting its target by 2025.

One critical improvement to note is that most of the APEC economies for which the services-value added share of gross exports was identified as sitting at little more than 30% at the outset of the Roadmap Implementation period, now sit around 40%. So the divergence across the APEC region has also significantly diminished.

Figure 6 also identifies the extent to which services have grown as a percentage of total exports for each APEC economy. Unexpectedly the share of services value added in total exports is seen to have fallen for Canada. The services share has increased for all other economies and dramatically so for Peru, Australia and Indonesia.

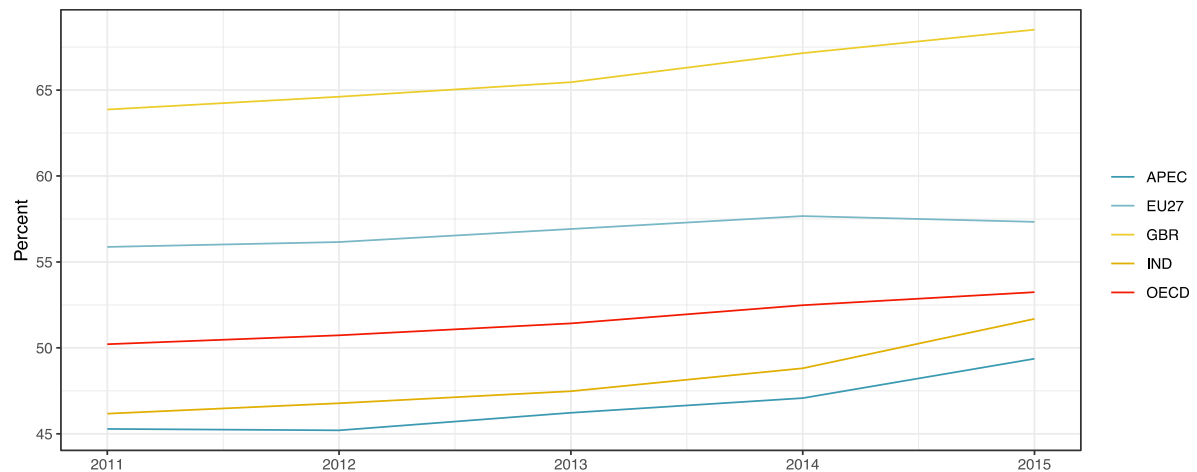
Figure 6: APEC Commercial Services Content of Gross Exports (updated data for 2015)



Source: OECD TiVA data, 2018 update. Note: Black dot shows 2011 data from the 2015 update.

Figure 7 highlights the APEC average growth over the decade from 2005 to 2015 and compares the growth trend with other key economic areas.

Figure 7: Trends in Share of Services Value Added in Total Exports, TiVA 2018



Source: WTO/OECD TiVA database, 2018

The APEC average of 48% is seen from the above figure as persistently below India which is now above 50% and to be catching up with the OECD average, but much more slowly than India is catching up. The APEC average is well below the EU27 average and nearly 20 percentage points below the United Kingdom (UK), despite including in its membership some global leaders, with higher shares of services value-added in total exports, than the UK.

The good news lies in the relative growth rates. On average, in 2015, APEC's share of service value-added in total exports was growing faster than most other players, but from a significantly lower base. The problem remains that this growth is not keeping pace with the increasing share of services industry value added in APEC GDP shown in Figure 5d. There is a full 20 percentage point gap between domestic value added and exported value added. This gap is a measure of the potential for services industries to internationalize. This international

business potential remains on offer. APEC economies’ concerted actions need to be more focused on exporting services directly rather than chiefly embodied in goods.

TARGET 1: Ensuring an open and predictable environment for access to services markets by progressively reducing restrictions to services trade and investment.

Business Verdict: APEC economies have jointly made significant progress in reducing restrictions to services trade and investment. The detailed picture is mixed; regulatory transparency is incomplete and there are many business concerns. There are also many new restrictions introduced since 2015 and the net impact differs across services sub-sectors.

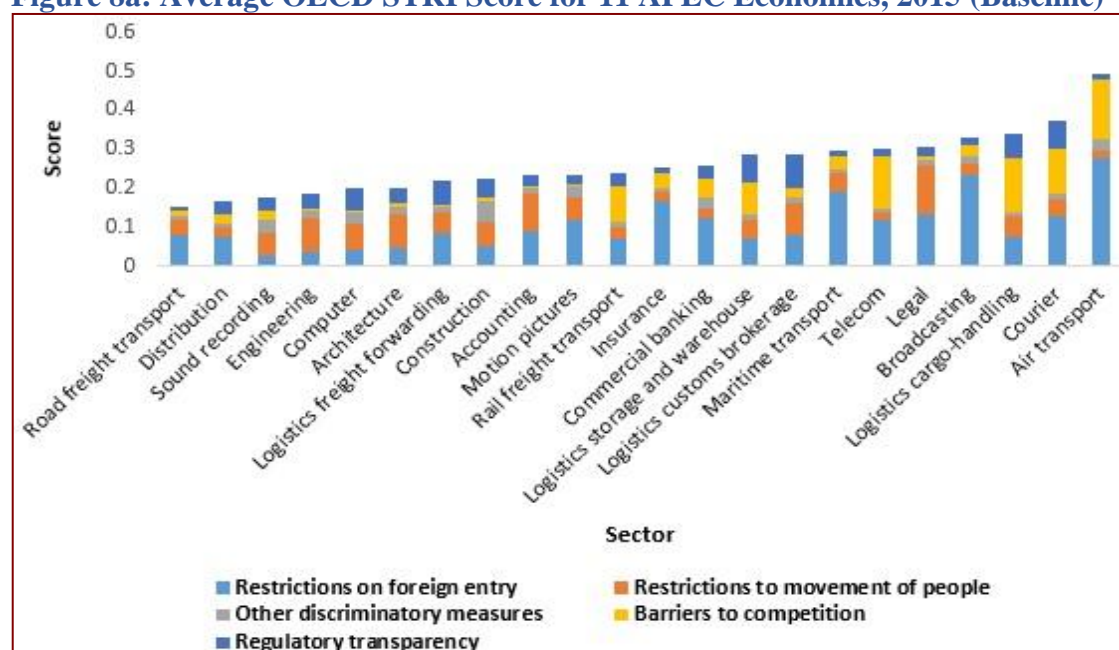
To assess the progress on TARGET 1, ABAC uses the PSU-proposed baseline indicators and looks first at the evidence in the OECD STRI for those APEC economies covered in the data set over 2015-2020. **Across those 14 economies, improvements have occurred in average restrictiveness in 16 of the 22 sub-sectors covered in the data set i.e. in 80% of sectors.** Moreover, there is now a larger number of APEC economies which are less restrictive than world average than the number of APEC economies which are more restrictive.

ABAC also looks at the OECD Digital STRI evidence available. For those economies not covered in the OECD STRI, ABAC’s analysis is supplemented by reference to the World Bank STRI data and a variety of quantitative source material compiled by the WTO, ESCAP, ADB, ECIPE, and results of business surveys including from the PECC, APSC members, McKinsey Global Institute and the World Economic Forum.

OECD STRI Measures

In 2015, the Implementation Plan drew on the OECD STRI to identify an average APEC STRI measure for each of the services sub-sectors covered in the dataset, for the 11 APEC economies for which OECD STRI data was available.

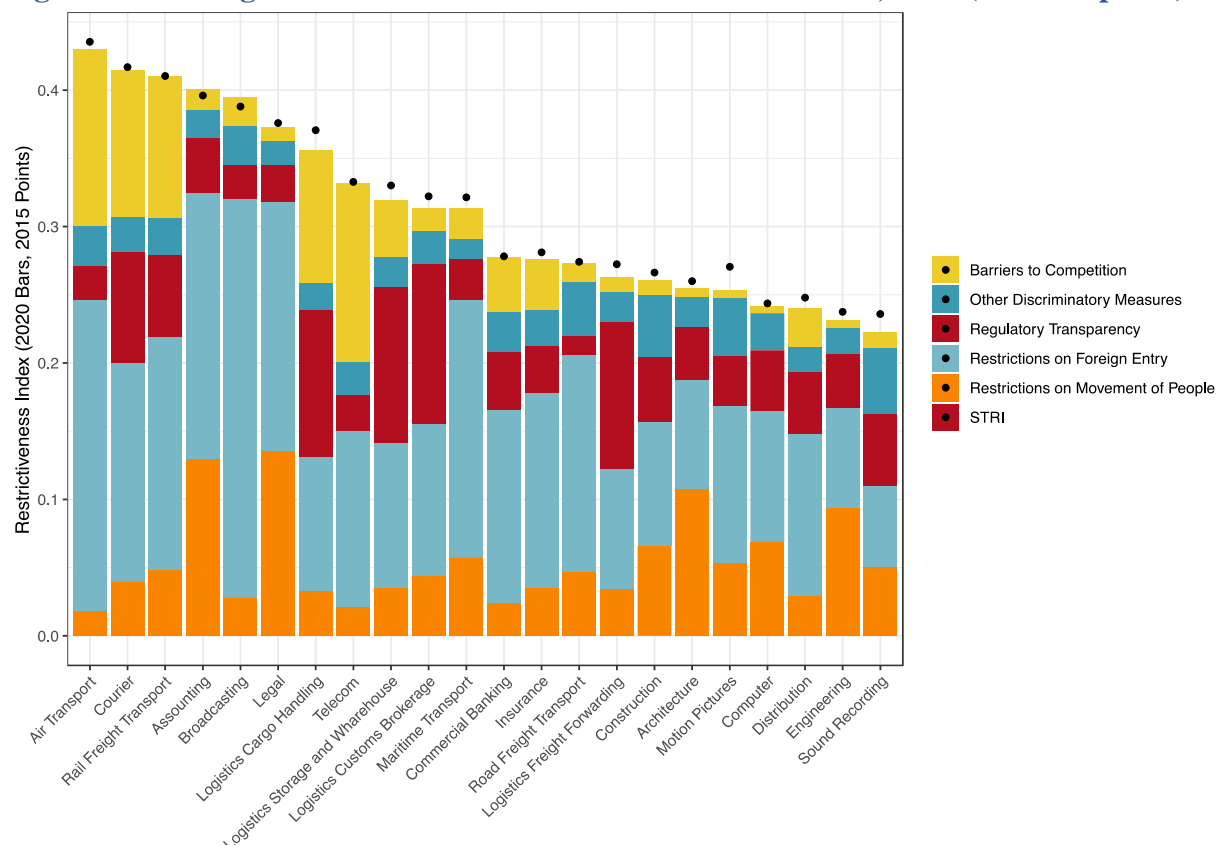
Figure 8a: Average OECD STRI Score for 11 APEC Economies, 2015 (Baseline)



Source: PSU Baseline Indicators using OECD STRI dataset.

Since that time, 3 more APEC economies have been added to the data set (Malaysia in 2018 and Peru and Thailand in 2019²) and the average position has shifted noticeably. Improvements have occurred in average restrictiveness in 16 of the 22 sub-sectors covered in the data set ie in 80% of sectors. Liberalization has occurred in Air Transport, Courier Services, Logistics Cargo and Handling, Logistics Storage and Warehousing, Logistics Customs Brokerage, Maritime Transport, Insurance, Logistics Freight Forwarding, Construction, Architecture, Engineering, Motion Pictures, Sound Recordings, Computer Services and Distribution Services. Motion Pictures, Logistics Cargo and handling and Sound Recordings are sectors experiencing stand-out liberalization in the APEC economies.

Figure 8b: Average OECD STRI Score for 14 APEC Economies, 2020 (ABAC Update)



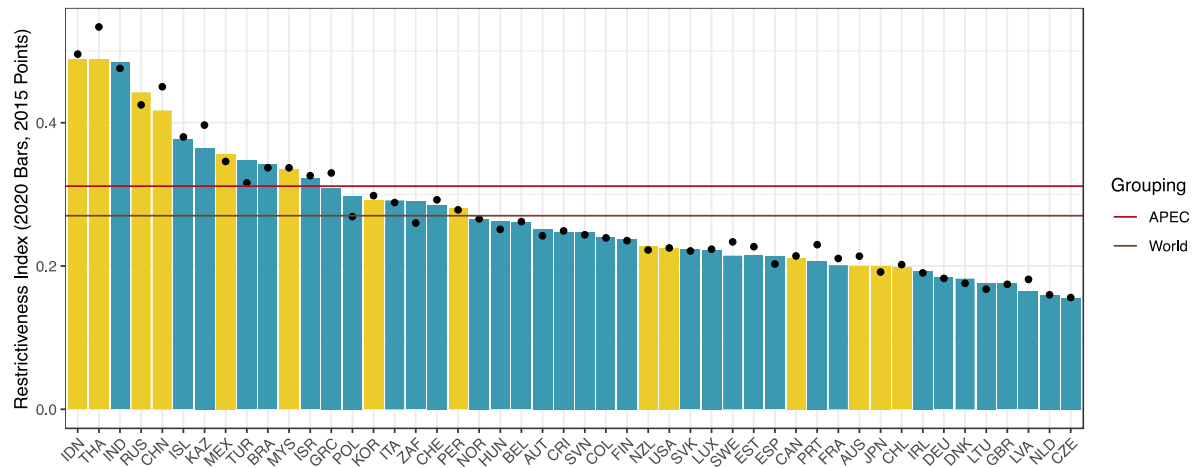
Source: ABAC calculations from OECD STRI data, 2020 update.

Note: Black dot shows data from the 2015 update.

Figure 8b makes clear that services trade liberalization has indeed taken place in the region. Restriction on foreign entry continue to dominate the restrictiveness story. As do barriers to competition specifically in Telecommunications. Any reduction in regulatory restrictiveness in any sector is very important to business as it reduces trade costs, especially for SMEs. The OECD estimates for example that in some transport and logistics segments, restrictive regulations raise the price of services by about 20% on average across the full data set. So the liberalization in logistics sub-sectors is especially welcome. There are, however, serious problems in both accounting and broadcasting where the average trade restrictiveness has increased, due to restrictive measures taken in a limited number of individual economies.

² Work is underway in 2021 to fully include Singapore and the Philippines in the OECD STRI dataset. Selected sectors for Chinese Taipei and Vietnam have been achieved through the Pilot Program on an APEC Index (See Chapter 4).

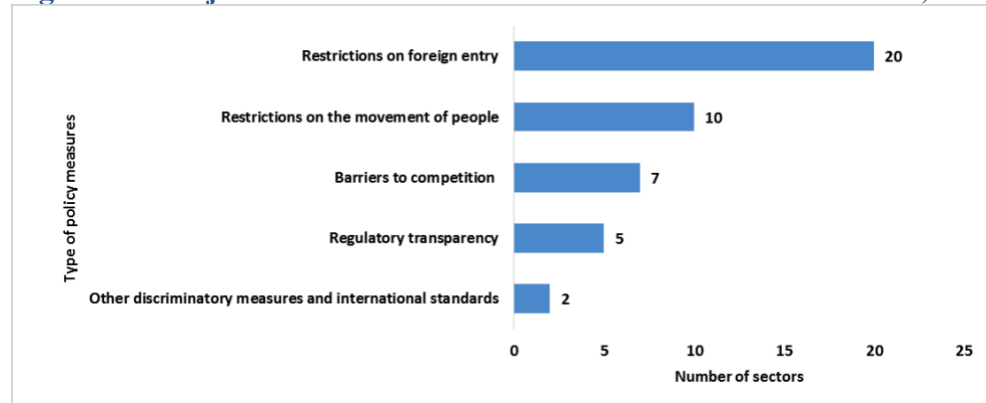
Figure 8: Average OECD STRI Score for 14 APEC Economies, 2021



Source: ABAC calculation using OECD STRI database 2020
 Note: Black dot shows 2015 data.

