PECC General Meeting Concurrent Session on Services

Washington, DC

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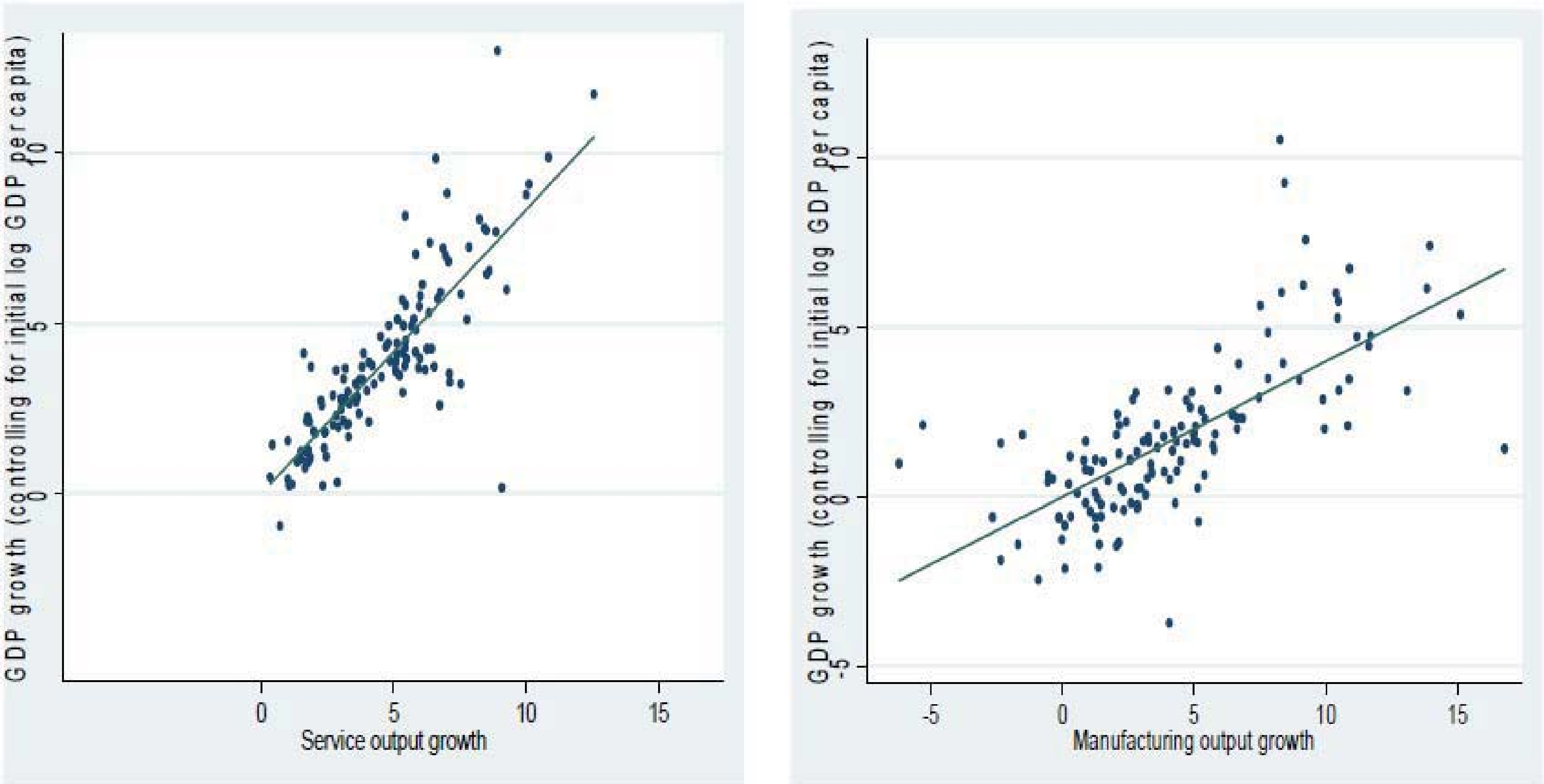
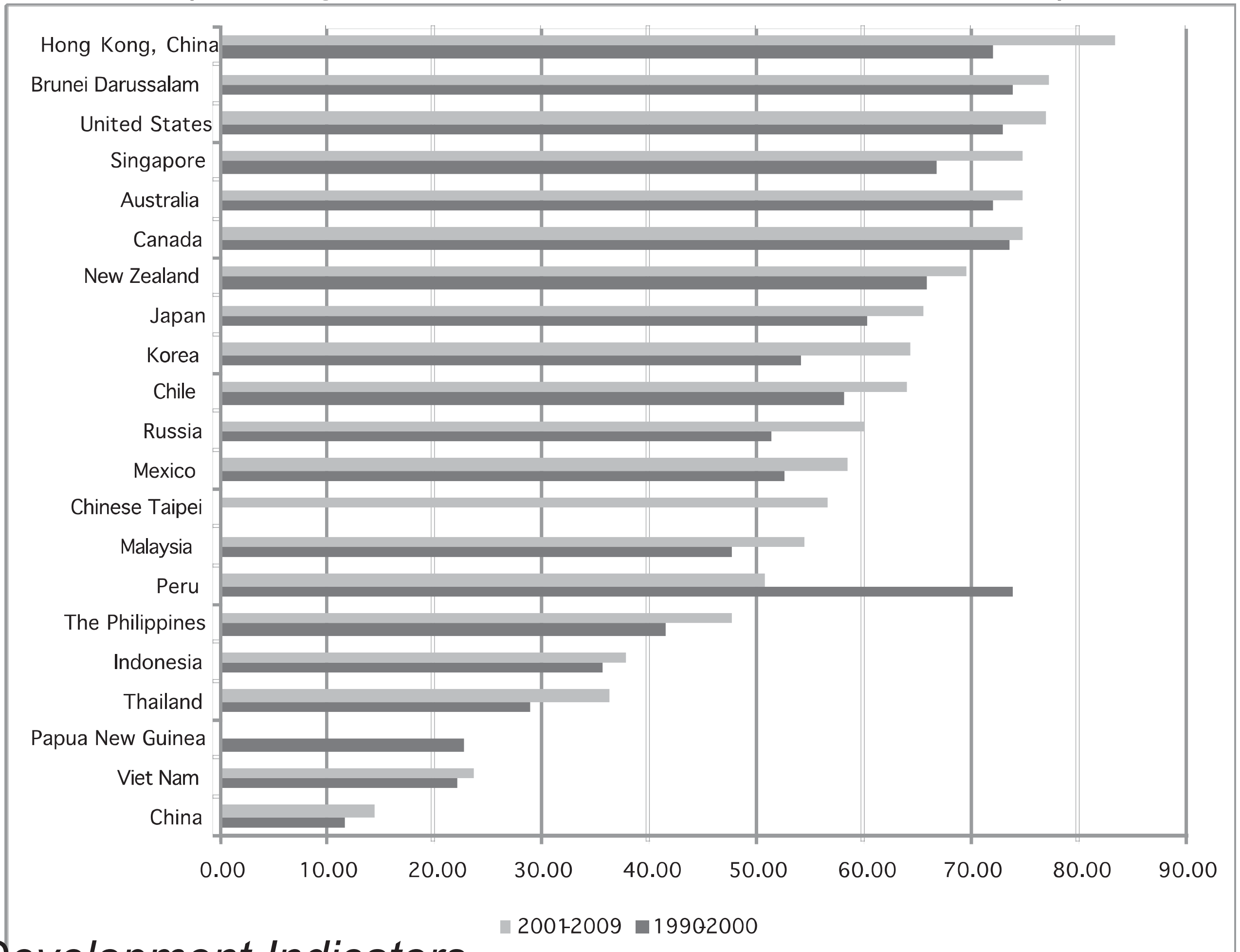
Services driving growth



