

PECC Panel Presentation

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ASEAN continuing commitment to services liberalisation under the AEC Blueprint

- Through consecutive rounds every two years until 2015
- Target to schedule minimum 10 new sub-sectors meeting threshold in 2008, 15 in 2010, 20 in 2012, 20 in 2014 and 7 in 2015*
- Modes 1 and 2:
 - To schedule “None” except for bona fide regulatory reasons e.g. public safety (subject to CCS decision)
- Targets: Mode 3 (Foreign Equity Participation)
 - Priority Sectors: 2008—51%, 2010—70%, 2013—70% (Logistics)
 - Other Sectors: 2008—49%, 2010—51%, 2015—70%
- Progressive Removal of Other Mode 3 MA Limitations by 2015
- Set Parameters of Liberalisation for Mode 3 NT, Mode 4, and Horizontal Limitations

*Counting of number of subsectors is based on GATS' MTN.GNS/W/120 classification

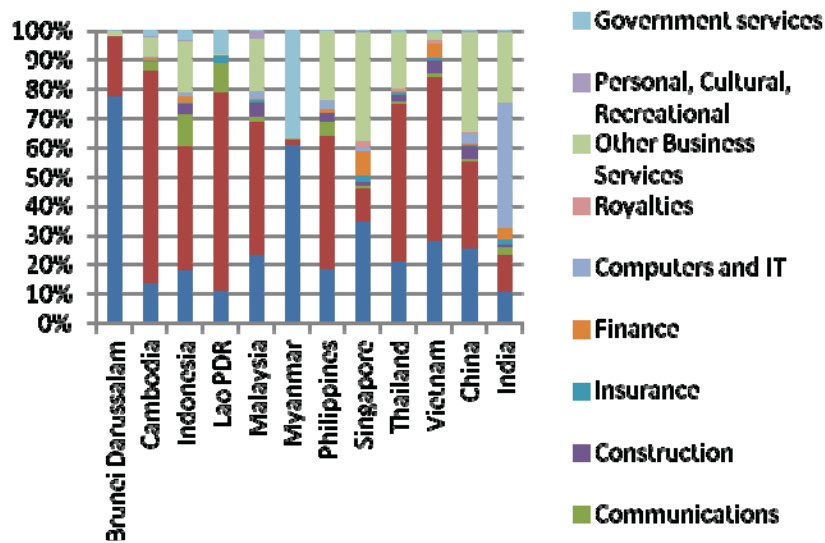
Additional Services Liberalisation Parameters

- In addition to the AEC Blueprint, the AEM has approved the following additional services liberalisation parameters:
 - Phasing out of non-equity Mode 3 Market Access (MA) limitations (39th AEM, August 2007)
 - Phasing out of Mode 3 National Treatment (NT) limitations (42nd AEM, August 2010)
 - Overall flexibility of 15% in services liberalisation (41st AEM, August 2009)
- *Negotiation on ASEAN Agreement on Movement of Natural Persons (MNP) is now taking place, which may affect Mode 4 liberalisation.

FTA/CEP help spur pace and quality of services integration in ASEAN

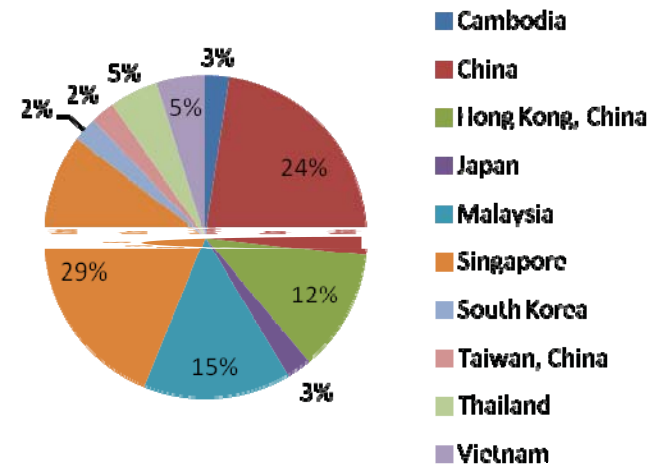
- Interplay between AFAS and FTA/CEP Liberalisation
 - FTAs/CEPs push AFAS process, and vice versa
- Completed trade in services agreements:
 - ASEAN-China: Signed on 17 January 2007 in Cebu
 - ASEAN-Korea: Signed on 21 November 2007 in Singapore
 - ASEAN-Australia-New Zealand: Signed on 27 February 2009 in Cha-am (Part of Single Undertaking under AANZFTA)
- Currently being negotiated:
 - ASEAN-India
 - ASEAN-Japan