Figure 9 shows that restrictions on foreign entry and movement of people contribute the most to the STRI score. In particular, restrictions on foreign entry are among the top two policy measures in all services sectors except in logistics cargo handling and sound recording. On the other hand, the sectors where restrictions on movement of people is the number one contributor to the STRI are architecture, engineering and computer services.

Figure 9a: Major contributors to restrictiveness in services sectors, 2016 (Baseline)



Source: PSU calculations, and OECD STRI Regulatory Database

Figure 9b makes clear that despite improvements in China PRC and Australia, restrictions on foreign entry remain an overwhelming constraint to regional trade in services.

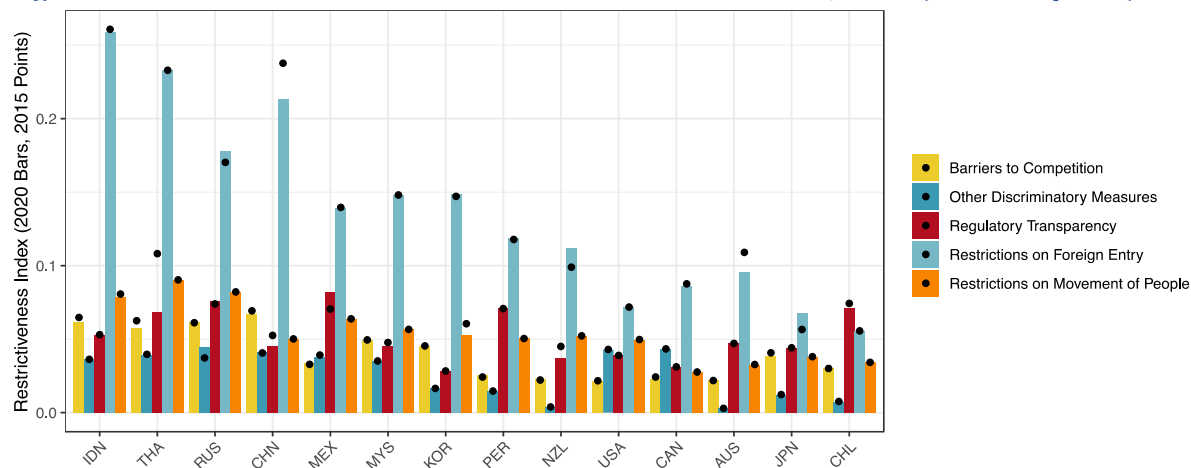
ABAC’s analysis of the OECD STRI for 2020 shows there is a larger number of APEC economies which are more open than the world average to international trade in services, than the number of APEC economies that are more closed to services trade than the global average. This is a significant achievement since 2016³.

There are now 3 APEC economies in the top 10 global performers with the lowest services trade restrictiveness indices (Japan, Chile, Australia). There are another 3 APEC economies among the top 20 performers (USA, Republic of Korea and New Zealand) and another 2

³ Three additional APEC economies have been joined into the dataset since commencement of ACSR implementation; of these 1 performs better than global average and 2 are more restrictive than global average.

APEC economies which perform better than the global average (Canada, Peru), bringing the total to 8. (Peru is also noteworthy for the evident jump in services intensity of gross exports highlighted in ABAC's Figure 4.)

Figure 9b: Contributors to restrictiveness in services sectors, 2020 (ABAC Update)



Source: ABAC calculations from OECD STRI Regulatory Database 2020

Meanwhile, there are 6 APEC economies with above global average restrictiveness (Indonesia, Thailand, Russia, China PRC, Malaysia and Mexico.) Importantly, 1 of them is identified by the OECD as a top global services trade reformer in 2020. Equally importantly, 2 of them hold the 2nd and close 3rd position in achieving the world's highest cumulative levels of improvement in regulatory restrictiveness over the period 2016-2020. One of these economies led the world's as well as APEC's services reform movement in the early part of this period but is now seeing a slowdown in the pace of reform and even some backsliding, and the other economy has intensified the reform effort in the more recent period.

Box 1: China PRC is a Leading Services Trade Reformer in 2020

China PRC is the only APEC economy in the OECD STRI dataset to receive recognition in 2020 for achieving among the highest global levels of STRI improvement.

China PRC achieved a decrease in restrictiveness across all sectors in 2020.

China PRC has also achieved the world's 2nd highest level of cumulative positive improvement across all services sectors for the period 2014-2020.

This performance is second only to Kazakhstan, with another APEC economy, Indonesia following very closely in the 3rd position.

The key explanation lies in easing of regulations affecting inward Foreign Direct Investment.

In 2020, China PRC eased foreign entry barriers for life insurance services and consolidated its regulatory framework for foreign investments under the new Foreign Investment Law.

Source: OECD STRI Policy Trends, 2021

While recognizing the positive impact on STRI scores of reform efforts with respect to foreign investment regimes, the OECD notes that greater efforts to ease barriers for businesses that provide services across borders would yield substantial benefits in reducing

trade costs. On average across sectors and economies in the dataset, the OECD estimates that services trade costs could decline by more than 15% after 3-5 years, if economies with STRI scores above world average could close half of their regulatory gaps with the best performers.

ABAC estimates that for the APEC economies the gap is about 0.37, so closing the gap by half implies a target reduction in STRI score varying for different APEC economies from 0.18 at the most. Such action could reduce services trade costs by closer to 30% for those APEC economies currently above the global average STRI. This is the kind of level of ambition ABAC considers is required to make a serious difference for the future ease of doing international services business in the region.

ABAC's calculations in Figure 9b show that Thailand, which is only recently joined into the dataset, has actually achieved stand out progress on services regulatory transparency. In 2021, the OECD reports Thailand as having progressively introduced reforms which have contributed to an easing of conditions for trade and investment in several services sectors. Key reforms include the adoption of a new Personal Data Protection Act⁴.

Box 2: Slowing Pace of Reform: The Case of Indonesia

Indonesia's OECD STRI is the highest in the dataset, reflecting stringent restrictions on foreign entry that generally apply across all sectors of the economy. Certain management positions in corporations are reserved for Indonesian nationals, and commercial or local presence requirements exist in all sectors. Investments in all sectors are subject to screening, and price preferences are given to local providers in the context of public procurement. The acquisition of land and real estate by foreigners is restricted to the right of use for a limited period of years. There is at least one major state-owned enterprise in all sectors except for computer services, motion pictures and sound recording. Indonesia applies labor market tests on all categories of services providers covered in the STRI and the duration of stay is limited. Indonesia also has relatively high barriers to competition; restrictions are particularly prevalent in distribution, telecommunications, legal services and insurance.

The good news is (despite tightened regulations in logistics, insurance and air transport which partly reversed past reforms), Indonesia's overall OECD STRI improved slightly in 2020 due to some liberalization in maritime and road freight transport and in distribution.

The problem for business is that the pace of reform has slowed markedly rather than intensified since introduction of the ASCR in 2016. Indonesia has consequently lost the position it once held as APEC's top services trade reformer during the years 2014-2016 when it undertook significant liberalizing steps, notably in motion picture and sound recording and in some logistics sectors. There have since been reversals of reform, including in architecture, accountancy and construction, which dampen the outlook for international services business.

Given its reform achievements in the early part of the period, Indonesia's cumulative reform effort over 2014-2020, is nevertheless still identified by the OECD as standing out and more or less equivalent to China PRC's cumulative performance over that period (China PRC having intensified its reform efforts in the latter part of the period after adoption of the ASCR). Both APEC economies achieved a reduction in their OECD STRI or more than 0.7.

ABAC's Figure 6 likewise identifies a significant jump in the services content of Indonesia's gross exports as Indonesia moves up the value-added ladder.

Source: OECD STRI, Country Note - Indonesia, 2021

⁴ OECD STRI, Country Note – Thailand, 2021.

It is worth noting that as a group, APEC economies now perform better than global average on regulatory transparency. Nevertheless, there are many persistent regulatory practices that remain to be addressed. Preliminary OECD estimates suggest that adoption of the outcome from the WTO JI on Services Domestic Regulation could reduce trade costs in the APEC region by an average of 8% across all sectors. The same order of magnitude would apply to full implementation of the APEC Non-Binding Principles. Some of the biggest reductions in regional trade costs would occur in sectors relevant for e-commerce. Trade costs could drop by 14% for telecommunications and 8% for computer services.

Box 3: Improved Environment for Doing International Business in Services; The Case of Mexico

In recent years, Mexico has passed a series of reforms, including a new telecommunications and broadcasting law, and a new financial law.

The telecommunications reform eased foreign participation in mobile and fixed-line services. It also introduced a new independent regulator, with exclusive authority over the sector as well as new sanctioning powers and a series of pro-competitive measures challenging the dominant position of incumbent firms.

The financial reform aimed to strengthen prudential regulation, increase credit penetration and promote competition. Foreign financial institutions can now open branches in Mexico to provide insurance services. Although this possibility is still subject to government authorisation, and granted on the basis of reciprocity, it nevertheless increases certainty and clarity on the regulatory environment applied to insurance services.

In 2015, Mexico established an independent rail regulatory agency. In 2017, Mexico rolled back the foreign equity restrictions on domestic air transport services; foreign ownership of air companies is now permitted up to 49%.

As of June 2019, Mexico reduced the de minimis threshold for which no duties are imposed on imports up to USD50 (and down from USD300). This policy change will benefit business operations in the distribution, logistics and courier services sectors.

In 2020, the adoption of the Ley de Infraestructura de la Calidad (Quality Infrastructure Law) has promoted the adoption of international standards for construction services.

Source: OECD Services Trade Restrictiveness Index, Policy Trends (2021)

In the case of the Russia, ABAC is aware that over the Roadmap implementation period, new interventions have mostly involved new barriers to trade in services. Nevertheless, some degree of liberalization important to the regional business community, was recorded in motion pictures, sound recording and telecommunications. Some foreign investment reforms were also introduced in 2020 but new restrictions were introduced on broadcasting services.

It is equally important for the business community to also evaluate trends over the Roadmap implementation period for the 8 APEC economies performing better than the global average, Only 3 economies, Chile, Australia and Canada show consistent shifts in all sub sectors to more liberal positions. The other 5 economies show a mixed picture including some (overall relatively minor) new restrictiveness in some sub-sectors. The economies are ranked in the below box in accordance with their overall ranking in the OECD STRI.

Box 4: Monitoring Progressive Liberalization in More Open Services Economies

Japan: In 2014-2016, the direction of shifts in most sectors was in the liberalizing direction but over 2016-2019 net shifts in scores went in the more restrictive direction. Most liberalization occurred in road freight transport, financial services, motion picture services and distribution services.

Chile: All reforms over 2016-2020 were in the liberalizing direction, especially in distribution services, logistics related sectors and commercial banking.

Australia: Liberalization took place in all sectors over 2015-2020. There was minor liberalization related to movement of people in 2016.

USA: There was some liberalization of legal services in 2014-2016 and in motion pictures in 2016-2019. Some restrictiveness was introduced for cargo-handling and logistics related sectors in 2014-2016 and for computer services in 2016-2019.

Republic of Korea: Over 2014-2016, reforms were in the liberalizing direction in most sectors. In 2016-2019 there was tightening in some sectors, especially road freight.

New Zealand: There were minor periods of regulatory tightening in 2015 and 2020.

Canada: There has been liberalization over 2016-2019 in telecommunications, air transport, distribution services and storage and warehousing.

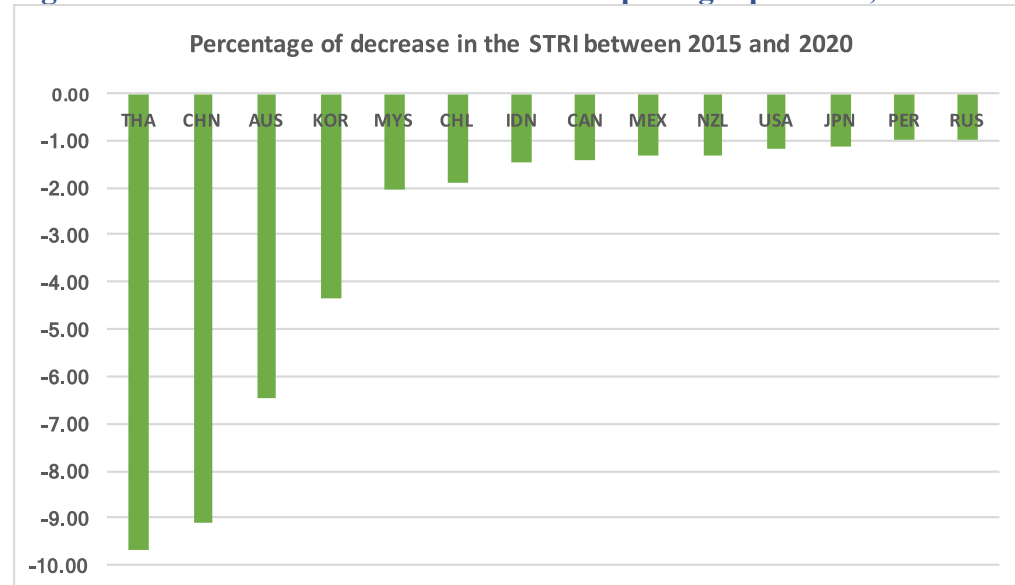
Peru: Over 2014-2016 liberalization took place in telecommunications. Restrictiveness increased over 2014-2016 in motion pictures and sound recordings and in 2019-2020 in accountancy services.

Source: OECD STRI Country Notes, 2021

Finally, ABAC is pleased to be able to report already that commendable work on services statistics undertaken by GOS as part of Roadmap Implementation action enables ABAC to present a new complementary feature of the OECD STRI, namely the “Services Trade Opening-Up Index”.

In the interest of rapid and widespread adoption of this user-friendly stylistic APEC Indicator, ABAC recommends immediate use of this particular result from the technical work undertaken by APEC in collaboration with the OECD Secretariat on development of an APEC indicator. In effect this measure involves taking the difference between the latest data and the baseline data (the black dots) and plotting the net liberalization over the Roadmap implementation period 2015-2020. The outcome is illustrated below.

Figure 10: OECD/APEC: “Services Trade Opening-Up Index”, 2015-2020



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

Figure 10 shows Thailand achieved a 9.6% reduction in barriers to services trade over the Roadmap implementation period and China achieved a 9% reduction.

Other Measures

Until 2020, the only other global measure offering some initial assessment for some of those APEC economies not included in the OECD dataset (Chinese Taipei, Hong Kong, China, the Philippines, Singapore and Vietnam) was the World Bank STRI. Its sub-sectoral coverage is limited and the latest data collection year available is December 2016 so no insights are offered into liberalization trends over the Roadmap implementation period. Nor is World Bank STRI data available for Brunei Darussalam or Papua New Guinea.