Source: World Bank (2009), *The Service Revolution in South Asia*, Figure 1.3-4, p. 41

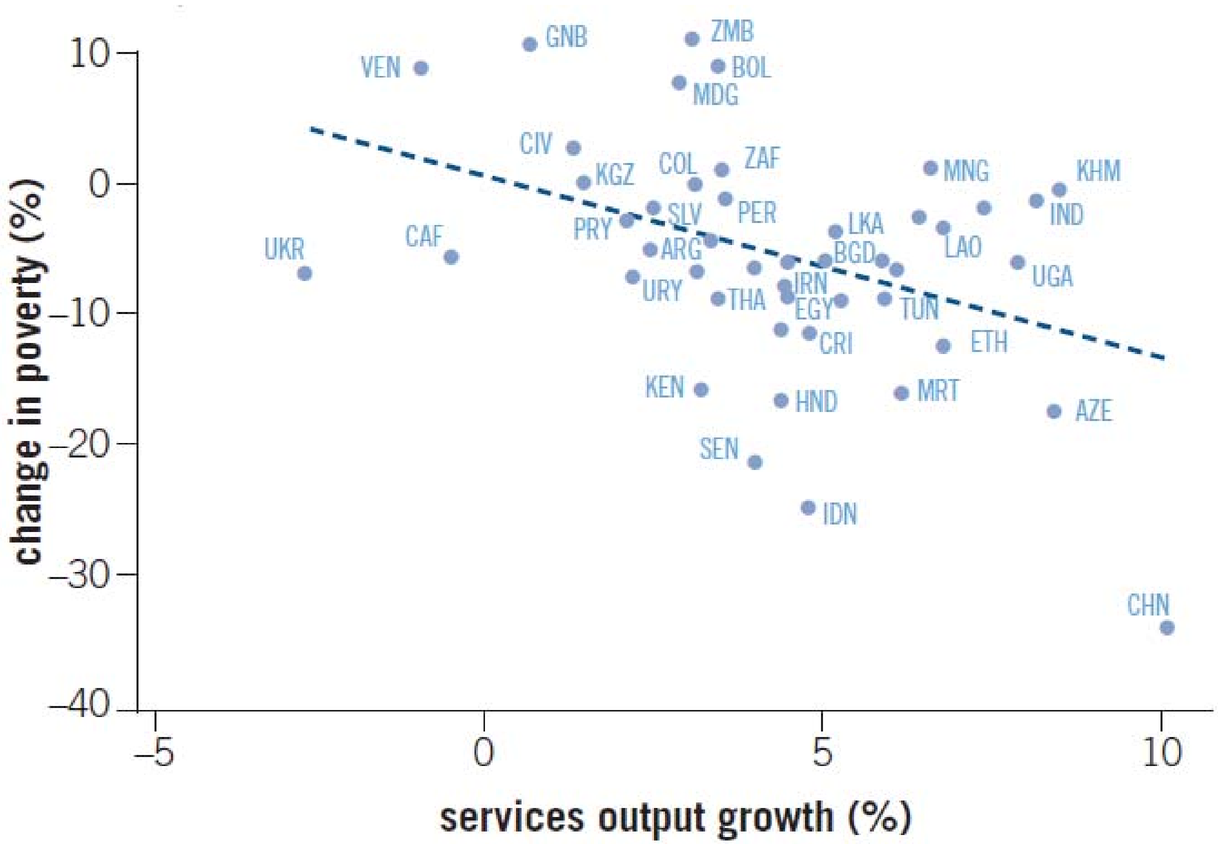
Services in Employment

(averaged over 1990-2000 and 2001-2009)



Source: World Development Indicators, from Atje and Mugiyani (2011)

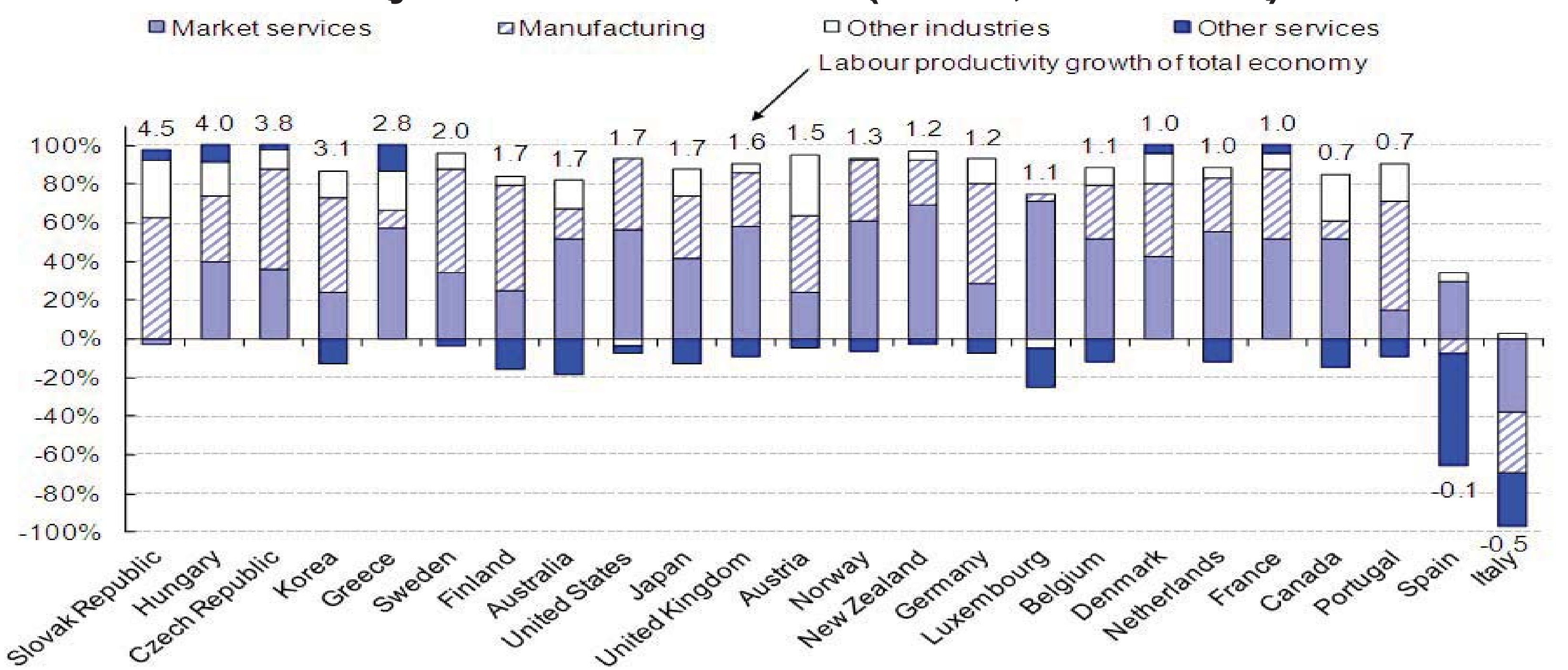
Services growth and poverty alleviation



Source: World Bank, *World Development Indicators.*

Productivity gains from services

Labor Productivity's Contribution to GDP Growth by the Service Sectors (OECD, 2000~2006)

