

APEC Senior Officials Public-Private Dialogue on Services

Borocay, 17 May 2015

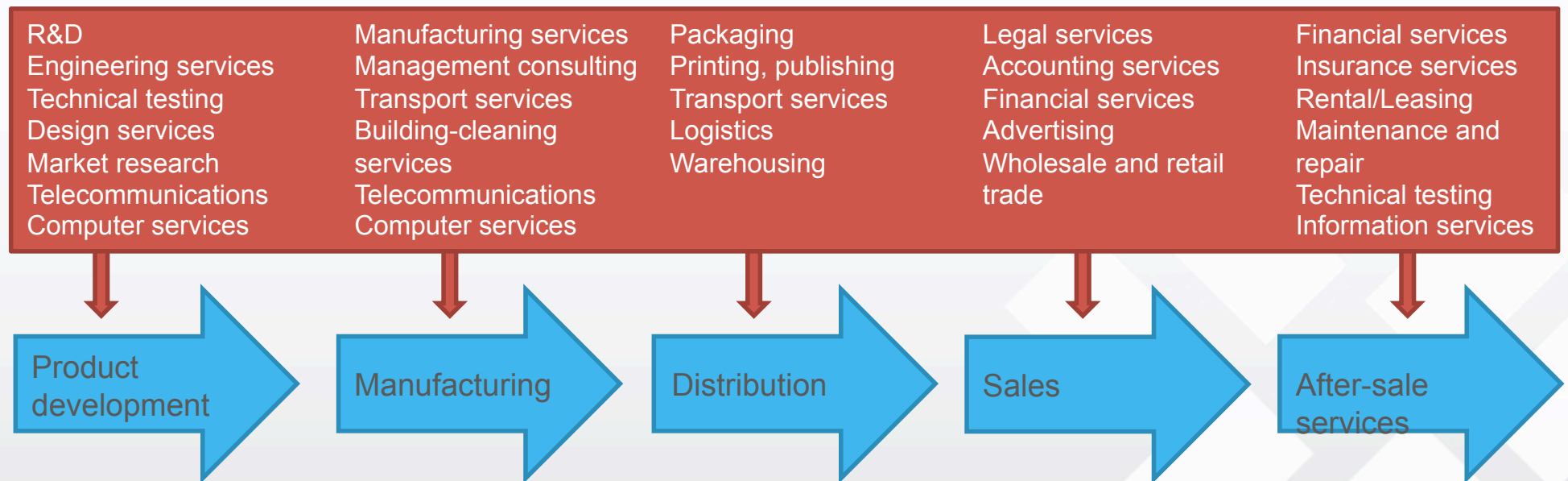
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Take-away 1

Opportunities for services SMEs exist

1. **Services activities embodied in, bundled with and traded via goods exports**
 - “Servicification of manufacturing”