World Bank STRI

(The World Bank STRI ranges from 0 to 100, where 0 indicates no restrictions apply and 100 means that the subsector/mode is completely closed to foreign participation.⁵)

Hong Kong, China has an overall score of 34.8. Restrictiveness is even lower in telecommunications (18.2), distribution and transport services, but significantly higher in air passenger and air freight services, legal services (nearly twice as restrictive for host country law) and accounting and auditing services (for both of which mode 1 is prohibited).

Chinese Taipei has an overall score of 36.2, with higher restrictiveness in accounting and auditing (Mode 1), Telecommunications (39.8), Commercial Banking (Mode 1), maritime and air transport.

Singapore has an overall score of 38.1, with higher restrictiveness in professional services (including mode 1 prohibited for auditing) but lower for telecommunications, distribution services and transport (except air passenger transport which is more restrictive).

Vietnam has a score of 48.5. Sectors with prohibitively high scores include host country legal services, life insurance (Mode 1), commercial banking (Mode 1), maritime intermediate auxiliary services (Mode 1) and freight transportation (Mode 1). Other sectors, for which the score exceeds the national average are air passenger transport (Mode 1) and commercial banking (55.6). Professional services are more liberalized.

The Philippines has an overall score of 53.5. While the score is significantly lower for distribution services, it was higher for professional services, and commercial banking (Mode 3). There has been liberalization in both these sectors since 2016, as set out in the Box below.

⁵ As defined by the WTO General Agreement on Trade in Services (GATS) there are 4 modes of supply: Cross-border trade (Mode 1), consumption abroad (Mode 2), commercial presence (Mode 3), and temporary movement of natural persons (Mode 4).

Box 5: Services Sector Reforms in Singapore

There has been a broad liberalization of services sectors over the past few years including in previously sensitive sectors.

Banking (previously protected) has seen significant liberalization and in particular an increase in the number of Qualifying Full Bank licenses which allow foreign banks to offer retail banking.

Telecommunications was also previously protected, but foreign internet and mobile service providers were recently allowed and entered the market, providing significant competitive challenges for the local telcos which had previously enjoyed a captive market.

Despite Singapore's positioning as a legal hub, the legal sector has not seen liberalization with non-Singaporeans still not permitted to practice Singapore law. Media remains tightly controlled.

Mode 4 and opportunities for foreign employment have become increasingly restrictive after a good decade of free flow of talent. A number of measures have been imposed to ensure "fair consideration" of Singaporeans for employment positions.

Source: Commentary from members of the Asia Pacific Services Coalition

As of 2020, APEC also has the **Pilot OECD/APEC Index** for measuring the regulatory environment for **Chinese Taipei and Vietnam for a limited number of 4 sectors**. The new APEC index does provide a picture across the Roadmap implementation period 2014 to 2019.

Box 7: OECD/APEC Pilot Index: Chinese Taipei and Vietnam

***Vietnam** lowered its OECD/APEC Index by 9% over 2014-2019 in both distribution services and logistics services. In distribution services, key reforms related to easing conditions on licensing for foreign services suppliers in 2018. In logistics services, comprehensive reforms of customs procedures were progressively introduced from 2017, following reforms on expanding visa exemptions for air transport crew in 2016.*

*In **Chinese Taipei**, horizontal improvements in regulatory transparency in 2016 lowered the OECD/APEC Index in all sectors. In distribution services, easing conditions for non-resident foreign firms to register and declare taxes online were introduced in 2017.*

Source: APEC/OECD Report to GOS, "Pilot Program for Measuring the Regulatory Environment of Services Trade in the APEC Region", September 2020

Box 6: Services Sector Reforms in the Philippines

In 2014, the Republic Act 10641 was enacted, allowing foreign banks to own up to 100% of total equity and providing national treatment vis-à-vis domestic banks.

The Philippine Foreign Investment Negative List (11th Package) introduced in 2018 further liberalized foreign equity requirements in a number of services sectors. It contained an Annex on Professions (Mode 4 of Services Supply) which enabled foreigners to practice a wide variety of professions in the Philippines provided their home jurisdiction reciprocates. Corporate practice was also allowed in a wide range of professions, subject to the requirements and conditions under the pertinent professional regulatory law.

In 2019, the Foreign Investment Act of 1991 was amended to remove the “practice of profession” requirement and reduce the mandatory number of direct local employees from 50 to 15.

In 2019, the New Central Bank Act was signed into law, updating the Central Bank’s Charter and strengthening its monetary and regulatory functions to further align with global best practices.

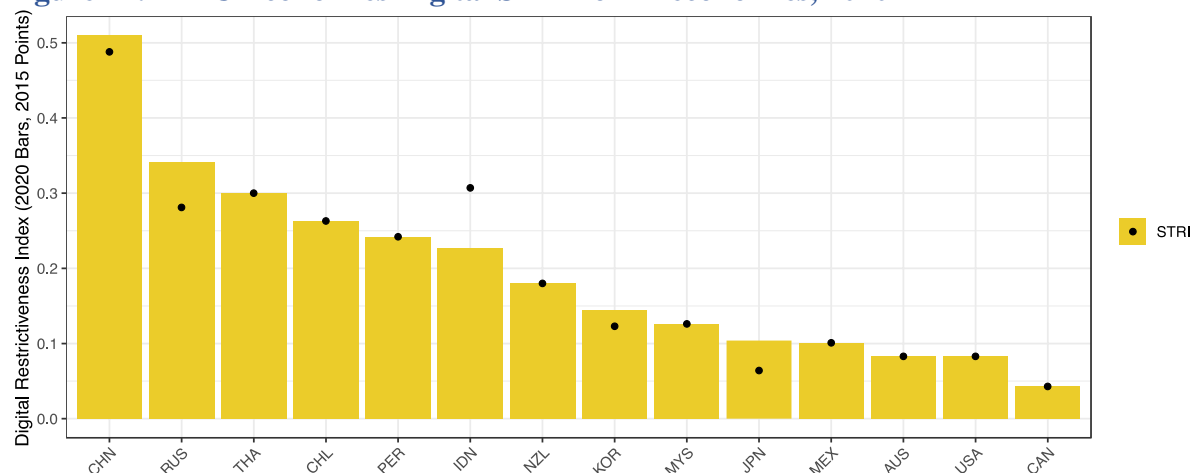
Several regulatory measures were introduced to strengthen banking supervision, improve corporate governance and risk management standards, including the adoption of Basel reforms and promoting integrity and transparency of the financial system via provisions on cyber security and technology, anti-money laundering, counter-terrorist financing, capital market development and advancement of financial inclusion.

Source: Commentary from members of the Asia Pacific Services Coalition

OECD DSTRI

The PSU did not prepare specific Baseline Indicators for restrictions to trade in digitally-enabled services, comparable with the relatively new OECD Digital Services Trade Restrictiveness Index (DSTRI). It is of vital importance for ABAC to present this particular evidence base which affects online supply of services. The stand-out liberalization story here, vis-à-vis the position at the outset of the Roadmap Implementation period, is with respect to Indonesia. New measures implemented in Russia, Japan, Republic of Korea and China PRC have shifted those economies in the more restrictive direction.

Figure 11: APEC Economies Digital STRI for 14 economies, 2020



Source: ABAC calculations based on OECD STRI Database, 2020

Note: Black dots identify the DSTRI for 2014

There are 8 APEC economies that perform better than global average on the OECD Digital STRI (Canada, Australia, US, Mexico, Japan, Malaysia, Republic of Korea, New Zealand) and 6 APEC economies that have above global average restrictiveness (Peru, Chile, Thailand, Russia, Indonesia, China PRC).

Drilling down to look at a more granular level, for computer services, 4 APEC economies rank in the top 10 best global performers – though only 2 more APEC economies are also under the global average restrictiveness. For telecommunications however, no APEC economy ranks higher than 17th in the global dataset and as many as 6 APEC economies rank among the global 10 worst performers.

Despite the positive news ABAC has reported with respect to a generalized net decline in the STRI for the region, both the global and the regional business environment with respect to digitally-enabled trade in services has been both poor and deteriorating. One global estimate suggests that 18 percent of global trade in digitally-enabled services is now impacted by data localization restrictions⁶. Over the Roadmap Implementation period 2014-2020, the DSTRI shows there have been globally more than twice as many restrictive measures introduced than liberalizing measures.

The good news is that for 2020 itself, fewer barriers to trade in digitally-enabled services were introduced than in 2019 and new liberalizing measures just marginally exceeded the number of new restrictions. In addition, new policy measures that facilitated digital trade, particularly regarding e-signatures and e-payments, were on the rise. As further highlighted in Chapter 3, the Covid-19 pandemic contributed to these outcomes as governments have tried to support efforts by the business community to accommodate remote working and expand online operations, including via temporary easing of regulatory restrictions.

Box 8: Responses to Covid-19; Temporary Regulatory Easing in Australia

Television Broadcasting

In response to the pandemic, an obligation of 55% Australian content on free-to-air and subscription television was suspended for 2020 for Australian drama, children's and documentary content.

E-Payments

In response to the pandemic, to allow for a higher level of contactless payments at retail outlets, the Australian Payments Network (the self-regulatory body for the payments industry) temporarily increased the transaction limits for card payments without requiring signature or pin example though mechanisms such as PayWave, Tap-and-Pay, PayPass, Tap-and-Go. Consistent with similar steps taken in other APEC economies, the limits were increased in April 2020 from AUD\$100 to AU\$200. The step was welcomed by the Government, but given the extent to which contactless payments now dominate the retail scene, the period of regulatory easing, while extended to mid-June 2021, nevertheless remains under review.

Telehealth

In response to the pandemic, the Government introduced temporary telehealth items to the Medicare Benefits Schedule, in addition to those already available for remote health monitoring and diagnosis especially in rural and remote areas.

Source: Business commentary from the Asia Pacific Services Coalition

⁶ Van Der Marel (2021)

ABAC is hopeful that not all the liberalization experienced in 2020 will be reversed in the post-pandemic environment, especially as there is no going back on the intensification witnessed in 2020 of the radical shift to digitalization of the economy underway.

It is clear meanwhile, that urgent policy action is also needed to address the build-up of barriers over the past years, particularly in key enabling services such as telecommunications and computer services. Malaysia has moved in the liberalizing direction – as discussed below.

**Box 9: Improving Environment for Doing International Business in Services:
The Case of Malaysia**

Malaysia is a new addition to the OECD STRI dataset. Like some other APEC economies, it is significantly above the average restrictiveness for the 48 economies now in the dataset

Many of Malaysia's restrictive regulations apply horizontally across all services sectors and "at-the-border" in investment and immigration regimes. Foreign services providers, in all sectors, are required to have commercial presence in Malaysia in order to provide services, i.e. they must be incorporated in Malaysia. This is a very big impediment for all online suppliers, impacting emerging sectors such as IT and Other Business Services. Foreign investment is subject to government approval in strategic sectors, including Telecommunications, Transport, and Wholesale and Retail. In all sectors, at least two Board Directors must be resident. Labor market tests apply for all intra-corporate transferees and duration of stay is limited to 24 months. Foreigners cannot acquire certain types of land and real estate, including properties valued at less than RM1 million (about USD240,000) and large acquisitions (above RM20 million) are subject to approval. Sector specific restrictions also have an impact in emerging sectors, for example both Other Business have above average restrictiveness scores.

The good news for business is that recent years have nevertheless seen positive improvements in the regulatory environment.

Foreign investment conditions have eased somewhat for Transportation, Telecommunications, Other Business Services and Wholesale and Retail distribution and several procedures for business visas were simplified in 2020.

In addition, Malaysia performs well, i.e. above global average, on the OECD Digital STRI, which tracks digital infrastructure, intellectual property, electronic transactions and payments systems. Malaysia is already below the global average for digital restrictiveness and the trend, including through 2020, is in the liberalizing direction.

Source: OECD STRI, Country Note - Malaysia, 2021

These developments in regional governance for digitally-enabled trade bode well for the prospects perhaps of a regional digital economy agreement, which not only aim for greater liberalization of trade but also focus on trade facilitation and digital inclusion and establish mechanisms for regulatory cooperation and digital standards development.

APEC should, as the APEC Putrajaya 2040 Vision foresees, be the preeminent regional forum for Innovation and Digitalization.⁷ APEC work therefore needs to intensify, or APEC

⁷The Putrajaya 2040 Vision states: "Innovation and Digitalization: To empower all our people and businesses to participate and grow in an interconnected global economy, we will foster an enabling environment that is, among others, market-driven and supported by digital economy and innovation. We will pursue structural

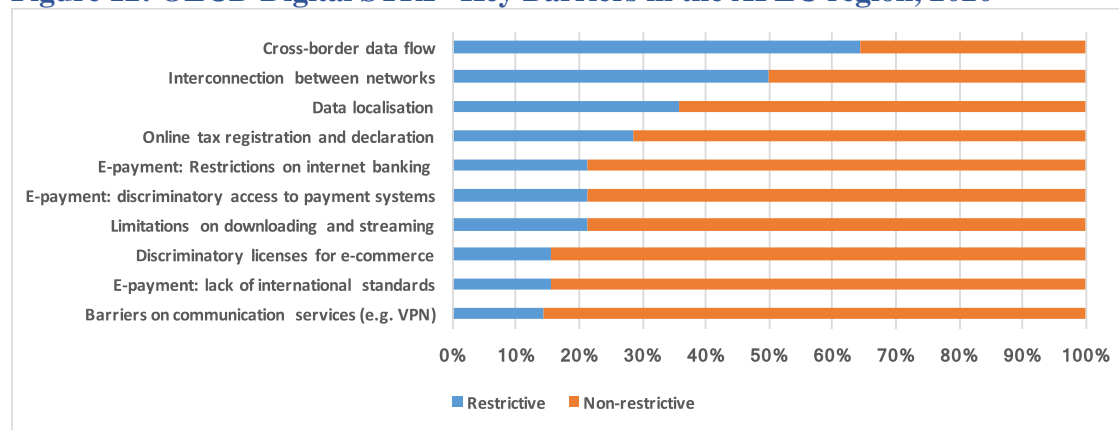
will lose its competitive edge in standards setting for digital trade, despite its early successes such as the APEC Cross-Border Privacy Rules (which for example have now been embedded in Singapore/Chile/New Zealand DEPA and the Singapore/Australia DEA).

The OECD Digital STRI shows that over the decade to 2020, there were 143 digital trade related measures enacted or implemented. Four types of measures account for 83 percent of them: data policies, digital and data related competition policy and foreign investment policy and regulations on online sales and transactions. As many as 55 measures - or more than 1/3 - affect the use, storage, and transfer of data.

Particularly worrying to the business community is the clear evidence here that data restrictions have mushroomed over the Roadmap implementation period 2016 to 2020. Resort to policies impacting on digitally-delivered services occurred 2 to 3 times more often in the 2nd half of the last decade than the 1st half. This evident trend is naturally a red alert to the regional business community.

The APEC region performed better in 2020 itself. At the global level, 2020 saw marginally more new liberalizing measures introduced than new restrictions. But at the regional level, for the 14 APEC economies covered by the dataset, there were well over twice as many new liberalizing measures compared with new restrictions (Figure 12))

Figure 12: OECD Digital STRI –Key Barriers in the APEC region, 2020



Source: OECD Trade and Agriculture Directorate, April 2021, Data for 14 APEC economies.