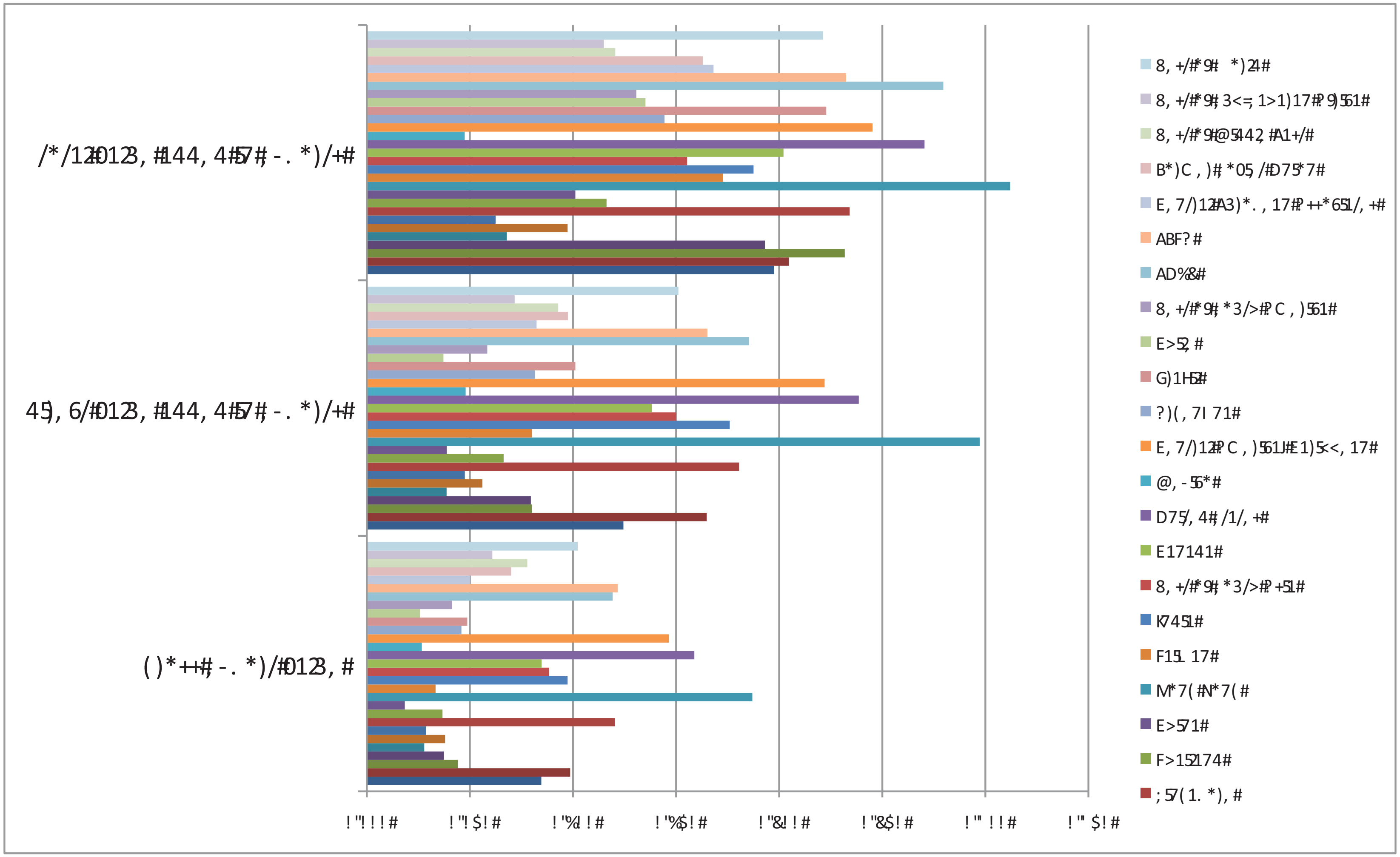


Source; Tcha (2011); OECD. The Sector Classification in this table is followed by the ISIC code.

•*Source*: OECD STAN Database, Criscuolo(2010)