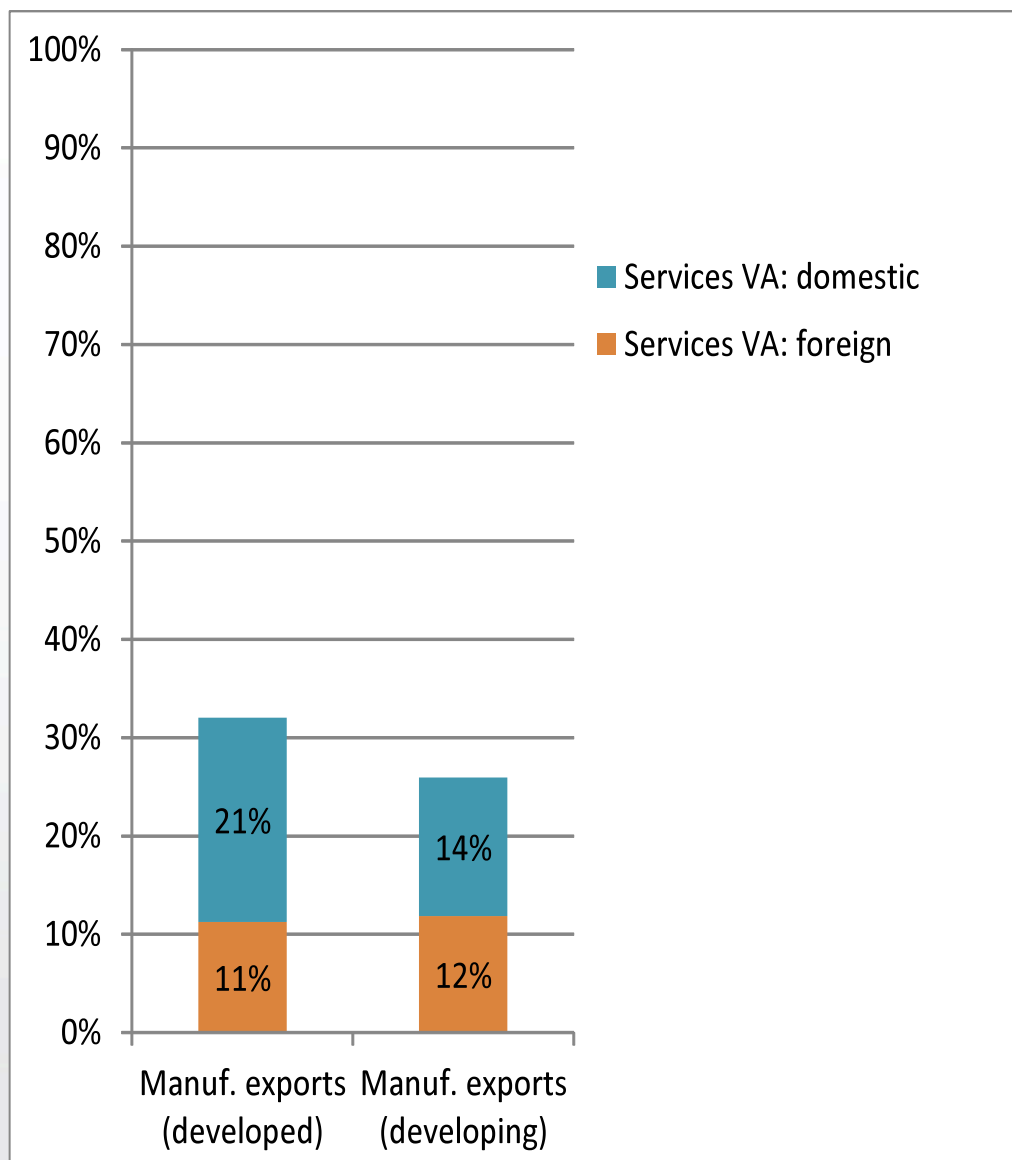
2. **And a reminder from the February PPD: Services are traded in their own right as direct exports and also as intermediate inputs in fragmented services value chains or services networks**

Take-away 2

Competitiveness in services matters also for goods

- ◆ Not only are services often traded indirectly as components of goods offerings, services are often the highest value components of goods exports
- ◆ Whether the services content is low or high, efficiency in production of services inputs will impact positively on international competitiveness in all sectors
 - ◆ Role of services in GDP, employment, trade, FDI
 - ◆ Infrastructural services, enabling services, indispensable services
- ◆ Competitiveness in services inputs can be “make or break” for competitiveness in other sectors
 - ◆ **Efficiency – achieving reforms in services can rescue declining competitiveness in agriculture and in manufacturing**
 - ◆ **Efficiency-achieving reforms in services can build new comparative advantage**
- ◆ In a rapidly changing and fiercely competitive business environment, innovation in services inputs will deliver firm-level competitive edge
 - ◆ There is an empirical correlation between innovation in services and export success
- ◆ To achieve whole-of-economy productivity and competitiveness gains, we must focus more on services activities and we must think in less compartmentalised ways about “goods” and “services” along the value chain, because both form part of the pathway to the final consumer market.
 - ◆ Many regional examples of the importance of excellence in “services incidental to trade in goods”

