

**REPORT TO APEC SENIOR OFFICIALS
PUBLIC PRIVATE DIALOGUE ON SERVICES
Information Technology and Business Process Management (IT-BPM),
Creative Industries, and Research and Development Services
Held on 3 February 2015
Eduardo Pedrosa, Secretary General, PECC**

On behalf of both ABAC and PECC we welcomed the opportunity to contribute to progress on APEC's work on services.

Key Messages

Analytical work shows how critical services are to development, inclusive growth, connectivity and economic integration. Developments in information and communications technology are minimizing the 'tyranny of distance' leading to an ever finer articulation of the global division of labor creating new possibilities for global trade – especially for small and micro enterprises.

Even a very small company can operate in multiple markets without having to invest in large infrastructures such as marketing and retail platforms.

The potential economic impact is enormous. Estimates suggest that this could be in the range of \$2.7 trillion to \$6.2 trillion annually by 2025. To give you context on how important this is, the estimates we have for the benefits of an FTAAP are around \$2 trillion.

Our level of understanding in the policy community remains limited. We were given an overview of what 'we don't know' about technological developments – and this is unfortunately a lot:

- There are 31 billion searches a month on Google alone in 2006 this was just 2.7 billion
- It took the radio 38 years to reach an audience of 50 million, it took the internet 4 years, it took Facebook just 2 years
- E-commerce has been growing at 40 percent a year for the last 5 years
- There are now 10 billion internet devices
- 90 percent of the world's data has been generated in the past 2 years.

For this reason the first Public Private Dialogue on Services for 2015 was focused on information and communication technology – we were fortunate to hear examples from some of the world's very biggest providers of services as well as smaller users of the services that they provide. The message was consistent - the digital revolution is transformative and it needs to be borderless.

The dialogue identified 5 disruptive technologies:

1. Cloud
2. Big data
3. Mobile internet
4. Social Media
5. Automation of knowledge work
6. I would add a 6th – 3D printing

We heard specific examples of how businesses are using these new technologies from banking to animation. While ICT may be seen as a vertical subset of services, they are also being used by all other services and are also a cross-cutting issue.

- The healthcare sector uses cross-border data flows to research and develop new medicines, conduct multisite clinical trials, and deliver medical care to remote locations
- Airlines, rail systems, and shipping companies rely on cross-border data flows to ensure the safe and efficient transportation of passengers and cargo around the world
- Financial firms use cross-border data flows to provide core products and services to customers, including credit card transactions, car insurance quotes, and stock exchange trades
- Mining, manufacturing and agriculture sectors use cross-border data flows to support global supply chains, monitor and improve product performance, and market goods and services

However, the business community warns that the development of the internet economy will be impeded if data does not flow freely. This would likely impact small and microenterprises the hardest – they are now beginning to adopt cloud computing with SME expenditure on cloud services in developed and emerging Asia Pacific in 2014 growing at an annual rate of around 42%.

One specific example of where the lack of regulatory cooperation and a seamless internet could constrain opportunities was how a small animation firm had to find a work around to get venture capital – because the international payment platform could not be used. While in this case a solution was found, there may be countless others whose innovation or work could not find funding.

While recognizing the need for regulations in this space to protect consumer interest and to encourage innovation and experimentation, it is clear that regulatory cooperation is essential if the benefits of this transformation are going to be realized.

Policy Environment

Our understanding of the policy environment is rapidly increasing with research being undertaken for example by the OECD on the Services Restrictiveness Index

(STRI) and as well by APEC in providing greater regulatory transparency through the STAR database.

One clear message that came through was that the greater the restrictions on services, the fewer people are able to benefit from its provision. For example, it is only those economies with the lowest scores on the STRI that have internet penetration approaching 100%. If we want people to benefit from these transformative technologies then more needs to be done to improve the regulatory environment.

However, not all APEC economies are covered by the STRI so it would greatly help further analytical work if all members were covered.

ICT and the Middle Income Trap

This technological revolution will be critical for all regional economies to achieve the goal of innovative growth as well as avoiding the middle income trap. Some key areas where improvements are needed to move towards a 'knowledge based economy' are:

- Critical role of government in leading early KBE development
- Effective regulations and but also enabling environment
- Diversity and depth in education systems and skills development
- Higher order talent and capacity development
- Centers of excellence in R&D for innovation and S&T

Trade in creative services has almost tripled in value between 2002-2011 from \$ 62 b in 2002 to \$ 172 b in 2011. But thus far very few developing economies are in the top 20.

The Sharing Economy

Another part of the transformation is the creation of a 'sharing economy' – what does this mean? Essentially, unused assets are rented out to those willing to use them. A survey conduct by AC Nielsen, says that 68% of global consumers say they're willing to share their own assets, and 66% willing to seek sharing. This has potentially wide ranging consequences across all kinds of activities – will as many people need to buy a car, or a high end camera, kitchenware and so on?

Policy Suggestions

The policy and regulatory environment for the internet economy remains in transition. One principle needs to be finding a balance between objectives – protecting consumer interests and encouraging innovation. Overly restrictive policies will not only rapidly diminish the appetite for innovation in this area but will also add to costs – especially for smaller businesses. One clear point that came through is that regional, if not international cooperation, is an imperative. The internet economy is borderless.

Some concrete suggestions were:

- Cross-border transfer, processing and storage of data needs to occur securely in tandem with trade and investment
- Data needs to be secured against fraud, criminal activity and natural disasters in an increasingly complex world
- Clarity on liabilities for intermediaries:
 - Blanket or strict liability
 - Broad immunity
 - Safe harbor or conditional liability
 - Internet Platform Governance
- Internet governance: the development and application by Governments, the private sector and civil society, in their respective roles, of shared principles, norms, rules, decision-making procedures, and programs that shape the evolution and use of the Internet.
- Raising de minimis thresholds
- Expand digital literacy and promote awareness of the opportunities in using the cloud
- Improve data on SMEs to allow for more targeted policies
- Preserve a seamless internet
- Adoption of a zero tariff policy on all digital products.
- Develop an action plan to secure open markets for digital and electronically delivered products.
- Commit to adopting policies and measures that foster digital trade, including by providing permanent duty-free treatment for all digital products.
- Adopt better classifications of services: are games in the same class as alcohol and tobacco?
- Encourage international partnerships in education to accelerate skills upgrading
- Focus as much as I-ways as highways: universal and affordable broadband connectivity for higher value digital enterprises
- Digital environment issues demonstrated the stakes we face in getting it wrong
- APEC should undertake services work at principle level first as well as sector by sector

We welcomed the opportunity for a frank exchange between officials, experts and the business community. One clear observation is that there is a need for much greater coordination among various branches of APEC work.