Services in Production and Trade

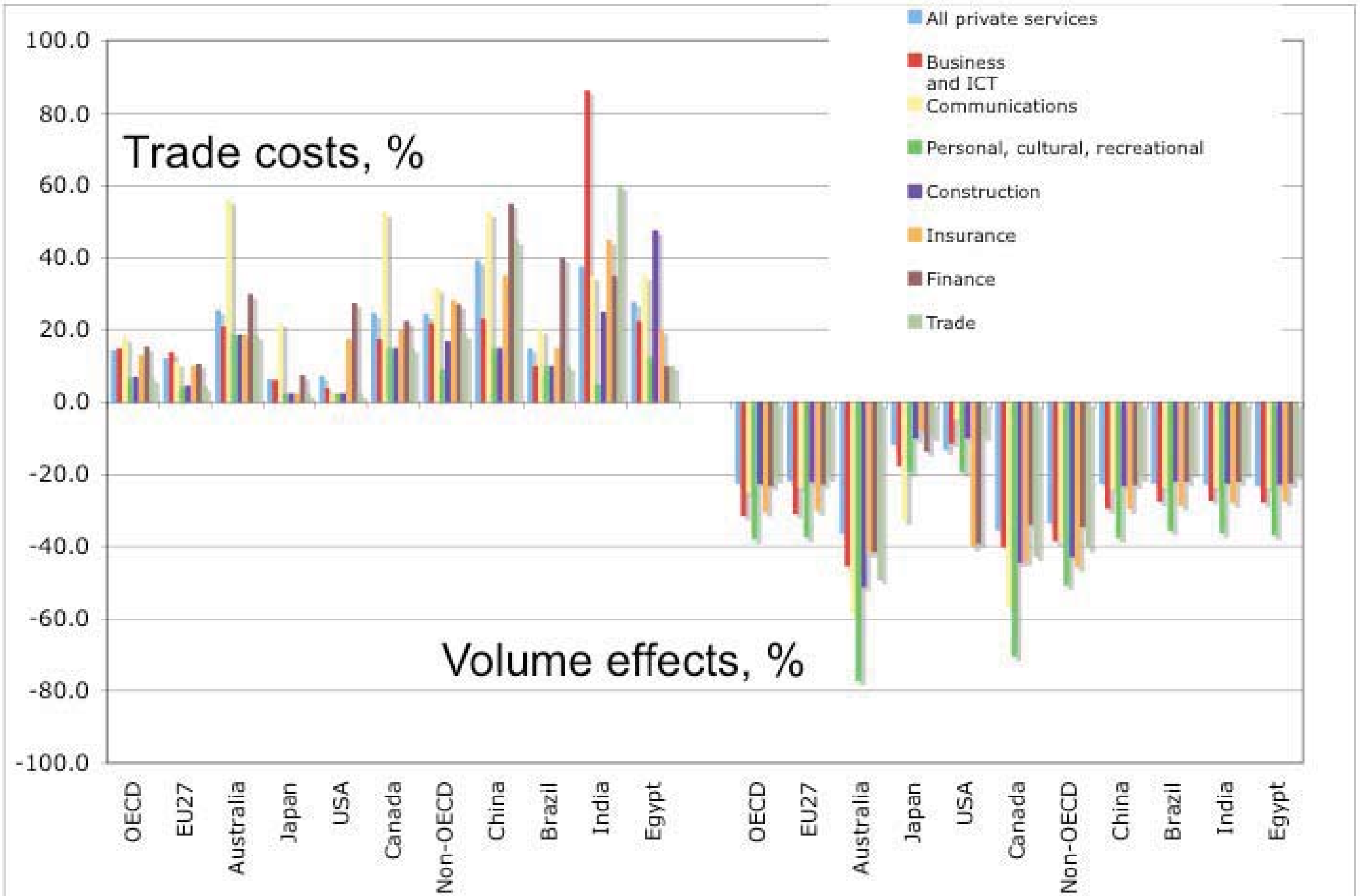
The share of services in exports, 2007



Source: Francois and Manchin (2011)