Asian export of services



Sectoral breakdown of ASEAN +China and India services exports, 2008

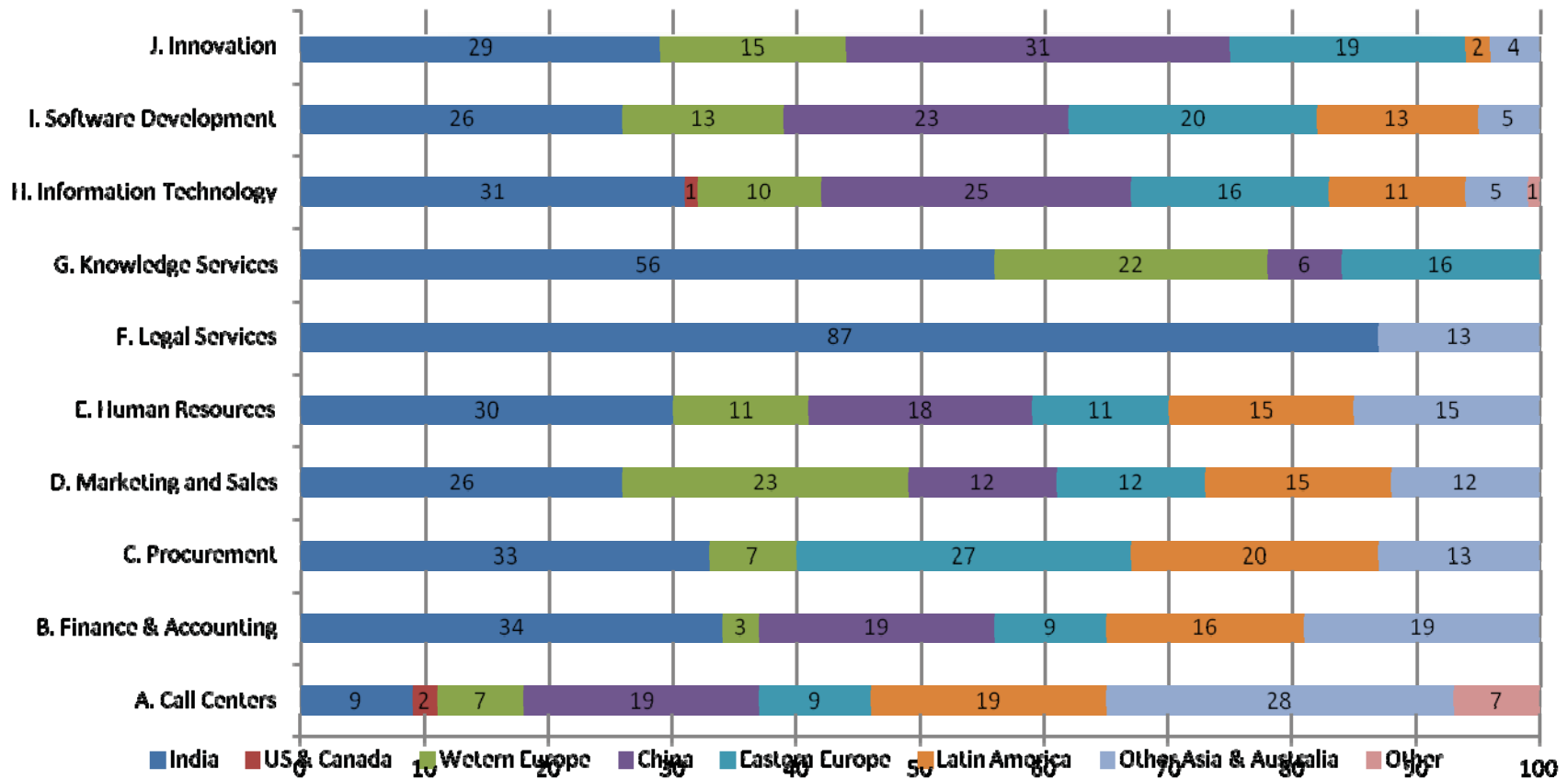
International branch campuses by Asian country as host (%)