Nevertheless, 2020 saw as many as 40 new restrictions implemented in the APEC region. Nearly one quarter of them were new restrictions implemented on cross-border data flows and another 7 new restrictions on interconnection between networks and 5 new data localization restrictions were implemented. Other new restrictive measures that were implemented include discriminatory restrictions on access to e-payments, restrictions on internet banking for e-payment, limitations on downloading and streaming, discriminatory licensing for e-commerce, and restrictions on VPNs and other communication services.

ABAC considers the OECD DSTRI an appropriate means of categorizing and monitoring trends in digital trade restrictions and commends the recent OECD work expected to deliver a DSTRI index for all APEC economies before the end of 2021.

reforms and sound economic policies to promote innovation as well as improve productivity and dynamism. We will strengthen digital infrastructure, accelerate digital transformation, narrow the digital divide, as well as cooperate on facilitating the flow of data and strengthening consumer and business trust in digital transactions.”

Box 11: Concerns on the Horizon for Digitally-enabled Services

There has been some good news for regional business but many business concerns persist.

Indonesia removed its relatively new data localization requirement in 2020, but has instead imposed a government right to access data and information systems for supervision and law enforcement purposes; local and regional businesses have expressed concern about negative implications for cybersecurity.

Indonesia also imposed in 2020 a new requirement for commercial presence for foreign digital tech companies with a threshold minimum number of transactions per annum. Business commentators from the APSC considered the initial threshold level was likely to capture many small foreign digital tech players as well as app and international game developers. The threshold level is now under review.

Indonesia is also proposing an electronic transaction tax (on top of VAT for digital goods consumption) based on transactions and income. All foreign digital players which do not have local presence would be subject to the new tax based on their number of transactions in Indonesia.

Implementation of the proposed tax is postponed pending an OECD study.

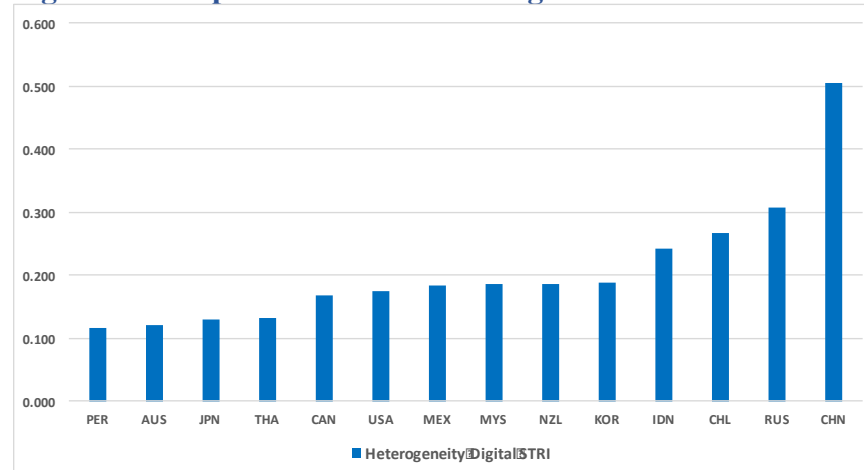
In Vietnam, a new draft personal data protection law has been tabled, under which both the cross-border transfer of data and the processing of sensitive personal data would require the approval of the Personal Data Protection Committee, with business applications for the latter including a form and an impact assessment report with contents similar to those for a data cross-border transfer.

There is also a requirement in the proposal for all original data to be stored in-country.

Source: Business commentary provided by members of the Asia Pacific Services Coalition

For the business community, the key objective is a more seamless business operating environment. The OECD DSTRI provides a measure, for the APEC economies in the data set, of the extent of digital regulatory heterogeneity. By the end of 2021, this data is expected to be available for all APEC economies. ABAC therefore considers it should be adopted by APEC as a new indicator for the remaining Roadmap implementation period, as a proxy measure of regional business interoperability. ABAC proposes this be labelled an APEC/OECD Digital Services Trade Convergence Index. The lower the index value, the greater the regulatory similarity to the other APEC economies and the higher the likelihood of interoperability. The indicator highlights the need for regulatory cooperation to bring about a higher degree of regional homogeneity in the regulation of digital services.

Figure 13: Proposed APEC/OECD Digital Services Trade Convergence Index, 2020



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

Low index value means more regulatory similarity to the other economies in the sample

CHAPTER 3: 2020 – A YEAR LIKE NO OTHER

This Chapter provides a moment to stand back and ask, from a business perspective, what has changed since 2015 and what needs to be done differently. It looks at the extent to which the effects of the global health pandemic may derail rollout of the original Roadmap action items and/or exacerbate already poor prospects of meeting some of the overall Roadmap targets. It describes the impact of Covid-19 on services provision, competitiveness and cross-border trade and investment in the region, including in selected negatively and also more positively impacted sectors. It describes how services businesses are adapting and illustrates how APEC economies have been supporting the business response, including via temporary regulatory easing. This enables ABAC to offer some new business proposals for the next phase of Roadmap implementation, to ensure its continued relevance in a post-pandemic environment.

Trends in Trade in Goods and Services

As APEC economies moved aggressively to contain the spread of the virus through measures such as social distancing and domestic and international mobility restriction, services have been the hardest hit industries, which is particularly problematic for women given their relatively high employment share in the sector⁸. In the 1st half of 2020, the value of commercial services trade in the APEC region fell by more than 20%, while the value of merchandise trade contracted by 11%.

The WTO is currently projecting a **5.3%** fall in the volume of world merchandise trade for 2020, followed by an **8%** rise in 2021, leaving trade well below its pre-pandemic trend⁹. This is a less prolonged decline in trade than the **9.2% decline** initially forecast in October 2020.

Recent figures suggest that the rebound that began in the 2nd half of 2020 picked up strength in October and November. The value of global merchandise trade in October 2020 was 3% higher than in October 2019, with a 6% increase year-on-year for November. Data for November 2020 shows exports increasing for Asia by 10% but exports were still down 5% in North America. Overall the recovery remains incomplete: the total value of global merchandise trade January to November 2020 was 8% below the same period in 2019.

Uncertainty also remains about the strength of the recovery going forward. A resurgence of Covid-19 requiring new lockdowns could shave up to 4 percentage points off the projected trade growth for 2021; if effective vaccines or other medical treatments are made available rapidly, this could add up to 3 percentage points to the pace of trade expansion.

Turning to services trade, the WTO estimates¹⁰ that the volume of services trade fell around **27%** during the pandemic, with travel and transport-related sectors hit hardest. Estimates for January 2021 show for the 3rd quarter of 2020 that services trade was still down **24%** compared to the same period in 2019. This was negligible improvement from the 30% year-on-year decline registered in the 2nd quarter and stood in marked contrast to the much stronger rebound in goods trade. By November 2020, goods trade was only down **5%** but services trade was still down **16%** below 2019 levels. Services exports in November were down 24% in the US though beginning to recover in China PRC.

⁸ World Bank and WTO (2020)

⁹ WTO (2021)

¹⁰ WTO (2021)

World services trade finally accelerated in the 4th quarter of 2020 but this may not have been sustained through the 1st quarter of 2021 due to new lockdowns following the second wave of infections. The WTO considers that prospects for services trade recovery remain poor. Unlike goods, services cannot be stockpiled, so despite pent-up demand, many of the revenue losses from cancelled flights, holidays abroad, restaurant meals, and cultural/recreational activities could turn out to be permanent.

Travel is the most affected sector, down **63%** globally in 2020 compared 2019, and not expected to fully recover until the pandemic ebbs. International passenger flights will remain weak until the 2nd quarter of 2021 but partially recover in the 3rd quarter if sufficiently widespread progress is achieved with vaccination rollouts.

Trade in other services show uneven performance. With building projects delayed or postponed, global construction exports are down **16%** over the year. Audio-visual, artistic and recreational services are still in double-digit decline (globally 14%) with US exports down 24%. Legal, management, accounting and advertising services have seen a slight 1% year-on-year rebound. Financial services have picked up 2% globally. **One notable exception is Computer services, which picked up 9% in the 3rd quarter of 2020 and sustained their growth in the 4th quarter due to strong global demand for cloud computing, platforms and virtual workplaces.**

In Thailand, telecommunications service provider (DTAC), reported an 828% and 215% rise in data traffic used for Zoom and Skype, respectively, between 1 January 2020 and 19 March 2020 alone.

Investment Flows

UNCTAD estimates 11 global flows of FDI dropped 40% in 2020, from their 2019 to USD1.54 trillion in 2019 to below USD1 trillion for the first time since 2005. FDI is projected to drop a further 5-10% in 2021 and initiate only a slow recovery in 2022.

Despite record FDI inflows in 2019, APEC's Southeast Asian members were not spared the impact of the pandemic. UNCTAD estimates FDI flows to Developing Asia declined in 2020 by 30-45%. Greenfield investment in automotive production fell in the 1st quarter of 2020 by 67% and in computers and electronics by 36%. Mergers and Acquisitions dropped by 87%. Weak corporate earnings have significantly dampened investment in **construction, real estate, hospitality and other services.**

Early indicators for Developing Asia suggest that unlike the rest of the world, the region has actually already initiated an investment recovery. But UNCTAD considers the dependence on GVC-related investment in physical productive assets leaves FDI in APEC's Southeast Asian members relatively highly exposed and therefore expects the investment slowdown in these economies to be sustained through 2021, though relocation of production facilities from East Asia to Southeast Asia is expected to continue.

UNESCAP notes that one exception to the general downturn in 2020 is the Philippines, where the ICT market is expected to have continued to grow for 2020, driven by the digital transformation initiatives taken by domestic enterprises. UNESCAP¹² finds that 84% of

11 UNCTAD Investment Report (2020)

12 UNESCAP (2020)

Philippine enterprises increased their ICT budgets in 2020, compared with 66% in the previous year. Cloud-based communication and collaboration services were found to be a key technology area of interest, with 80% of enterprises planning to invest in these platforms during the next 2 years. Philippine enterprises also increased their share in total ICT spending for digital transformation, from 44% to 50% for 2020. This is driven by the need for flexibility and scalability to meet increasing operational efficiency and customer satisfaction. This trend of increasing investment in ICT in the Philippines is not limited to the private sector; the government is planning to invest USD941 million to accelerate digital transformation during the pandemic, with nearly half of this being allocated to improving digital connectivity and access.

Sustainability of GVCs

There are differences of view among the academic experts and the global institutions on the likely impact of the pandemic on countries which participate heavily in complex GVCs. Several commentators debate the UNCTAD view. Miradout¹³ argues that available evidence does not support UNCTAD's negative view. Drawing on the latest WTO/OECD TiVA data base, Miradout claims there is no correlation between the level of fragmentation of production and the severity of the economic impact of Covid-19. WTO and OECD analysis shows the most impacted industries are those relying on movement of people, such as hotels and restaurants, or passenger transport.

Miradout highlights the World Bank estimates of the impact of Covid-19 on Thailand, an economy deeply integrated in both manufacturing GVCs and international tourism activities. The World Bank shows that for both of these industry sectors, the decrease in output results from more than 1 factor; some level of under-utilization of capital and labour, some increase in international trade costs, and a significant decrease in any activities that involve proximity among people. The level of fragmentation of production in GVCs is not shown to be the only or the largest explanatory factor.

In general, business sources tend to the view that sectors which are prepared for digital transformation to enable cross-border connectivity have actually showed significant GVC resilience during this pandemic period. Recent business surveys¹⁴ show, for example, that many multinational enterprises remain committed to China PRC and GVC diversification is tending to involve a China-plus-ASEAN strategy rather than retreat from GVC activity¹⁵.

Business Response

The pandemic has accelerated ongoing business transformation and introduced new ways of doing things, especially but not only in the services sector. Many firms have come to realise that the adoption of digital solutions is no longer an option, but a necessity as consumers and other downstream users adapt to new habits. E-commerce and digital payment services are helping businesses lock-in transactions; fintech solutions are facilitating access to liquidity and telemedicine services are easing the burden on overstretched healthcare systems. Many knowledge intensive services have actually benefitted during the recent period and there is evidence that services value chains have intensified in the region, pointing to the need to review policy and regulatory settings which support/impede such transformation. The Philippines BPO story is one worth telling and set out in the box below.

¹³ Miradout (2020)

¹⁴ Buckley & Enderwick (2020)

¹⁵ Findlay et al (2020)

Covid-19 Case Study: Challenges and Opportunities for The Philippine BPO Sector

Business process outsourcing (BPO) is among the fastest growing industries in the Philippines. The WTO World Trade Report highlights the industry's potential to transform the Philippine economy and act as a catalyst for economic development (WTO, 2019). In 2019, the sector generated US\$26.3 billion in revenue, or 7% of Philippine GDP - on track to overtake foreign remittances as the largest GDP contributor. As the largest private employer in the Philippines, the BPO sector employed over 1.3 million workers in 2019, of whom 50% were women (Philippine Statistics Authority, 2009).

In 2010, the Philippines was named the BPO capital of the world. International success is attributed to a young, educated workforce with strong command of the English language and natural cultural sensitivity, as well as lower costs of doing business due to relatively low labor costs (professional services providers), low office rental and office supply costs and reasonable living costs. The BPO industry has remained globally competitive over the last decade and continues to attract foreign investors to establish and expand operations. But growth started to plateau in 2018.

*In March 2020, in an effort to constrain the spread of Covid-19, the Philippines imposed one of the strictest and longest lockdowns, severely restricting business operations. Many businesses, especially SMEs, have been at risk of default and/or closure. **BPO is one of few industries to have remained resilient and is expected to bounce back strongly by 2022, generating an estimated US\$29 billion in revenue and full-time employment between 1.37 to 1.43 million (Campos, 2020).***

***The pandemic has opened up new opportunities for the BPO industry to offer online health-related services (telehealth services for both COVID-19 and non-COVID-19 health care), potentially offering longer-term gains for both BPO and Healthcare Information Management (HIM) sectors.** Global demand for additional support in healthcare services is strong given the highly-skilled and on-demand nature of the work. Cost-saving benefits of transforming to digital health channels also make it an attractive longer term option for healthcare providers. With a world-class reputation in both sectors, the Philippines is well-placed to benefit (Thompson, 2020).*

The Philippines' IT and BPO Association (IBPAP) and Healthcare Information Management Association (HIMAP) express confidence that the country will be able to retain its place as one of the global leaders for BPO operations (Rosales, 2020). HIMAP has been hiring and training recently unemployed workers to help accommodate the growing demand for e health interventions.

*This does not mean the sector is free from challenges. The pandemic has highlighted longstanding issues confronting the sector, especially in **digital infrastructure**. Although allowed to operate during lockdown, many BPO companies were unable to maintain normal staffing levels, especially at the onset. Temporary public transport closures meant many employees were unable to travel to work. Workers were generally allowed to work from home, but poor internet connections made such arrangements unsuitable for many. UN-ESCAP reports the Philippines experiences the slowest fixed broadband speeds in the Asian region (UN-ESCAP 2021).*

Innovative approaches are needed to increase digital connectivity at low-cost.