Impact of barriers to mode 3

OECD FDI regulation indices (proxy for mode 3) and trade volumes in services

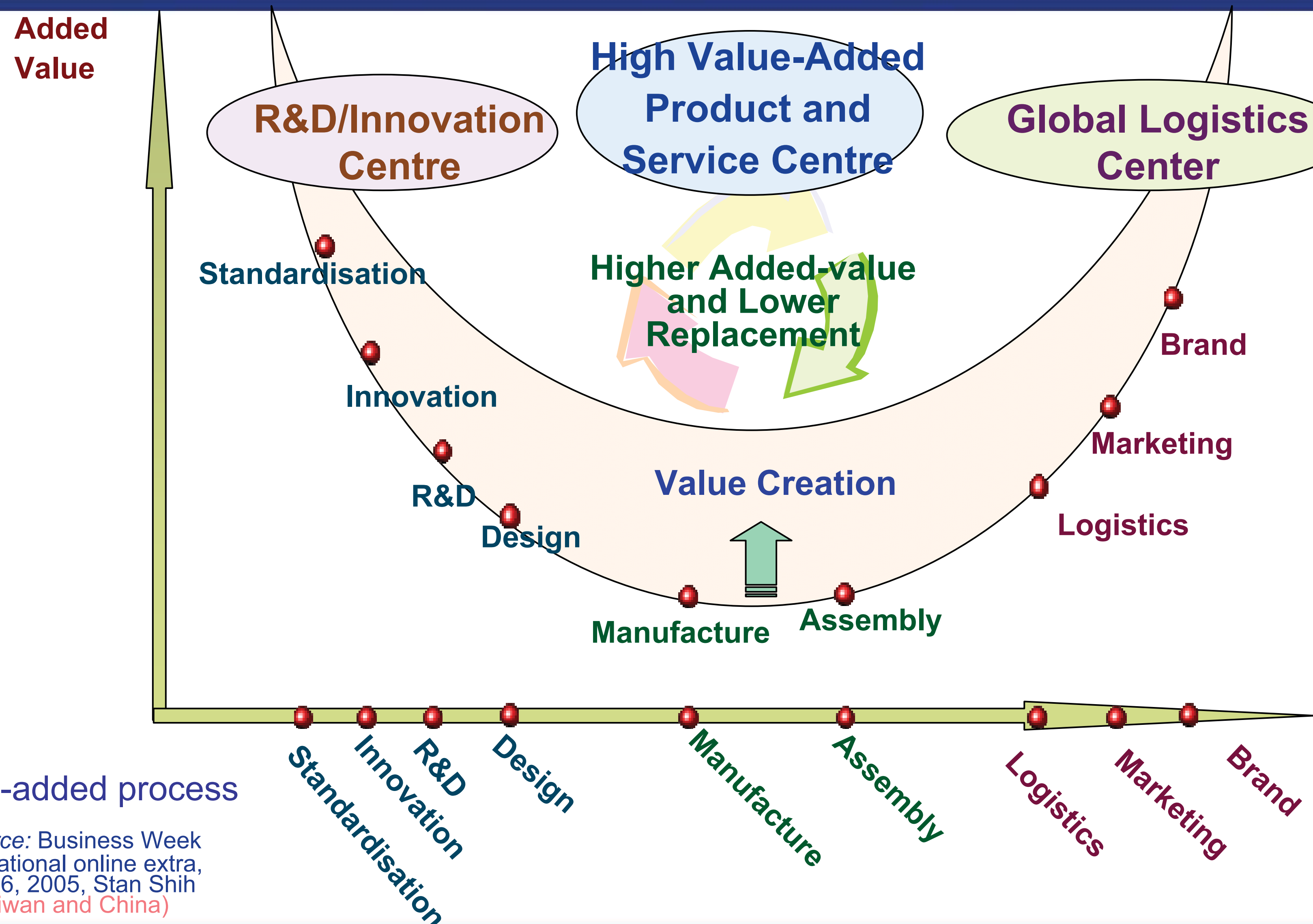


Source: Francois and Hoekman (2010), based on Table 4.5.

Services supply chains

- The application of enabling services such as telecommunications and IT has driven segmentation of goods supply chains into production units which can be dispersed geographically, and yet be connected
- The same thing is happening in services; for knowledge-intensive services industries where value can be "captured" and "stored" so that production can be separated from consumption and scaled up, the growth of cross-border digital trade is enabling development of services supply chains
- Any activity or cluster of activities (business functions) in the value chain can become a core competence, or be outsourced – most can also can be offshored, leading to new competitive opportunities for specialization
- The objective is to move up the value–added ladder and to engage in the highest value-adding "tasks", namely design, R&D, innovation and standardization –or logistics, marketing and brand.
- The model is known as the "**Smiley Face**"**,** the curve used by Acer Computer's CEO Stan Shih to convince Chinese Taipei to permit Acer laptops to be manufactured in China. Mr Shih said: "Hollowing out of tangible things is not critical. Hollowing out of intangible things is really critical."