Health Services Exports

	Export revenues	Number of patients	Origin of patients	Strengths
Malaysia	RM150 million (\$40 M) (2003)	More than 100,000 (2003) 400,000 (2005)	60% Indonesia, 10% other ASEAN	Cardiology, cardio-thoracic surgery, cosmetic surgery
Singapore	\$420 million (2002)	210,000 (2002) 370,000 (2005)	45% Indonesia, 20% Malaysia, 3% other ASEAN	Liver transplants, joint replacements, cardiac surgery
Thailand	Approx 20 billion baht (2003) (\$482 million)	470,000 (2001), 630,000 (2002) 1.25 million (2005)	42% from Far East (mostly Japan), 7% ASEAN	Cosmetic surgery, organ transplants, dental treatment, joint replacements
India	\$480 million (2005)	500,000 (2005)	Middle East, UK, Canada, developing countries	Cardiac surgery, joint replacements, eye surgery

Asia is also a favored destination for specific offshored services



Offshored functions by industry

Category Evaluated Against	Auto/Industrial/ Manufacturing	Financial Services	Consumer & Media	Technology & Telecom	Health/Pharma/ Biotech
Major Business Functions Offshored (other than IT)	Engineering, Finance & Accounting, Marketing & Sales, Product Design.	Call Center, Other Back Office.	Finance & Accounting, Product Design.	R&D, Call Centers.	R&D, Call Centers.
Major Drivers of Offshoring (other than labor cost savings)	Part of a larger global strategy. Redesign business process.	Speed to market. Growth strategy.	Access to qualified personnel. Differential strategy.	Growth strategy. Access to qualified personnel.	Part of global strategy. Industry practice.
Percentage of Offshore Implementations Leading to Job Loss Achieved Savings from Offshoring	34% 50%	47% 39%	53% 32%	26% 37%	21% 34%
Drivers of Offshoring Location Choice (other than low labor cost)	Location of existing business operations.	Location of best service provider. Quality of infrastructure.	Labor pool expertise. Quality of infrastructure.	Political stability. Government incentives.	Expertise. Quality of infrastructure.
Top Offshoring Locations	India and China.	India and Latin America.	India, Philippines, Latin America, Western Europe.	India, China, Latin America, Eastern Europe.	India, China, Africa/Middle East.
Perceived Offshoring Risks	Service quality. Data security.	Internal corporate culture buy-in.	Lack of customer acceptance.	Lack of customer acceptance.	Service Quality Cultural differences.

Labor impact of offshoring is minimal ^{a/}

- To date, there is little evidence of trade in services influencing labor market outcomes.
- Net employment growth in the average tradable service activities is roughly the same as net employment growth in nontradable service activities.
- Median wage growth in tradable service occupations is nearly equal to wage growth in the average nontradable occupation.
- Rates of job displacement in tradable service activities are no greater than nontradable service activities

a/ Jensen and Kletzer (2008). Peterson Institute Policy Brief

“Law of comparative advantage” remains in effect for service offshoring

- Most commentators on the offshoring issue focus on the jobs that will be “lost” to offshoring but neglect that the United States has comparative advantage in many service activities.
- Increased exports of services (and “inshoring”) are likely to benefit many US firms and workers.

Concluding remarks: importance of human capital growth

- The availability of a large pool of skilled human resources will determine success in capturing more offshored services. Need for investment in educational quality and in developing a large pool of skilled human capital.
- Merely offering lower costs will not be sustainable because corporate strategies are shifting from merely cost reduction to a labor force management strategy (i.e., access to talent).
- The competition for global talent will increase and governments will need to provide significant numbers of workers at premium quality. This means putting in place education incentives for students to take advanced science and engineering degrees, as these are likely to be highly demanded professions in the coming years.