*The growth in numbers of freelance BPO workers, intensifying during the pandemic, has also made it critical to develop a local **fintech ecosystem** offering more e-payments and digital wallet solutions compatible with international standards to facilitate the transfer of payments from foreign clients. There is also evident need to **upgrade BPO workforce skills**, particularly to **leverage the benefits of artificial intelligence (AI) and automation** to sustain expansion of the industry.*

Upskilling programs, infrastructure projects and ICT improvements are underway but there is much to be done. Strong sustained public-private partnership will be essential to future-proofing of this key services industry.

Regulatory Response

Examples abound across the APEC region on temporary easing of regulatory requirements to enable the shift online required to keep the regional economy afloat. Some of these relate to unilateral action, others involve concerted action and were reported in the previous chapter. Here we draw attention to one area of successful regulatory cooperation.

Box 12: Covid-19 Case Study: Regulatory Cooperation on Online Education Delivery

In 2020, to alleviate concerns of Chinese international students enrolled in Australian education institutions, both Australian and Chinese regulatory authorities showed a degree of temporary flexibility in application of regulations applying to cross-border online education.

The China Service Center for Scholarly Exchange (CSCSE), an affiliated agency of the Chinese Ministry of Education, provides official verification services for foreign academic qualifications. It does not recognize qualifications earned via cross border distance learning.

Following introduction of domestic and international pandemic-related travel restrictions and exploration by Australian universities of options for blended teaching/learning models, the Australian government and Australia's Tertiary Education Quality and Standards Agency (TEQSA) have worked collaboratively with Chinese officials to address the various issues around both student safety and foreign qualification verification.

In April 2020, the CSCSE provided a formal notice to Chinese students overseas on verifying Chinese student's foreign degree qualifications where these are obtained partially online due to the Covid-19 pandemic. The notice acknowledged and supported the flexible measures institutions have adopted, such as extending registration dates and offering online courses. It confirmed that online courses taken due to the inability to attend campus will not influence the verification of foreign qualifications. CSCSE also established a foreign academic qualification verification hotline.

For its part, TEQSA along with the Australian Skills Quality Authority (ASQA) and the Department of Education, Skills and Employment (DESE) as the regulatory agencies under Australia's Education Services for Overseas Students Act (ESOS) 2000 acknowledged that due to circumstances surrounding the pandemic, education services providers may not be in a position to fully comply with all requirements of Standards under the National Code 2018.

ASQA and TEQSA agreed to show flexibility in order to support students to study online either in Australia or offshore. It was acknowledged that more flexible approaches to student attendance may be required on a temporary basis, for example a period of isolation may be considered as consistent with a period of illness under the ESOS Act 2000 requirements.

For online learning, all training and assessment must meet high quality standards regardless of the location of the student or the mode of delivery. As long as the student remains enrolled, and the assessment requirements of the course allow it, the location of the student and the mode of delivery should not form an impediment to attainment of an Australian qualification. Providers are required to assure themselves that all assessment and quality standards are maintained and documented. All flexible arrangements made on a student-by-student basis must be documented, especially those that would usually be considered non-compliant with the ESOS Act.

Source: Commonwealth of Australia 2020

CHAPTER 4: ROADMAP ACTION EVALUATION AND RECOMMENDED RESETS

This Chapter provides a brief business assessment of each of the 19 concerted action items in the Roadmap Implementation Plan. It also offers recommendations for a GPS “Reset” to help move APEC closer to meeting its objectives by 2025. ABAC offers **40 recommendations** for consolidating progress and navigating roadblocks.

At the outset of the Roadmap implementation period, both ABAC and APSC expressed strong support for some particular action items. These included efficiency of domestic regulation for services, mutual recognition of qualifications for talent mobility, development of APEC services trade statistical indicators, the environmental services action plan and the manufacturing-related services action plan. These action items largely fell under the responsibility of the GOS and were also picked up as part of 2019 “Final Push toward the Bogor Goals”, thanks to which significant progress has been achieved.

Some other action items, which were also given business priority, including SME internationalization, structural reform, investment, innovation and digitalization, fell to a wide variety of other APEC fora to implement and became more difficult to monitor.

Among the 19 action items were several that were inherited from earlier APEC initiatives such as the Connectivity Blueprint and the Strategic Blueprint on GVCS. The original concept behind the 2015 APEC Services Competitiveness Framework was to gather under a single umbrella all the diverse work underway on services sectors, and to bring to all of that work a strong unifying focus on the enabling factors driving services competitiveness and internationalization as the structural shift to services intensified.

Given that no clustering of activities was undertaken, effective management of the complex set of pre-existing work streams was always going to be dependent on very close coordination between the CTI and the EC, the latter having played a major role in initiating the Framework. The plan had been that joint CTI and EC engagement would energise the implementation process. The reality is, however, that APEC work streams tend to operate in relative silos. Some fora fell back into pre-existing work programs and effectively lost sight of the Services Competitiveness Roadmap objectives. Others took a horizontal approach to competitiveness and lost sight of the services dimension to their work. In some cases, the inclination appeared in subsequent years to wind up and move on to new strategic priorities.

Business more than understands the need to wind up, move on, innovate and focus on high productivity activity. But the underlying structural shift to services is not going away and APEC needs to focus over the long haul if the Roadmap targets are to be met. Many APEC fora now have new strategic plans which no longer reference the Roadmap. Some action items have Final Review Reports, as if the intention may be to close those action items off.

The other missing ingredient over the first 4 years of implementation was the relative paucity of high-level PPD on Services. The only full APEC PPD on Services to have taken place since the Roadmap Implementation Plan was agreed, was held in 2018 in Papua New Guinea. It has since fallen to the APSC and ABAC to themselves organize APEC PPD on Services - in Jakarta in 2019 and another in Manila, postponed due to Covid-19 till 2021.

Finally, ABAC has emphasized throughout that where strong interlinkages exist between trade initiatives at regional level in APEC and processes in multilateral fora such as the WTO, it is very important for APEC to bring concerted action to bear in helping build critical mass for multilateral outcomes. ABAC emphasizes the importance of all APEC economies participating in the WTO Joint Initiatives. The WTO JI negotiations on Services Domestic Regulation have abundantly evident symbiosis with the APEC Non-Binding Principles on Domestic Regulation for Services Sectors and warrant a concerted APEC decision to bring APEC weight to delivering for the 12th WTO Ministerial Council, the first outcome on services since the WTO was created, thereby helping to sustain the WTO’s business credibility. Importantly, the draft Reference Paper being developed in the WTO, which will be applied on an MFN basis, focusses - like the APEC principles - on best regulatory processes not on regulatory content.

It is worth drawing to APEC’s attention the PECC Survey Results conducted with APSC members for the 2016 PECC State of the Region Report. Figure 13 shows that 62 % of survey respondents across the region ranked transparency and predictability of domestic regulations as the most significant barrier to trade in the region. These survey results have been influential also at global level and are picked up and reproduced for a global audience in the WTO Factsheet on the JI on Services Domestic Regulation.

Figure 13: PECC Survey Results on Impediments to Services Trade, 2016.



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?

All the barriers identified in this stakeholder survey made their way into the APEC Services Competitiveness Roadmap and all of them are receiving some attention. Of course, much has changed since 2016 and in particular the extent of digitalization now in full swing. Business recognizes barriers to cross border data flows and especially localization requirements as very serious constraints for digital trade. This is why ABAC also calls on all APEC economies to participate in the WTO negotiations on Trade-related Aspects of E-Commerce and to work towards permanent extension of the WTO Moratorium on Customs Duties on E Transactions. Many APEC economies have joined the Joint Initiative on Investment Facilitation for Development and as the work evolves, growing numbers are poised to contribute to the Joint Initiatives for Structured Discussions on MSMEs, and on Trade and Sustainability.

Snapshot Table 1: ABAC Evaluation of Roadmap Action (2015 priorities highlighted)

No.	Action	ABAC Assessment
1	Services SMEs in GVCs	High business priority for 2021-2025
2	Professional services	Very slow but steady progress due to intensified capacity building efforts on MRAs
3	Business mobility	Significant progress with extension to 5 years and launch of Virtual ABTC.
4	Domestic regulation	Outstanding progress leading to Adoption of Non-Binding Principles: capacity building for domestic implementation is underway. High business priority for all APEC to participate in WTO JSI.
5	Structural reform	Services have been given insufficient attention to date.
6	Environmental services	Agreement remains elusive but APEC has broken the back of the work required for a potential future outcome at multilateral level and continued regional action.
7	Manufacturing-related services	Slow but progressive and measurable improvements in the regional business environment for doing business in services have enabled the geographic locus of “Factory Asia” to extend further across the region. Despite Covid-19, manufacturing GVC activity in the region remains robust.
8	Education services	Dedicated and commendable work is underway including of a capacity building nature especially under the Action Plan associated with APEC’s Education Strategy 2016-2030.
9	Cross Border Data Flow	Data Base on barriers to cross border data flow completed.
10	Financial services	Uptake of the Asian Region Funds Passport is too slow
11	Transport services	Some liberalization achieved in logistics-related services
12	Tourism & Travel	High business priority for post pandemic recovery
13	Services statistics	Pilot APEC Index completed. 3 economies added to OECD STRI. On track to add 2 more in 2021. 20 economies to be included in OECD Digital STRI by 2021.
14	Services in Food system	Ongoing business priority for 2021-2025
15	Energy Services	High business priority for 2021-2025
16	Commercial Presence	High business priority for 2021-2025
17	MSME digitalization	High ongoing priority for 2021-2025
18	ICT infrastructure	Progress is patchy and uneven across economies. High ongoing priority for 2021-2025.
19	Services Innovation	Progress made in various fora. High ongoing business priority for 2021-2025.

Based on ABAC’s assessments, Snapshot Table 2 summarizes ABAC’s 40 concrete recommendations for some resetting under each concerted action item in an effort to move APEC closer to its services competitiveness objectives by 2025. Noting strong synergies, ABAC recommends combining 2 of the action items and bringing them under the umbrella of EAASA, reducing the total number of ongoing action items to 17. These recommendations are supplemented in Chapter 5 with 8 proposed new initiatives.

Snapshot Table 2: ABAC Reset Recommendations (2021-2025 priorities highlighted)

No.	Action	ABAC Recommendations
1	Services SMEs in GVCs	Refocus on Export Promotion toolkits, including customized for “born globals” and women entrepreneurs
2	Professional services	Refocus on value chain fragmentation “globotics” and regulatory arrangements for cross-border e-delivery
3	Business mobility	Refocus to ensure all APEC economies are full members of the ABTC by 2025 and the Transition to Virtual ABTC is complete
4	Domestic regulation	Refocus on Capacity Building for reform efforts alongside PPD, and on WTO JSI Outreach. Ensure the direction of APEC economy regulatory efforts are consistent with the Non-Binding APEC Principles.
5	Structural reform	Better coordination between EC & CTI. Refocus on Servicification and Super Smart Society 5.0
6	Environmental services	Adopt a practical, experimental learning-by-doing approach and start developing the basic policy tools required for regional facilitation of services incidental – indeed indispensable - to green growth outcomes. Collaborate with the OECD to develop an APEC/OECD Green Services Trade Index time series. Develop frameworks for regulatory review, including in consultation with the business community. Conduct awareness-raising activities on the content, not just the principles and processes, associated with emerging domestic regulatory practices. Development of a pilot regulatory review framework with respect to environmental adaptation and mitigation services. Introduce a dedicated PPD session.
7	Manufacturing services	Introduce PPD Series on Implications of Regional Servicification and hold a session on Modern Manufacturing. Further work on domestic regulatory inefficiencies and obstacles to commercial presence required.
8	Education services	Establish “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.
9	Cross Border Data Flow	Intensify collaborative work on digital standards development. Encourage take-up of Cross Border Privacy Rules. Hold a Digital Trade Policy Dialogue to redirect attention to building on RCEP and CPTPP to help develop a pan-regional perspective on international governance. Utilize ABAC’s proposed APEC/OECD Digital Services Trade Convergence Index to monitor progress towards more seamless regional market. Hold a joint meeting between, and joint stakeholder event led by, the Group on Services and the Digital Economy Steering Group with the objective of designing, with ABAC, a new Action Item on “E-Services” .

10	Financial Services	Refocus on e-payments ecosystem development and regulatory cooperation. Workshop to encourage expansion of the membership of the Asia Region Funds Passport and explore opportunities for interoperability with the similar European Union and ASEAN passport schemes. Conduct capacity-building on implementation the Non-Binding Principles on Domestic Regulation with specific focus on financial services regulation.
11	Transport Services	With connectivity issues already central, refocus on Freight Transport and Logistics Efficiency
12	Tourism & Travel	Refocus on Passenger Travel Safety Assurance and post-pandemic regional Tourism branding
13	Services statistics	Collaborate with OECD to extend the Pilot APEC Index to all APEC economies and all services sectors. Adopt the “ APEC/OECD Services Trade Opening-Up Index ” for the period 2015-2020, as the new Baseline Indicator to measure progress towards Roadmap Target 1. Adopt ABAC’s proposed APEC/OECD Digital Services Trade Convergence Index as a proxy indicator for progress in regional business interoperability for cross-border online delivery. Complete a user-friendly website for the Pilot APEC index for launch at ABAC/APSC PPD in 2021. Pivot to using the index to self-identify reform priorities . Develop an APEC Services Trade Barometer for more continuous monitoring of progress
14	Services in Food System	PPD Series on Implications of Regional Servicification with a session on Value-added Agriculture
15	Energy Services	Refocus from Energy Security to Energy Services Efficiency and Innovation – both generation and distribution
16	Commercial Presence	Utilize the APEC Pilot STRI 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 chosen for inclusion in the APEC Pilot STRI should include at least one sector where constraints on foreign entry are dominant, such as commercial banking or accountancy.
17	MSME Digital economy inclusiveness	Integrate with item 19 Services Innovation and refocus on developing collaborative entrepreneurial innovation ecosystems to facilitate SME uptake of digital technologies. Collaborate across APEC fora. But responsibility should ultimately fall to the EC, given the focus on Innovation and on Digitalization of MSMEs in the EAASA.
18	ICT Infrastructure	Refocus on fast mobile broadband infrastructure and testing and deployment of 5G
19	Services Innovation	Integrate action item 17 (MSME digitalization) and refocus on developing collaborative entrepreneurial innovation ecosystems to facilitate SME uptake of digital technologies. IP protection must be an intrinsic aspect of innovation ecosystem development. Consistent with the Putrajaya Vision, collaborate across a wider set of fora including EC.

Concerted Action Item 1: Enhancing the critical role of trade in services in global value chains (GVCs) including through increased participation of MSMEs and women.

Responsibility: GOS

Business Assessment:

Despite the expressed business priority given to this agenda item, it is not clear to ABAC that APEC undertook any concerted activity over 2016-2020 that was specifically designed to increase the participation of MSME services providers in GVCs as nothing explicit has been reported. APEC appears to have lost sight of the services dimension to SME internationalization. Neither GOS nor SMEWG has sought to engage in any dialogue with ABAC or APSC on services SME access to GVCs. The business community nevertheless strongly supports the SMEWG’s new Strategic Plan and its new focus on digitalization, innovation and technology. Any progress made will necessarily benefit services SMEs.

Business Recommendations:

1. ABAC still considers this to be a high business priority action item and recommends that 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 APSC.
2. ABAC recommends that all APEC fora with work programs on SME and MSME digitalization, innovation and technology uptake, including the EC under the EAASA, are instructed by SOM to specifically consider the services competitiveness issues underlying these work programs and specifically target services SME trade outcomes.