“Smiley Face”: the shift to services

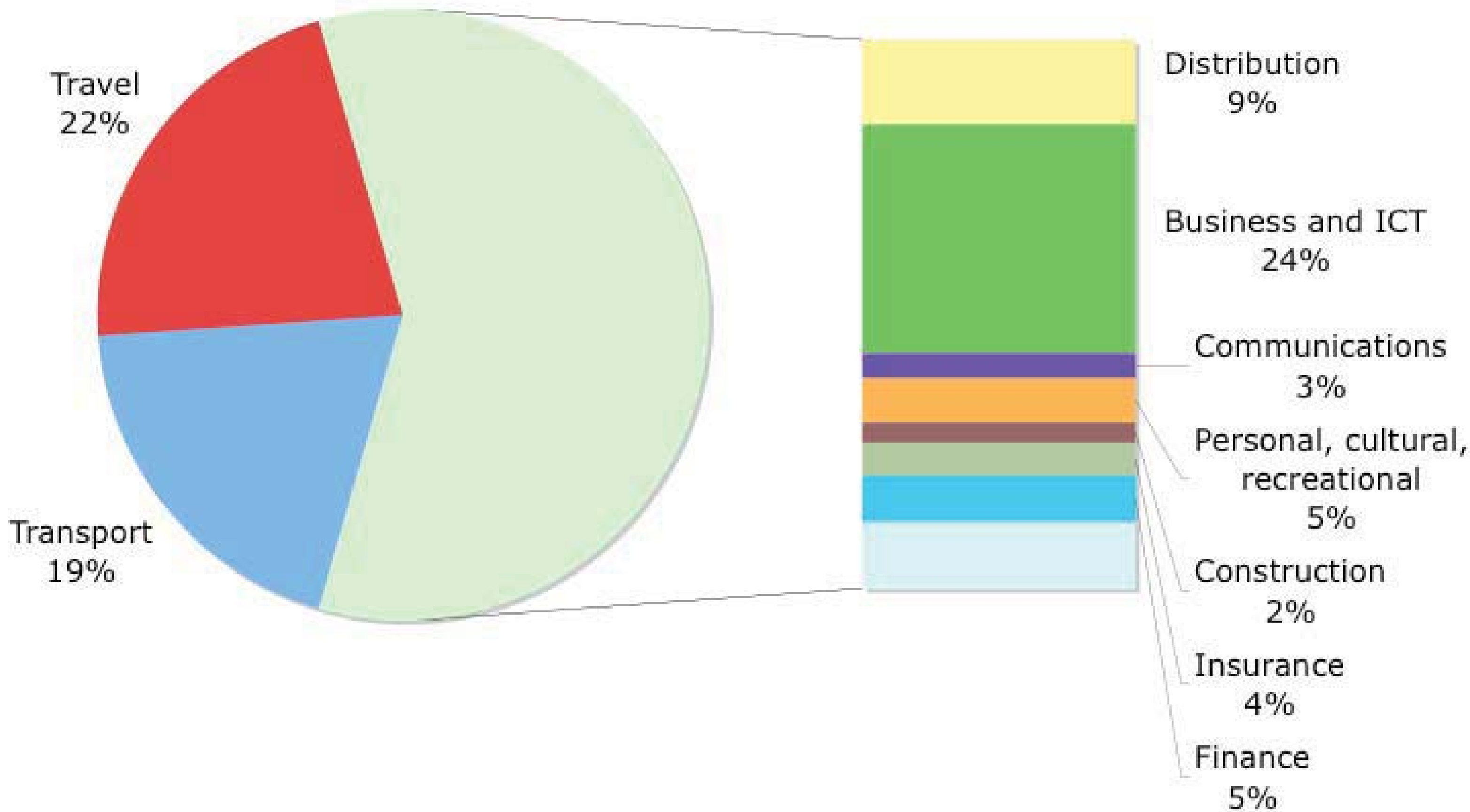


Value-added process

(*Source:* Business Week International online extra, May 16, 2005, Stan Shih on Taiwan and China)