Decomposition of manufactures exports



Services value added accounts for 32% of manufactures exports in developed countries & 26% in developing countries

Foreign services content is similar in both developed & developing countries

Manufacturing exports from developing economies tend to have a lower domestic services content

Competitiveness insights from looking at trends in the composition of manufactures

Example of Cambodia

Cambodia appears to be a stand-out success on the services export front. The balance of payments tells us that services account for roughly a third of total exports, well above the global average and that Cambodia has a net and rapidly growing surplus on services trade account.

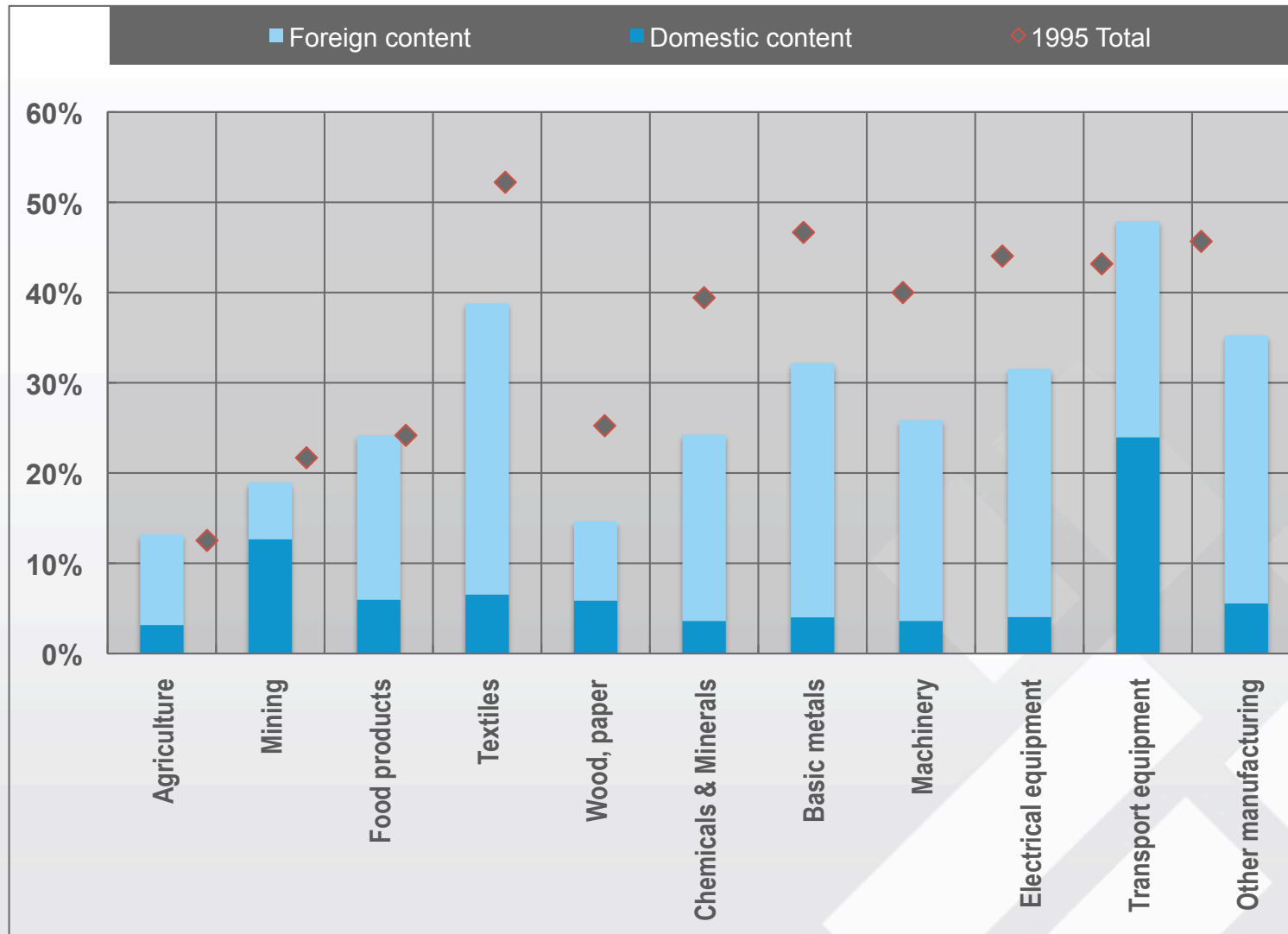
BUT there has been a generalised downwards trend in the share of services in Cambodia's goods exports.