This action item was part of the Borocay agenda and given priority as the first action item in the Services Competitiveness Roadmap, due to the overwhelming SME nature of the services sector. In 2020 SME Ministers endorsed a Strategic Plan 2021-2024 to address critical issues pertaining to the growth of SMEs and microenterprises. The objectives include explicitly enhancing SME and microenterprises including those owned or led by women to access to international markets and GVCs and although there is mention of the Borocay agenda, there is no mention of the Services Competitiveness Roadmap or of services SMEs. Despite the expressed business priority given to this agenda item, neither GOS nor SMEWG has engaged with ABAC or APSC on services SME access to GVCs. The business community is strongly supportive, nevertheless of the directions outlined in the SMEWG’s new Strategic Plan. Any progress made will necessarily benefit services SMEs.

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Concerted Action Item 2: Supporting cross-border mobility for professionals, building on initiatives such as the APEC Architects and Engineers Registers to facilitate mutual recognition arrangements (MRAs).

Responsibility: Human Resource Development Working Group (HRDWG) and GOS

Business Assessment:

There has been very slow but steady progress due to intense sustained capacity building efforts on MRAs. This progress is chiefly at the bilateral level rather than among APEC economies as a whole

Business Recommendations:

1. While strongly supportive of current activity, ABAC recommends a stronger focus, 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”¹⁶ for regulatory arrangements, including MRAs, for cross-border e-delivery.

The HRDWG explicitly references the Roadmap as a key area of focus, tending to express the objectives across both Action Items 2 and 8 as “facilitate the mobility of skilled labor and professionals, and to ensure the quality of skills and competencies that meet the supply chain demands of the region”. As part of the Final Push toward the Bogor Goals, the GOS picked up its own activity specifically on item 2. Despite intensive capacity building efforts, progress is very slow delivering minimal business results to date. The GOS is currently undertaking 2 additional projects to build an “APEC Professional and Skilled Services Gateway - an Inventory on MRAs” and to deliver “APEC Mutual Recognition Online workshops - Digital credentialing of professional and skilled services providers” to share best practices to help fast-track the mobility of professional and skilled service providers post-COVID-19. These activities have full ABAC support. The inventory on MRAs is especially important as it will help to map the progress being made both across APEC economies and across professional services sub-sectors. Except in the case of the ASEAN member economies, these MRAs are essentially bilateral in nature, so it is appropriate for APEC to build instruments to inform the business community of bilateral progress that is made.

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Concerted Action Item 3. Enhancing flexibility for business visitors, building on initiatives such as the APEC Business Travel Card.

Responsibility: Business Mobility Group (BMG)

Business Assessment:

ABAC recognizes the significance of the progress which has been achieved with launch of the Virtual ABTC in February 2021.

Business Recommendations:

1. ABAC calls on all APEC economies to ensure they are full members of the ABTC before 2025 and that the transition to Virtual ABTC is complete.

Nineteen APEC economies now participate fully in the ABTC scheme and 2 are transitional members. APEC estimates the scheme to reduce regional travel costs by 38% for cardholders; businesses pay 27% less in application fees and 52% less in immigration processing. Since outbreak of Covid-19, international travel has been severely curtailed and sometimes suspended. In March 2021, the BMG launched the new Virtual ABTC which displays on a mobile application, giving cardholders the ability to present their virtual card to enter an APEC economy. The objective is to make traveling under the scheme more secure, efficient, convenient and user-friendly, as APEC economies look for safe and effective measures which help open up borders and resume regional travel. The new virtual card has security features such as user verification, use of holographic watermarks and disabled screenshots to ensure authenticity of cardholder identity. It includes real-time internet connectivity to provide immediate updates of pre-clearance information needed for entry to APEC economies. Each APEC economy will determine its own timeline to transition to the Virtual ABTC for its cardholders but the process has already begun.

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¹⁶ “Globotics” is a term coined by Richard Baldwin (Baldwin 2020) combining Globalization and Robotics; it refers to the current third wave of globalization in which digital technologies are bringing down transaction costs enabling a higher degree of cross-border GVC activity in services with major internationalization impact on professional services (white-collar jobs) which can increasingly be provided cross-border not only via the use of robotics and AI but also “face-to-face” via telepresence and hologram.

Concerted Action Item 4. Developing a set of good practice principles on domestic regulations in the services sector.

Responsibility: GOS

Business Assessment:

APEC's achievement of Non-Binding Principles for Domestic Regulation of the Services Sector adopted in 2018 is a stand out success, including because the principles have become a template for action in other for a, both regional and multilateral. The strength of the beneficial impact on the business environment is dependent on ongoing APEC capacity building and intensified implementation efforts on the ground in each APEC economy.

Business Recommendations:

1. ABAC urges all APEC members to participate in the WTO Joint Initiative (JI) on Services Domestic Regulation and to help bring those negotiations to a fruitful outcome for regional business at the 12th WTO Ministerial Meeting in November 2021.
2. 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
3. ABAC calls on all APEC economies to ensure the direction of their regulatory reform efforts are consistent with the Non-Binding APEC Principles.

Following adoption of the Roadmap in 2016, it only took 2 years, admittedly after a decade of preparatory capacity building, for APEC to deliver Non-Binding Principles on Domestic Regulation of the Services Sector. This is an unquestioned success and one which has had immediate global trade policy impact. Incubated in APEC, it has since taken only another 2 years for several APEC economies, working with other WTO members, to initiate and effectively complete a similar deal in Geneva in the JI on Services Domestic Regulation.

All APEC economies should be participating in this GATS process. Despite ABAC's recommendations to Leaders in 2020, this is still not the case. ABAC renews its call on all APEC economies to show they can work in concert to bring the region's critical mass to bear and jointly take this low-hanging fruit to the 12th WTO Ministerial Meeting. If successful, it will be the first multilateral outcome on trade in services since the WTO's creation.

Without APECs success on domestic regulation, the 30 year negotiating mandate in the GATS to complete the Uruguay Round's unfinished business on domestic regulation would not have been able to reignite. APEC broke the back of the work and enabled a kickstart to the WTO. The APEC Principles provided initial draft negotiating text and remain deeply reflected in the emerging MFN outcome. ABAC congratulates APEC economies on the solid effort over an extended number of years to bring a regional outcome to fruition, with rapid global follow-up. APEC was able to pave the way with its focus on principles and processes rather than regulatory content. APEC's Non-Binding Principles on Domestic Regulations stand alongside the OECD Privacy Principles as global models of the kind of good regulatory practice which underpins business interoperability.

The GOS has meanwhile continued with capacity-building to develop awareness of innovative, effective and emerging regulatory practices in the region. ABAC considers such efforts should increasingly be undertaken in collaboration with the business community including as part of Public/Private Dialogue.

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Concerted Action Item 5: Implementation of the Renewed APEC Agenda on Structural Reform (RAASR), including progressing the 2016 APEC Economic Policy Report (AEPR) on Structural Reform and Services.

Responsibility: Economic Committee (EC)

Business Assessment:

With respect specifically to structural reform, it is not clear to ABAC that the services sector has been prioritized to date at either APEC-wide or individual action plan level. Services should be given more attention for the period to 2025. Issues related to services productivity such as innovation, digitalization, regulatory reform and digital finance (all of which are relevant to Roadmap action allocated to other APEC for a) also receive priority in the Enhanced APEC Agenda for Structural Reform (EAASA) but without any explicit linkage to the Roadmap Implementation process.

Business Recommendations:

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

The Final Review Report of RAASR makes no reference to the Services Competitiveness Roadmap nor RAASA's role in the Implementation Plan. The Review Report determined that of the 20 agreed external indicators to monitor progress on RAASR implementation, improvements took place in half of them. In others, including the STRI, it was determined there had been at best mixed performance, in that progress was uneven across economies and there had been some backtracking on reform and even some decline in some indicators.

In its analysis of the 167 related Individual Action Plan items notified by 20 economies, the Review Report makes no mention of any outcomes regarding individual action on services, despite such action being an explicit requirement included in RAASA. The Review Report did determine there was room for APEC economies to improve business regulations and conducts including in services trade and investment. It recognized that a number of services have potential to align with sustainable development goals as well as economic diversification and inclusion of SMEs. It called for more reform efforts on financial market regulation and to facilitate investment in energy, digital, telecommunications and transport infrastructure including for e-commerce.

It is a disappointment to services business stakeholders therefore that the proposed Enhanced APEC Agenda for Structural Reform 2021-2025¹⁷ (EAASA) makes no mention of any continued objectives targeted or work dedicated to services under any of its 4 new pillars of work. (There is reference only to work on health, education, digital finance and MSME uptake of digital technologies.) Despite the deadline for both work programs coinciding in 2025, the EAASR makes no explicit mention of contributing outcomes to the Services Competitiveness Roadmap implementation process. There being no reporting of Services Roadmap outcomes within RAASA and no forward linkage made to the EAASA work program, it would seem APEC is falling again into its traditional silo approach to work streams. Unless the mid-term review achieves a more collaborative internal approach between the EC and CTI, it seems to ABAC that action item 5 has dropped off the EC radar.

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There is much reference in EAASA to innovation and digitalization. There is also reference to regulatory cooperation including with respect to digital technologies and regional digital connectivity. All of these areas also figure explicitly in the Services Roadmap Implementation Plan under the responsibility of various APEC fora. Rather than duplicate effort within parallel silos, collaborative action and collaborative reporting need to be synchronized across work streams to boost overall organizational productivity.

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Concerted Action Item 6. Supporting liberalization, facilitation and cooperation of environmental services, by implementing and building on the agreed Environmental Services Action Plan (ESAP).

Responsibility: GOS

Business Assessment:

There has been dialogue but no agreement to regional action. APEC may have broken the back of the work required for a potential future outcome at multilateral level but regional barriers to trade in environmental services remain high and business expects more immediate APEC action. ABAC supports the general thrust of the proposals in the ESAP Review Report but considers them insufficient to achieve the Roadmap goals. Work on environmental services should be prioritized for the second half of the implementation period.

Business Recommendations:

1. ABAC recommends that APEC shift beyond efforts to agree on analytical definitions and adopt a more practical, experimental learning-by-doing approach. APEC should start developing the basic policy tools required for regional facilitation of services incidental – indeed indispensable - to green growth outcomes.
2. Tools for monitoring barriers and assessing trade costs: ABAC recommends that APEC collaborate with the OECD to develop for the APEC region an APEC/OECD Green Services Trade Index time series.
3. Self-judging tools for Regulatory Review: ABAC calls on all APEC economies to ensure that consultation with the business community is intrinsic to any domestic regulatory review.
4. Capacity-building tools: ABAC recommends that APEC build on the Non-Binding Principles for Domestic Regulation of Services Sectors and conduct awareness-raising activities on the content, not just the principles and processes, 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 specifically for environmental adaptation and mitigation services.
5. ABAC recommends a dedicated PPD on this and other specific environment-related services such as the built environment, or a session on specific environment-related services in the context of a SOM level PPD on Services Competitiveness.

Liberalization of environment goods and services was part of the WTO Doha Development Agenda and has long been seen as relevant in APEC to pursuit of new growth strategies. But no traction has yet been achieved in any forum to take these objectives forward. This is partly because of narrowness of the GATS definition of environmental services as CPC94. Yet regional business experiences very high trade barriers, especially across renewable wind and water energy related services as well as professional and business services such as architecture, engineering and environmental consulting. Regional businesses also experience demand side constraints demand side constraints where environmental regulation is not in place. APEC needs to hear the business perspective and to be reminded that business expects

action in addition to dialogue; action that delivers regional connectivity outcomes so that business links can grow.

The 2020 Review Report to the GOS¹⁸ claimed that although APEC-wide alignment on trade in environmental services has so far proved elusive, the ESAP work program has equipped APEC economies to try again in Geneva. Some APEC economies now appear to be doing just that. The Report also stated that even if international agreements don't materialise, the potential is there for APEC to support greater internationalization of environmental services through domestic regulation. The Report proposed new capacity building activities on good regulatory practices in environmental licensing and approval processes.

These outcomes from ESAP bring APEC full circle back to the key underlying principles of the Services Competitiveness Roadmap. Future work should be firmly focussed on encouraging and complementing implementation in each APEC economy of the APEC Non-Binding Principles on Domestic Regulation. ABAC supports development of an APEC framework under which economies can conduct self-reviews and make self-judgements of their regulatory regimes which impact on environmental services providers – and ABAC stresses the importance of such reviews being undertaken in full consultation with services stakeholders including the business community.

The objective should be to enhance competitiveness, facilitate internationalization of this services sub-sector and develop a better shared understanding of the barriers to trade. Such work cannot proceed with any expectation of success without intense interaction with business stakeholders. With respect to APEC PPD, ABAC notes that PPD at any lower level of official engagement than SOM is unlikely to attract face-to face business participation, including from the SME sector which is dominant in environmental services provision.

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Concerted Action Item 7. Progressive liberalization and facilitation of manufacturing-related services, by implementing and building upon under the agreed Manufacturing Related Services Action Plan (MSAP).

Responsibility: GOS

Business Assessment:

From a business perspective, APEC's focus on manufacturing-related services has paid off. There have been slow but progressive and measurable improvements in the regional business environment, enabling the geographic locus of "Factory Asia" to extend further across the region. Despite Covid-19, manufacturing GVC activity in the region remains robust. APEC economy awareness and policy understanding of the competitiveness implications of "servicification" of manufacturing across APEC economies nevertheless remains poor. Further work is needed on domestic regulatory inefficiencies and obstacles to commercial presence over 2021-2025.

Business Recommendations

41. ABAC recommends introduction of a PPD Series on Implications of Regional Servicification. The first in the series would focus on Modern Manufacturing.
42. ABAC calls for further work on domestic regulatory inefficiencies and obstacles to commercial presence over 2021-2025.

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With much prescient understanding of business realities and the workings of regional value chains, the MSAP was an early precursor of the Services Competitiveness Roadmap. This 2014 initiative was a “next generation trade and investment issue” explicitly adopted to reaffirm the 2009 APEC Principles for Cross-Border Trade in Services and to develop APEC’s contribution as an incubator of the FTAAP. It also complemented the Boracay Action Agenda to Globalize MSMEs and integrate them into GVCs. The very business-driven objective was to increase the availability and accessibility of services, through all stages of the manufacturing process and hence to deepen economic integration in the region.

The notion of manufacturing-related services has very broad scope - from pre manufacturing product R&D, design, engineering, raw materials procurement, logistics, technical testing, freight insurance, storage and warehousing, staff training, equipment installation – to manufacturing administration and management, basic machining, engineering services, warehousing services for intermediates, quality control, standards compliance and assurance – to post manufacturing packaging, warehousing, freight insurance, technical support, warranty, maintenance, repair and travel services pertaining to after-sales services.

The MSAP started with a series of case studies by the PSU analyzing the upgrading value-creation role of services in manufacturing and policy actions needed to foster services competitiveness. The case studies highlighted the pervasiveness of services in manufacturing and the strong growth potential for business and employment opportunities from increased foreign investment in services outsourcing (Mode 3). They also identified policy constraints such as foreign equity restrictions, visa requirements, intellectual property protection, lack of flexibility in labour markets and infrastructure bottlenecks.