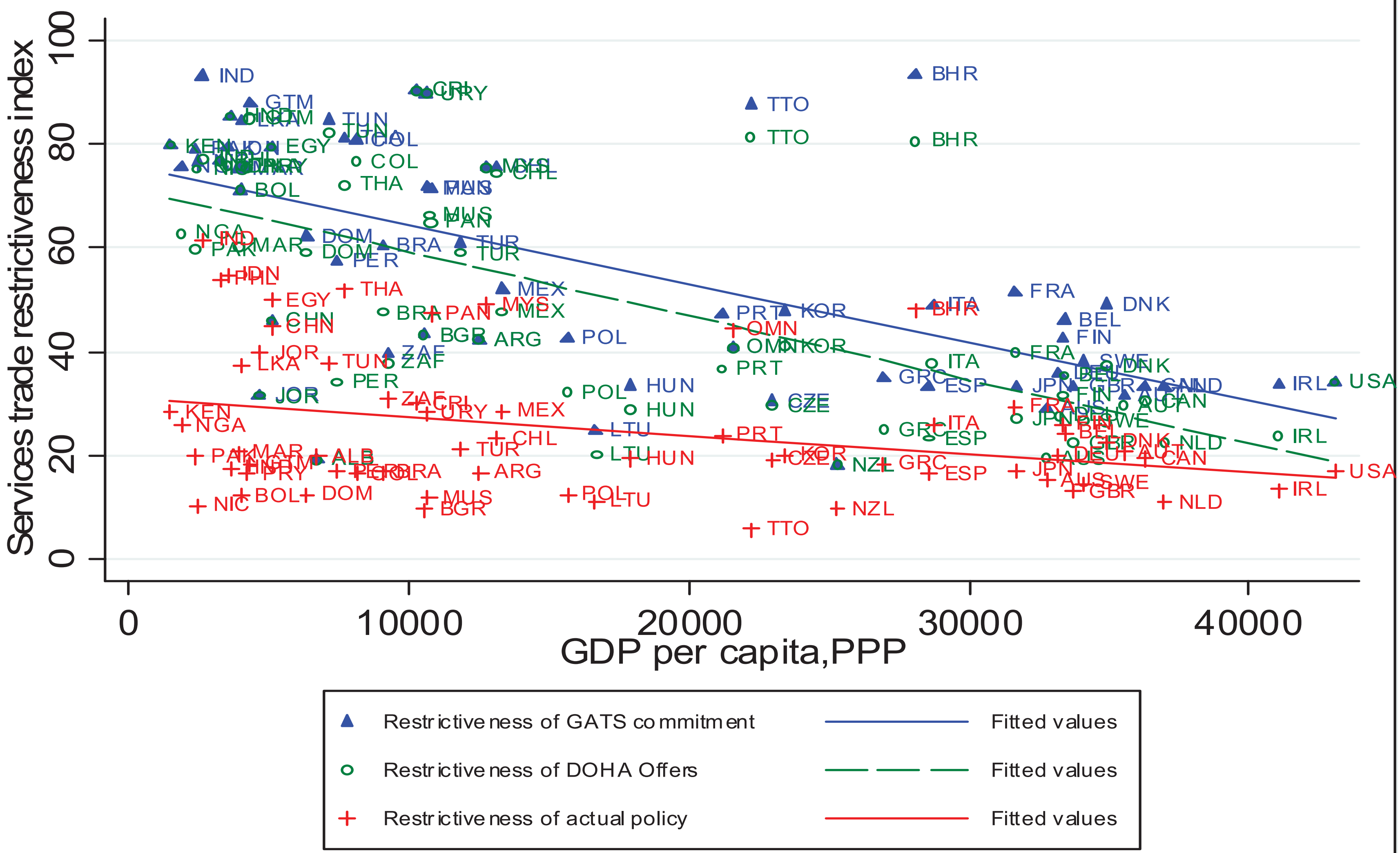
Composition of services trade

Composition of US service exports



Source: US BEA from Fancois 2011

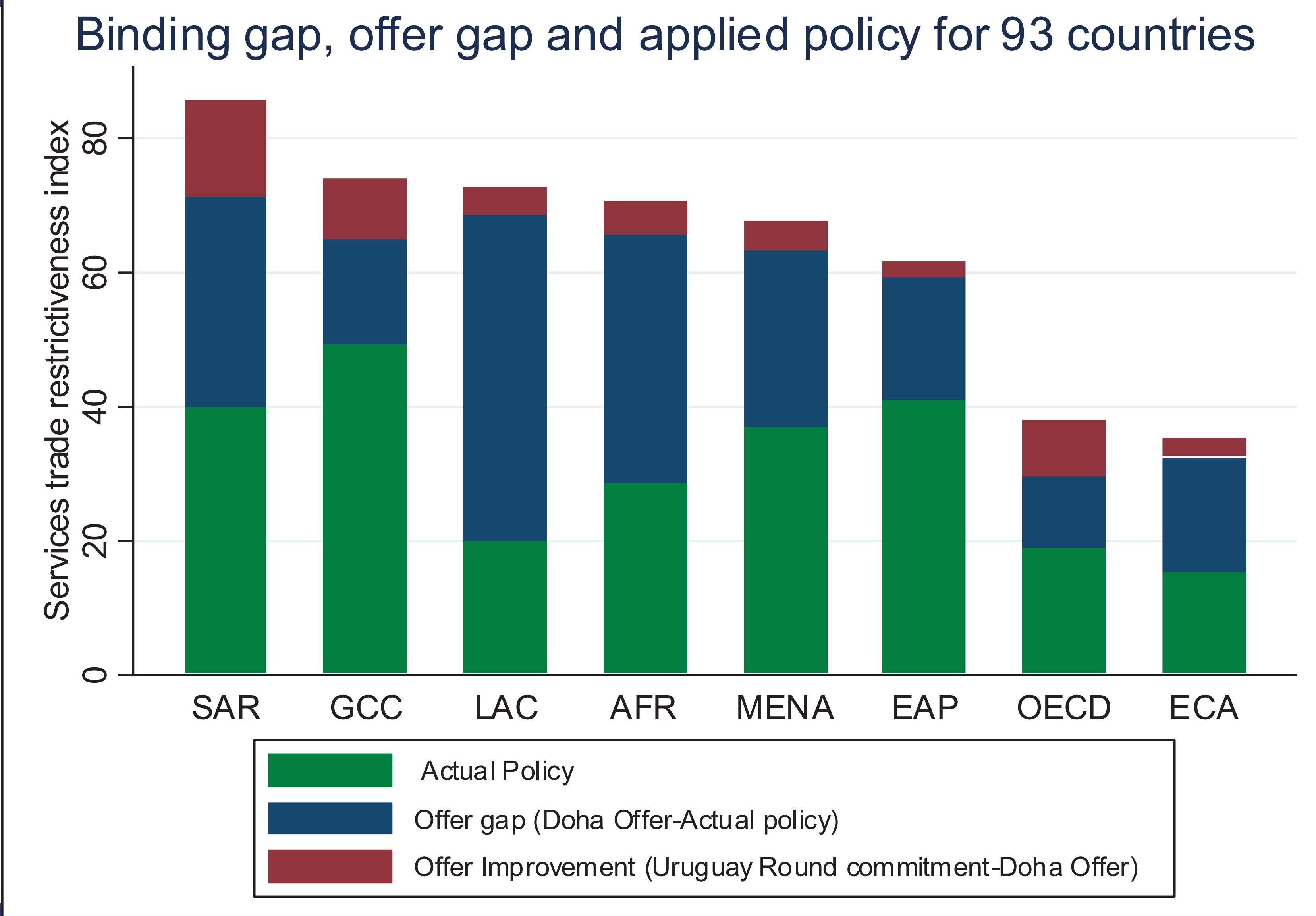
Uruguay Round Commitments, Doha Offers and Actual Policies



STRI for 61 countries, excluding Qatar and 31 countries that did not submit offers

Source: Borchert,Gootiiz, Mattoo 2010

UR commitments, Doha offers, and actual policies by region



How to make progress?

This tripartite work has mobilised thinking around two new proposed action agendas:

(1) negotiation of a cross-sectoral “Services Reference Paper”, modelled interalia on the WTO Telecommunications Reference Paper, setting out global principles for regulatory coherence in services.

(2) recommencement of stand-alone services negotiations in the WTO. Given that less than half the WTO members have made services offers in the DDA, new negotiations would need to be on a critical mass plurilateral basis.

How can APEC contribute?

(1) bring regulators together with business to consider principles for regulatory coherence in services, that could also generate interest and potential application beyond the region

(2) irrespective of any developments in the DDA,

- incubate the idea and
- provide leadership in building a “critical mass” of political will

for stand-alone services negotiations

Proposed outcomes from APEC 2011

- APEC 2011 needs visible concrete outcomes if it is to sustain regional business interest
- Its time for a “Services Initiative”, if not a “Services Trade Initiative”
- The APEC Leaders Statement should bring new depth and energy to APEC work on regulatory cooperation, including specifically to develop principles for regulatory coherence in services
- The APEC Trade Ministers Statement should look beyond the DDA and take the lead in calling for new negotiating processes, and flexibility with respect to negotiating modalities, including specifically in services