This is true for both domestic services content and foreign services content, but is especially marked, in every goods industry, for **domestic services content**.

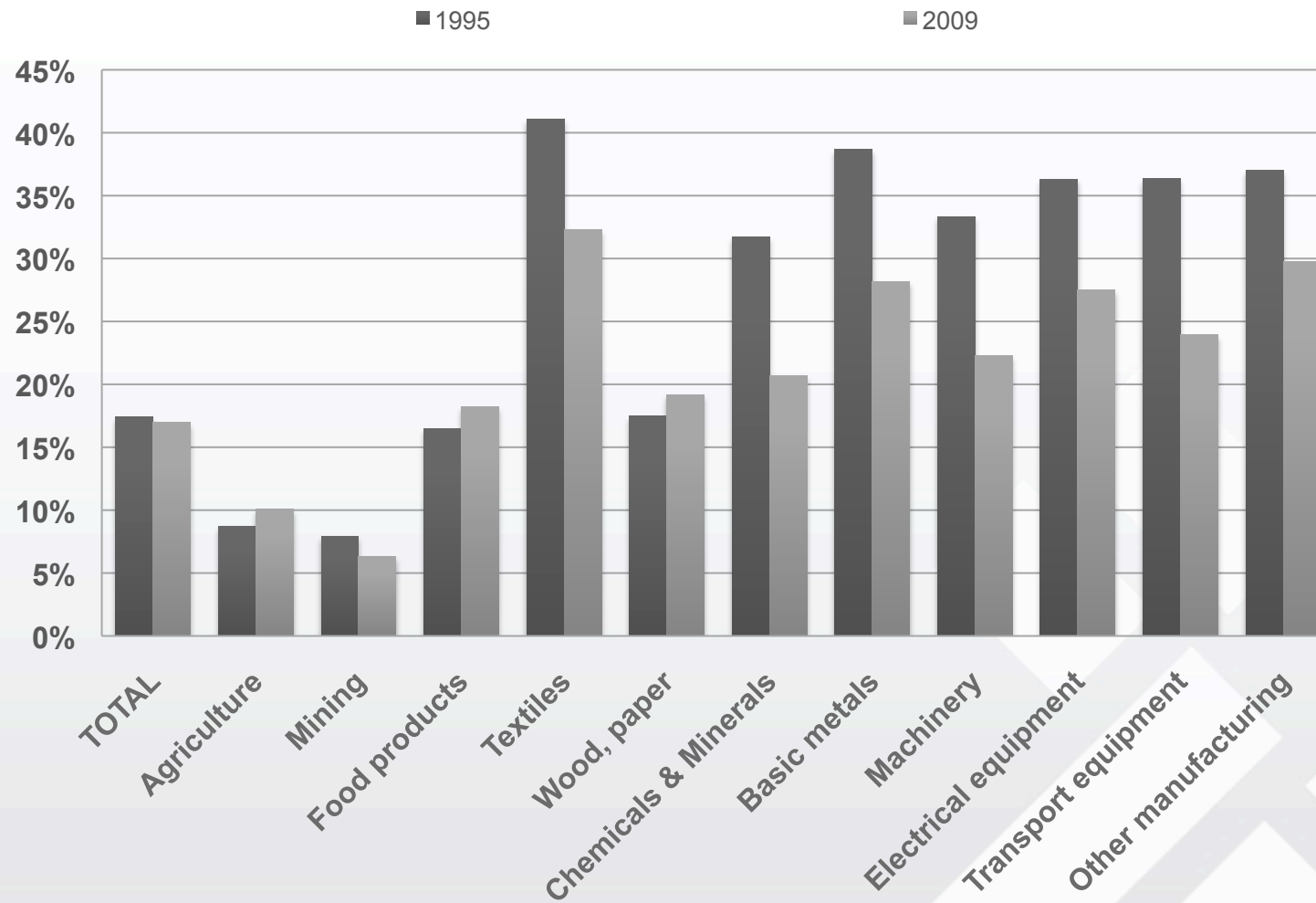
This suggests Cambodia is increasingly specialising in manufacturing activities with low services intensity, edging down the value added ladder rather than starting to climb up. **This is a wake up call telling us there may be growing deficiencies in the ability of local Cambodian services firms to compete.**