As part of the MSAP Final Review Report in 2020¹⁹, APEC economies were asked to complete a survey: strong positive progress was reported by the 7 survey respondents (Hong Kong, China; Indonesia, Korea, Peru, Singapore, Chinese Taipei and Thailand). There was a marked paucity of concerted APEC action, compared to bilaterally negotiated action. MSAP has nevertheless seen impressive business results.

A Workshop on The Growing Importance of Manufacturing Related Services is planned in New Zealand in 2021. ABAC strongly advises against effort to establish a formal definition of manufacturing-related services. Nor does ABAC advise inclusion in the Pilot APEC/OECD Index of any specific indicator on manufacturing-related services, just as ABAC advises against an APEC specific indicator on agriculture/food system-related services. The reality is that manufacturing-related services capture the full range of services deployed across the entire economy, in the process known as servicification.

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Concerted Action Item 8: Supporting cooperation in the education sector including promoting internship schemes, overseas student exchange programs, and collaborative policy studies, as well as, in accordance with domestic education systems, information sharing pertinent to economies’ education standards, qualifications and credit systems and measures to explore mutual recognition (learning from measures such as the ASEAN Qualifications Reference Framework).

Responsibility: Human Resource Development Working Group (HRDWG)

Business Assessment:

Much dedicated and commendable project work is underway including of a capacity building nature especially under the Action Plan associated with APEC's Education Strategy 2016-2030.

Business recommendations:

1. To enhance the collaborative mobility aspects of the work, ABAC recommends establishment of an “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.

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Concerted Action Item 9. Collaboration in responding to the rapid developments in internet-based technology to promote a regulatory approach that provides appropriate prudential oversight, legitimate consumer and security protections while enabling the flow of trade-related data in the context of an increasingly digitalized world.

Responsibility: Digital Economy Steering Group

Business Assessment:

ABAC welcomes progress on building a data base on barriers to cross border trade-related data flow and establishment of an APEC Digital Innovation Sub Fund.

Business Recommendations:

1. ABAC calls for an intensification of collaborative work on digital standards development
2. ABAC encourages all APEC economies to adopt the Cross Border Privacy Rules to facilitate business take-up
3. 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 international governance.
4. ABAC recommends APEC adoption and utilization of ABAC's proposed APEC/OECD Digital Services Trade Convergence Index to monitor progress towards more a more seamless regional market.
5. ABAC recommends a joint meeting of, and 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 20 on “E-Services”**.

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Concerted Action Item 10: Supporting certain cross-border provision of financial services subject to practical needs, domestic circumstances and regulations of each economy, including by engagement by interested economies in the building on the Asia Region Funds Passport initiative.

Responsibility: Finance Ministers Process (FMP)

Business Assessment:

There is no mention of the APEC Services Competitiveness Roadmap in the 4 priority areas and activities of the 2019 FMP Workplan, though the emphasis on boosting integration of financial markets through the digital economy and closing the gap on financial inclusion through digitalization have potential to deliver support to cross border provision of financial services. Regional businesses are concerned about the slow uptake among APEC economies of the Asian Region Funds Passport, let alone efforts to build upon it.

Business Recommendations:

1. ABAC proposes that FMP focus more closely on e-payments ecosystem development and regulatory cooperation.
2. 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.
3. ABAC recommends the GOS conduct a collaborative capacity-building activity on implementation of the Non-Binding Principles on Domestic Regulation that specifically focuses on financial services regulation.

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Concerted Action Item 11: Supporting APEC’s work on developing air, sea and land transportation in line with the APEC Connectivity Blueprint 2015-2025.

Responsibility: Transport Working Group (TWG)

Business Assessment:

On the connectivity front, TWG activities are focused on formulation and implementation of standards and mechanisms that improve interoperability and sustainability of transport systems.

Business Recommendations:

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

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Concerted Action Item 12: Support APEC’s work on developing the travel and tourism sector for sustainable and inclusive growth, building on the work of the APEC Tourism Strategic Plan.

Responsibility: Tourism Working Group (TWG)

Business Assessment:

The TWG’s Strategic Plan 2020–2024, covers digital transformation, human capital development, travel and facilitation competitiveness, sustainable tourism and economic growth. There is close alignment in the Plan with APEC Services Competitiveness Roadmap objectives, but no explicit reference to the Roadmap, nor explicit reference to the role of the travel and tourism industries as part of the “services” sector or their contribution to regional services “trade”.

Business Recommendations:

1. Given the drastic impact of the Covid-w9 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.

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Concerted Action Item 13. Development of services data and statistics to measure and support implementation of the Roadmap and improve tracking of services trade and investment more broadly.

Responsibility: GOS

Business Assessment:

Much has been achieved at individual economy level, at regional level and at the global level by the international governmental organizations. ABAC congratulates APEC on completion of the pilot study for an APEC services trade restrictiveness indicator. ABAC recognizes the value and usefulness of the new APEC statistical instrument which has been created, with its APEC-specific weightings on the

importance for regional business stakeholders of the individual trade barriers being measured, with account taken of the APEC Business Travel Card (ABTC) as a preferential APEC liberalization measure, and with the creation of complementary APEC-specific tools such as the “Services Trade Opening-Up Index”.

Business Recommendations:

1. ABAC calls on APEC to continue its collaboration on the Pilot APEC Index with the OECD in the interest of extending the index to all APEC economies and all 22 services sectors covered by the OECD as soon as possible. This should be possible no later than mid 2022 for 14 more economies, bringing the total to 18 APEC economies.
2. 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.
3. Given ABAC’s special interest in monitoring the regulatory environment for emerging digital services such as online education and telemedicine, 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** (presented by ABAC in chapter 1) as a proxy indicator for monitoring APEC’s progress in regional business interoperability in cross-border online delivery of services (Mode 1).
4. 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.
5. 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.
6. With respect to TARGETS 2 and 3, ABAC recommends development of a 6 monthly **APEC Services Trade Barometer** for more continuous monitoring of progress.

There has been significant global focus on development of services trade statistics. The WTO has produced two new datasets; Balanced Bilateral Trade in Services (BATIS) and Trade in Services by Mode of Supply (TISMOS). The OECD/WTO TiVA data has been updated to 2015, the World Bank STRI has been incorporated into the WTO i-tip portal on Trade in Services, the OECD has issued its Digital STRI series, UNCTAD has produced global data on E commerce including digitally-deliverable services and the UN/OECD/WTO has produced a ground-breaking Handbook on Measuring Digital Trade. Since 2015, when the baseline indicators were developed, the OECD has added 3 APEC economies - Malaysia, Peru and Thailand – into the OECD STRI dataset and the data for China PRC has been verified. Singapore and the Philippines are expected to be added into the dataset during 2021. And by the end of the year, the DSTRI is expected to be available for all APEC economies except Papua New Guinea. This amounts to very significant progress.

At APEC level, GOS-sponsored services trade statistics capacity building activities have intensified and the GOS held a Technical Group Meeting with the OECD. As part of the “Final Push towards the Bogor Goals”, the GOS undertook a “Pilot Program for Measuring the Regulatory Environment of Services Trade in the APEC region” in collaboration with the OECD. Four economies (Chile, Peru, Chinese Taipei and Vietnam) participated in development of the pilot measurement index, which covers the computer, telecommunications, distribution and logistics (storage and warehousing) sectors. Significant innovations were achieved in the technical specifications and complementary indicators developed to ensure the pilot index is genuinely APEC specific. For example, given that

ABTC holders have essentially visa-free access to participating economies that grant pre-clearance, visa restrictions on mode 4 are scored non-restrictive for participating economies across all 4 services sectors covered.

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Concerted Action Item 14. Progressive facilitation of services to improve the regional food system to ensure access to safe, high quality food supplies across the Asia-Pacific.

Responsibility: Policy Partnership for Food System (PPFS)

Business Assessment:

ABAC notes the publication in 2017 of “Role of Digital Payments in Agriculture and Food Security”.

Business Recommendations:

1. ABAC proposes Introduction of a PPD Series on Implications of Regional Servicification, with a session on Value-added Agriculture.

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Concerted Action Item 15. Strengthen domestic and regional energy security and lower the carbon intensity of energy supply and use across region.

Responsibility: Energy Working Group (EWG)

Business Assessment:

Activity has focused on energy security.

Business Recommendations:

1. ABAC suggests a refocus of attention from energy security to energy services efficiency and innovation – both energy generation and distribution

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Concerted Action Item 16: Examination of the impact of the Next Generation Trade and Investment Issues on Mode 3 Trade in Services.

Responsibility: Investment Experts Group (IEG)

Business Assessment:

It remains an ongoing high business priority to free up barriers to commercial presence, which are clearly shown in all APEC/OECD Services Trade Restrictiveness Indices to dominate the barriers to trade in services. Attracting investment flows into APEC economies is a top priority for the post pandemic recovery.

Business Recommendations:

43. ABAC suggests utilization of the APEC Pilot STRI 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 chosen for inclusion in the APEC Pilot STRI should include at least one sector where constraints on foreign entry are dominant, such as commercial banking or accountancy.

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Concerted Action Item 17. Supporting the development of innovative MSMEs and their participation in the Digital Economy under the SMEWG Strategic Action Plan.

Responsibility: SME Working Group (SMEWG)

Business Assessment:

The SMEWG has not prioritized attention to services SMES, preferring a horizontal approach.

Business Recommendations:

1. ABAC proposes that this action item be integrated with item 19 on Services Innovation and action be refocused on developing collaborative entrepreneurial innovation ecosystems to facilitate SME uptake of digital technologies.
2. ABAC recommends that while action undertaken will require collaboration across APEC fora, responsibility for this combined action should fall to the Economic Committee, given the focus on Innovation and on Digitalization of MSMEs in the EAASA.

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Concerted Action Item 18. Enhancing ICT infrastructure and services to support economic growth.

Responsibility: Telecommunications Working Group (TELWG)

Business Assessment:

ABAC notes the improvements in ICT Infrastructure and connectivity made by individual economies as measured by the STRI and D-STRI. But progress is uneven across APEC economies, with some economies potentially losing competitiveness in services outsourcing. More concerted action is needed to ensure the increased level of regulatory cooperation which is required to build mechanisms for interoperability in the digital age.

Business Recommendations:

1. ABAC supports the TELWG Strategic Action Plan for 2021–2025, which includes ICT Infrastructure and Connectivity issues. ABAC recommends renewed focus on fast mobile broadband infrastructure and testing and deployment of 5G.

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Concerted Action Item 19. Development of an enabling environment for innovation activities including that of services to enhance their contribution to economic growth.

Responsibility: PPSTI

Business Assessment:

APEC struggled in 2016 to decide where responsibility for this action item should sit. ABAC notes that in 2019, Chile took the initiative of hosting the first APEC Services Innovation Summit. A variety of APEC fora have meanwhile contributed strongly to the essential objective. The TPTWG, for example, has been very focused on identifying opportunities to collaborate in maximizing the opportunities, benefits and uptake of technological innovations, including autonomous transport and unmanned aerial systems. The EC is similarly redirecting its focus of attention also to innovation.

Business Recommendations:

1. To enhance the services dimension across a number of action items, ABAC recommends integration of action item 17 (MSME integration in the digital economy) and refocus attention on developing entrepreneurial innovation ecosystems to facilitate MSME and SME uptake of digital technologies.
 2. The integrated set of actions require collaborative spread across across a wider set of APEC fora – but ultimate responsibility should be reallocated to the Economic Committee given the synergies with the updated objectives of EAASA.
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In addition to concerted action on all the above fronts, the Roadmap called for all APEC economies to make progress on services competitiveness through their Individual Action Plans. Having already looked at most APEC economies in some detail in Chapter 2, ABAC draws attention to one specific recent industry-led development, which the APSC has been monitoring, including at the last ABAC/APSC PPD on Services in Jakarta 2019.

Figure 14: Recent Individual Action: Australia’s Services Exports Action Plan, 2021



Of interest here is the extent of engagement, over a prolonged period of time, first with the OECD to assemble an evidence base on the competitiveness of Australia’s services industries and diagnose the deficiencies and then with domestic industry representatives, to determine what should be done.

Business input delivered as many as 72 recommendations for policy reform. After an intensive domestic inter-agency consultation process, the final Services Export Action Plan was launched in March 2021. This is Australia’s first ever national strategy for the services sector. The box below describes its origins in the APEC Services Competitiveness Roadmap, its evolution and the processes involved. For business and for government, it highlights the benefits of dialogue and consultation. It provides a useful potential case study for capacity building and awareness raising in the region.

Box 13: Australia's Services Export Action Plan, 2021

In follow-up individual action to implement the APEC Services Competitiveness Roadmap, Australia commissioned a comprehensive study by the OECD, which was undertaken in consultation with Australian business stakeholders and published in 2018.

In April 2019 the APSC/ABAC PPD on Services, hosted by the Indonesian Services Dialogue in Jakarta, included a session providing the Australian Services Roundtable (ASR), the peak business body for the services industries in Australia, an opportunity to share with other APEC economies, in conjunction with the Australian Government, the follow-up domestic processes underway to utilize the findings in the OECD study. In December 2019, the initial consultation outcomes were published in two Services Export Action Plan (SEAP) documents, one outlining Industry's Recommendations and the other outlining the Government's Response to Industry.

During 2020, ASR completed some of its own action item undertakings under the SEAP by establishing an active, MSME-inclusive, Australian Digital Trade Forum and publishing and promoting an up-to-date 2020 Statistical Showcase of Australia's Services Industries. For its part, the Government published its first full set of Outwards Foreign Affiliates Trade in Services (FATS) statistics and deepened its business community and inter-agency regulatory consultations to cover a wider range of services sub-sectors.

In April 2021, the Australian Minister for Trade, Tourism and Investment launched the final Services Export Action Plan alongside the Australian Services Roundtable.

"The Services Export Action Plan (SEAP) is Australia's first coordinated national action agenda to boost services export performance. It signals official recognition that Australia is a services economy and that all Australian industries are dependent on knowledge-intensive services inputs for their own competitiveness."

James Angus Bond, ASR President

"..the development of this Services Exports Action Plan is a result of an innovative and unique partnership between government and industry. This partnership will continue with both government and industry working collaboratively to implement initiatives – starting with the 81 'actions' identified in this Action Plan."

Hon. Dan Tehan MP, Australian Minister for Trade, Tourism and Investment

Source: Business commentary from members of the Asia Pacific Services Coalition
See <https://www.dfat.gov.au/trade/services-and-digital-trade/services-exports-action-plan> and the new dedicated website www.services-exports.gov.au.

CHAPTER 5: NEW INITIATIVES FOR 2021-2025

Much has changed in the regional business environment over the last 4 years during which APEC has been implementing its Services Competitiveness Roadmap. Right across the region, the major structural shifts, accurately foreseen in APEC's commitments to work first on Global Value Chain connectivity and then on Services Competitiveness have been intensifying in pace and regional businesses have been radically adjusting their business models and modes of operation to accommodate and take advantage of the shifts.

The underlying productivity and technology-driven development, coined "servicification" in the Services Competitiveness Roadmap, first of manufacturing and then evidently of the whole economy, is now better understood as the vital first manifestation of the 4th Industrial Revolution i.e. the shift to digitalization of the economy. The trends are now even more evident to policy makers and businesses alike. The intensifying pace of structural change is unprecedented in APEC's history. During pandemic-generated lockdowns in 2020, the trends also became very clear on a daily basis to consumers, who became and will stay increasingly dependent on online delivery of health services, education and training services, leisure and sports apps, cultural, creative and entertainment services, all of which are dependent on ICT services, e-commerce services, computer services and e-payments services – the list goes on.