The decline in services intensity, both foreign and domestic, in the textiles industry is of particular concern. But the trend is true in every major industry.

Services content of Cambodia's goods exports 2009



Foreign services content in Cambodia's goods exports



Take-away 3

What determines competitiveness in services

1. Human Capital **Talent** and **Skills**
2. **Innovation**
3. **Knowledge-economy Infrastructure** (telecoms, IT, education)
4. **Quality of Services Regulation** (firm level compliance cost burdens affect domestic productivity; **regional coherence** in regulatory settings improve cross-border interoperability)
5. **Trade and Investment Policies** affecting **International Connectivity** and **GVC readiness** (firms need to move capital, people, ideas and data across borders)
6. **Government Focus** (statistics, inter-agency coordination, competitiveness roadmaps)
7. **Services Business Advocacy** and Public-Private **Dialogue & Consultation**

Take-away 4

Regulatory cooperation is key to regional integration

◆ (For good reasons) Governments intervene more heavily in the services sector than any other sector

◆ Because services are intangible, imported services can't be inspected before delivery to ensure they comply with domestic regulatory preferences

◆ Governments therefore tend to be risk averse and defensive and inclined to maintain barriers to imported services subject to foreign regulatory requirements

◆ Convergence towards best regulatory practice is of fundamental importance to regional integration in services. It is also fundamental to local business

◆ **Because compliance costs associated with inefficient regulation can be crippling to competitiveness**

◆ Greater regulatory cooperation across the APEC region can help member economies realise the opportunities for productivity gain

Even though services sectors are different, the types of market failure and reasons for regulation are similar

Market Failures	Services Sectors
Monopoly/oligopoly	Network services: eg telecommunications; transport (terminals and infrastructure), water and energy services (distribution networks).
Universality of service	Health, Education
Information problems	Intermediation services eg Professional Services, Financial services
Externalities	Transport, Tourism

... these similarities provide the basis, at least in principle, for development of generic principles for services regulation...

Source: Aaditya Mattoo, World Bank

Giving voice to services SMEs

- ◆ Today is the second in a series of regional services stakeholder dialogues during 2015, designed to help shape, in a highly inclusive manner, a new APEC Services Cooperation Framework.
 - ◆ This comes in direct response to repeated calls from both ABAC and PECC stakeholders for a big services initiative
- ◆ The Philippines Chair is providing in 2015 a series of opportunities for services businesses to contribute their thinking. More opportunities arise at SOM 3 in Cebu.
- ◆ In Cebu, ABAC will convene a first ever meeting of coalitions of services industries across the region, in an effort to give services stakeholders a stronger voice
 - ◆ Coalitions of services industries are typically SME focussed
 - ◆ And often tripartite in nature, encompassing both producers and consumers, and entailing a high degree of collaboration with the academic community as well as government