New digital technologies have brought down the costs associated with international business in services and vastly expanded the potential for cross-border services trade in the region. The task for 2021-2025 is to bring this potential to fruition.

"Factory Asia", meanwhile, has shifted from the Pearl River Delta to South East Asia. APEC's South East Asian member economies are now as big or even bigger hubs of global merchandise value chain activity than APEC's North East Asian member economies. This is especially so for Thailand, Vietnam, Malaysia and the Philippines. The driving forces were rising labor costs in North East Asia and business impetus to shift into higher value added activities with higher levels of services-intensity. The shift was enabled by reforms to allow greater opening to FDI and associated greater attention to efficiency of services delivery into merchandise value chains - via regulatory reforms both at the border and behind the border.

The key message behind the Services Competitiveness Roadmap was that policy attention on services competitiveness would be the key which unblocks binding barriers to competitiveness across all sectors of the economy. This reality is now visibly playing itself out in the APEC region. It is important to recall that this message on the importance of focusing on services competitiveness was a business-driven message. The Roadmap was the clear outcome of dedicated advocacy and call to action from both APEC's official observers.

Many other aspects of the business environment have also changed and continue to change. In the past, the notion of "internationalization" implied that businesses are born, nurtured and grown in domestic markets, learn (sometimes with export promotion assistance) to gravitate to foreign clients i.e. to export to and invest in foreign markets, including by entering global value chains. Today, new businesses everywhere are increasingly "born global" and "born digital". Once online, the distinction for business between domestic and international market becomes increasingly blurred, irrelevant and outdated. Mature businesses are gravitating as fast as they can to digital modes and start-ups are born online.

ABAC has shown multiple global indicators in Chapter 2 which leave no room for doubt that the regional business outlook is not as good as it should be - and could be with more coordinated APEC economy policy and regulatory responses.

Against that background, ABAC proposes **8 New Initiatives** and also offers a new **Business Partnership** to help bring the Services Competitiveness Roadmap goals to fruition. ABAC has some expectations in return, so it worth elaborating these up-front:

- Regional business robustness and resilience requires concerted APEC policy responses to the pandemic, and joint avoidance of inward-turning go-it-alone approaches to services industry and innovation policies.
- Regional business growth requires intensive efforts on the part of all APEC economies to make the reforms necessary to attract inward FDI in services. This is an urgent matter for post pandemic recovery.
- A top regional businesses priority is reversal of the current fragmentation of the regional market for cross-border online supply of services and associated cross-border data flows. This is a critical issue if the APEC region is to benefit from the productivity boost on offer from the 4th Industrial Revolution.
- Regional businesses expect APEC economies to commit to achieving high impact regulatory cooperation for cross-border regulatory interoperability, delivering actual trade cost reduction especially for services SMEs.
- Especially with respect to emerging digital technologies, regulatory cooperation should deliver a higher level of ex-ante regulatory homogeneity, reducing the need for ex-post efforts at establishing mutual recognition or equivalence.
- After a lockdown period, ABAC is keen to see reactivation of active APEC public-private dialogue in particular to improve regional understanding of “servicification” and the role of services in manufacturing, agriculture and mining.
- For the business community, the multilateral trading system embodied in the WTO, is the institutional safeguard of our legally bound right to global non-discrimination at the border and to national treatment behind the border. ABAC would like to see more concerted outreach efforts on the part of APEC economies to build critical mass on services trade reform at multilateral level. Currently this is visibly lacking. There is scope, across the breadth of the many WTO Joint Statement Initiatives for Structured Discussions underway, for APEC economies not just to take an interest and observe, but to dock-on and engage. The WTO JI on Services Domestic Regulation would seem an obvious place to start, given the synergies with the APEC Non-Binding Principles for Domestic Regulation of Services Sectors. Services businesses in APEC economies which are not yet participating are increasingly looking for explanations and asking their governments to step up. The WTO JSI on Trade-Related Aspects of E-Commerce is also seen by the regional business community as the ultimate answer to the digital market fragmentation which industry is experiencing; these negotiations deserve and need all APEC support.
- Finally, but most importantly, ABAC needs to see more frequent, more transparent, monitoring of Roadmap outcomes; celebration of apparent successes and explanation of apparent failures. This matters for ABAC outreach to the wider APEC business community. It requires an effort on APEC’s part to diminish the official silo mentality in related internal work streams. It requires closer alignment between EC and CTI activities. It requires an “All-of-APEC” approach to structural reform and to international trade and investment.

Against that background, and with those business expectations in mind, ABAC proposes 8 new initiatives for concerted APEC action on services, which would receive strong ABAC support. With the exception of the proposed new peer review process of services aspects of IAPs, ABAC sees these proposed actions as falling largely to CTI/GOS to implement; the outcomes of the “Final Push” having worked to strengthen ABAC confidence in that arena. Schematic elements of these 8 ideas and the rationale behind them are offered below. More detailed Concept Notes can be fleshed out with ABAC as may become required.

Action under some of these proposed new initiatives may have potential to be integrated under existing action items, in due course. But ABAC considers these 8 initiatives will also take APEC in new directions and has chosen not to integrate them as “Resets” of the 19 existing concerted action items. Newly announced APEC action on these 8 issues would be recognized by regional businesses as a step change in APEC’s determination to address modern 21st century services trade and investment matters.

For APEC consideration, ABAC offers 8 ideas for new action:

1. “Essential” Services

Recognizing the vital role that essential services play in allowing for the movement of medicines, medical supplies and equipment, agriculture and food products and other supplies, as well as in the distribution of vaccines, ABAC calls for concerted APEC action work to identify and resolve any unnecessary barriers to trade in 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 an APEC 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.

The pandemic has seen governments experiment with easing of regulations on remote health consultation and diagnosis. The objective was to enable both services providers and patients to adapt and go online in order to cope with lockdown. Governments are now addressing the extent to which these constraints need to go back into force. There is scope for joint regional reflection on the outcomes of such regulatory experimentation and sharing of best practices as the region prepares for post pandemic recovery. Most experimentation has taken place domestically but some new experience is also available on cross-border e-health services, and the cross-border data flow this might entail.

The regional medical professional community, and the regulatory agencies involved, also need to be better prepared for future shocks. APEC needs to commission a study to elicit lessons learned from the recent experience.

There are many aspects to the notion of safety in health provision but one key ingredient relates to qualifications assurance, accreditation and licensing of all medical staff and to mutual recognition in all the medical professional services sub sectors. It is important that these professions start to engage with each other at regional level. ABAC recognizes that

heterogeneity of regulations are binding constraints to cross-border wage arbitrage in the medical professions as in all professions, and this will impact just as much on online trade via mode 1 as professional mobility via mode 4. But APEC cannot afford to put this matter in the too hard basket. An open-ended conversation needs to begin. One early means of kickstarting such interaction is via capacity building and awareness-raising workshops, designed to build on the existing MRAs in the region.

The concept of effectiveness in health services provision is also a complex one, with human-centric aspects and technological aspects. It is vital that the APEC services trade community stay up to date with the implications of new digital technology applications to trade in commercial health services.

The health pandemic has overburdened most APEC economies public health authorities and systems and impacted on private health care. This is not just a domestic matter. Private health care services are big export items for many regional economies. Medical tourism of course, has been drastically impacted by the pandemic, as have a variety of off-shore aged care and other “silver” services in the region. APEC needs to commence a regional dialogue on what needs to be done to sustain and grow regional trade in health care services in the post pandemic more highly digitalized business environment.

3. E-Services

ABAC calls for concerted action to facilitate cross-border online delivery of a wider range of digitally-enabled services. An initiative on trade in digitally-enabled services is well overdue.

The data should speak for itself. UNCTAD shows that cross border e commerce in services completely dwarfs e commerce in goods, i.e. digitally-enabled and digitally-delivered services (e services) increasingly account for the bulk of digital trade²⁰. UNCTAD also shows that business-to-business (B2B) exchange is 6 to 10 times larger than business-to-consumer (B2C) e-commerce. E services traded online in services GVCs similarly dwarf e services traded online directly to end consumers.

UNCTAD takes this story further. In 2018, “digitally-deliverable” services exports amounted to USD2.9 trillion, or 50% of global services exports. Global exports of ICT and other “digitally-deliverable” services grew even faster (7%) in the last decade than overall services exports (6%). Knowledge-intensive business services exports (this includes B2B professional services) are by far the largest and fastest growing category, with a global value of USD1.2 trillion. The potential for digitalization of services trade is huge, which evidence for 2020 continues to confirm.

Meanwhile, APEC’s ongoing silo approach to work streams on Services on the one hand and Digital Trade on the other are not conducive to business-oriented outcomes oriented to achieving this potential. The first 4 years of Roadmap implementation have seen the silo mentality re-entrench itself rather than dissipate. Interaction between the work of the DESG and the GOS is minimal at best. It is high time for the CTI/GOS to get on with this work.

ABAC monitoring of Roadmap indicators shows clearly that digital policy interventions in many jurisdictions have been on average more constraining of e-services trade than liberalizing. Businesses understand the vital role governments must play in regulating to

²⁰ UNCTAD 2019

build and enhance citizen trust in online activity, including with respect to privacy, consumer protection and cybersecurity. But there is an evident and urgent need for greater cooperation across the region to help get the balance right in the interests of connectivity and business interoperability. This is very important to innovative regional businesses, whether they are large multinationals, medium, small or micro enterprises, start-ups, born digital female entrepreneurs or mature businesses gravitating to digital.

WTO Secretariat research shows there are relatively fewer mode 1 commitments in the GATS than for other modes²¹. A great deal of progress has been achieved, however, in opening up mode 1 via bilateral FTAs among APEC economies. A great deal of bilateral progress has also been made on other issues relevant to trade in digitally-enabled services. An opportunity would seem to exist for APEC to harness these outcomes at regional level.

It is important to stress that what is being proposed is not a work program on all e-commerce. This is about digital services - not about e-commerce for goods. This is where the big opportunities lie for all regional services providers and where the opportunities Baldwin identified for wage arbitrage and export growth exist.

Other international government bodies in the region are stepping up their own work, initially of a largely research and data-gathering nature. During 2021 both UN-ESCAP and the ADB will deliver major new pieces of research. The ADB Regional Integration Report for 2021 will be dedicated specifically to digital services. At last, this gap in the region's focus will start to be filled. ABAC proposes that APEC kick-start development of its own work program via a Symposium no later than early 2022 at which both UN-ESCAP and ADB can present their research findings to the APEC community.

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 potentially covered under any of existing Roadmap action items and have strong growth potential in regional markets.

APEC economies all need to prepare also for eventual multilateral work in similar areas. The place to start preparations is APEC. ABAC is not seeking to duplicate work already underway under APEC's Cross Border E-Commerce Facilitation Framework. ABAC is looking instead at filling a perceived current gap in the work stream and dedicating some regional resources and effort to facilitating regional trade in these specific e-commerce related services, on which all regional e-commerce depends.

5. Built Environment related Services

To date, APEC's work on engineering and architecture has focused on professional recognition. This work remains of high business priority but is now ripe for some strategic redirection. Similarly, APEC's work on environmental services needs some redirection in practical outcome-oriented directions. ABAC's Reset Recommendations propose a PPD focused on facilitation of trade in specific environment-related services such as environmental remediation and abatement services. ABAC also suggested built environment related services.

²¹ Roy 2020.

ABAC sees potential benefits from clustering of professional services such as engineering, surveying and architecture with construction services, all of which are very significantly impacted by new technologies, acutely aware of environmental regulation and very strongly focussed on sustainability. A PPD designed to raise awareness of regional excellence in the built environment related industries might help to incentivize regional MRA development in engineering and architecture as well as promote regional trade in construction services for sustainability purposes.

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

ABAC interest in facilitating services SME access into GVCs, along with ABAC's evaluation of the minimal outcomes achieved to date on concerted action 1 item, lead ABAC to propose a Reset of that action item in the direction of export promotion. To lead the way, ABAC proposes an initiative for a specific services sub-sector and a specific activity which a new business partnership with ABAC can help APEC deliver.

ABAC proposes that APEC join forces with business to deliver an export promotion event for the creative services, audio-visual, multimedia entertainment, gaming and cultural services sector.

ABAC recommends a B2B (GVC-oriented) APEC networking event, with business matching and a trade fair display in the context of a High-level APEC PPD on Trade Facilitation for Born Digital, Born Global SMEs and MSMEs. ABAC notes that an appropriate opportunity for such an event would be during an annual CEO Summit, where the trade promotion demonstration effect, as well as the business networking gains, can be significant.

7. Mining Services

ABAC is calling for a new APEC PPD Series on Regional Implications of Servicification delivered in partnership with business. ABAC sees this as an important channel through which to progress the objectives in a number of existing concerted action items. ABAC calls, in its Reset Recommendations, for such a PPD series to include a session on Modern Manufacturing and a session on Value-added Agriculture. ABAC also calls for a session to be included on Mining and Technology Services. The mining and minerals sector is of considerable importance to many APEC economies and this sector has experienced the same intensification of services value-added content as other merchandise sectors of the economy. Mining technology and equipment related services, including many embedded professional engineering and R&D services, have big growth potential in the region and deserve more regional policy attention.

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

Given the relative complexity of the exercise required to identify and review all the services-related aspects within all APEC economies' Individual Action Plans as well as the services aspects of RAASA's Individual Action Plans, ABAC proposes a vehicle through which this exercise might be simplified for the purposes on ongoing monitoring and final review of the ASCR in 2025.

ABAC suggests that a collective approach is essential. The final review report of RAASA provided findings on the RAASA-related Individual Action Plans, but no detail on the services aspects – if in fact there were any? It would improve transparency if the services aspects were separated out in a manner in which the business community could readily locate

them. This might be a task for the PSU. It would further improve transparency if the peer review process was more frequent.

ABAC therefore proposes that a dedicated, all APEC economies, 2 day peer review process take place, in 2012 and in 2014, to consider specifically the progress regarding the services dimensions of the IAPs. This would provide a considerable shortcut through the traditional peer review processes and assist APEC observers to participate. APEC recommends a single Secretariat document covering all the APEC economies; economy-specific notes should not be mandatory.

This initiative has the added value of engaging the new Business Partnership proposed by ABAC to enable not just academic input but also business input to the peer review processes which should be an opportunity to celebrate the success stories. Associated APEC media releases focused on progress made will help sustain APEC's strong stakeholder reputation.

These 8 ideas are initial ideas. As ABAC draws on the detail provided in this Mid-Term Review 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.

Ultimately, to bring the APEC average services trade restrictiveness down below the world average requires that APEC economies with above global average restrictiveness make additional reform efforts. APEC capacity building needs to be better geared to assisting those reform efforts. In the spirit of the business partnership offered, ABAC expresses its willingness to work hand-in-hand with individual economy sponsors of capacity building events. Services business representatives should be invited to participate in all such activities, from conception and design through to event delivery. The time and travel costs of achieving private sector participation are hugely reduced as a result of the new options which have now arisen for online and hybrid face-to-face and online event delivery.

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