APEC Group on Services
Policy Dialogue: Sharing Economy, Services Trade and Global Production Value Chain
Co-organized by PECC and ABAC
11 June 2016, Singapore
Summary of Discussions

Background

The Pacific Economic Cooperation Council (PECC) in cooperation with the APEC Business Advisory Council (ABAC) organized a policy dialogue on behalf of the APEC Group on Services to explore the ways in which technology is changing how companies deliver services; and the way in which the policy and regulatory environments in which these companies operate need to respond to these changes.

The event brought together entrepreneurs in the technology sector with regulators, policy-makers and experts to understand the opportunities brought by the digital revolution and how to expand services trade and investment.

The purpose of the Workshop was to:

- Understand how changes in technology are opening up new markets for services, as well as goods;
- Consider the extent of opportunities for business to expand trade by utilizing new technologies;
- Consider the cross-cutting nature of the digital economy and consider government policy reforms to maximize the benefits of technology for services trade.

The discussions were shaped around the following key questions:

- How is technology changing business models?
- What is the policy response to the changing business models and landscape brought by disruptive technologies?
- How are these changes going to impact the next generation trade agreements?

Summary

Technology is having a profound impact on business models, through enhanced connectivity and the digitalization of value. On the revenue side, businesses are able to immediately access the international market. Cost structures are also changing, sharing economy business models are less about recouping fixed cost but increasingly about operational expenditures. These developments open up opportunities for more inclusive growth but benefitting from these changes requires a mindset shift.

Furthermore, the ability of people to benefit from this process depends on both physical and institutional connectivity – absent the digital infrastructure and regulatory equivalence, the risk is that new digital divides will open up.

A major question is whether existing international policy frameworks are sufficient for addressing the cross-border aspects of this opportunity. Four major points emerged from the dialogue:

- The existing frameworks relying on geopolitical boundaries are not compatible with the direction that the digital landscape is moving, e.g. cryptocurrencies and distributed shared data storage.
- The issues confronting businesses are decreasingly at-the-border and increasingly behind-the-border issues – regulations. Economies have different approaches to regulations derived from historical, cultural and institutional settings; there is a need to shift thinking from one solely based on risk management to one of enabling opportunity.
- The speed of technological change and adoption require policy makers and regulators to move equally fast.
- International trade policy needs to take into account sub-national frameworks where regulations are implemented.

Business models

Technology is enabling businesses, especially micro and small and medium enterprises to rapidly internationalize. Their second, third or fourth customers can immediately be anywhere in the world. At the same time, competitiveness comes from the ability of the firms to maximize volumes and compete on a global pricing model. Cost structures are also changing, sharing economy business models are less about recouping fixed cost but increasingly about operational expenditures. These developments open up opportunities for more inclusive growth but benefitting from these changes requires a mindset shift.

Management of data

In a sharing economy data is the asset. Data are no longer just "data" - there are critical questions on whether there is a need to classify and categorize data, and the extent to which this is feasible.

Policy issues of consideration regarding data:

Sovereignty and jurisdiction	- Given the cross-border mobility nature of data, how can and should this be regulated? - Who has jurisdiction over data gathered by outsourced back-office functions? - What is the cost of data localization policies to local firms – limiting access to cheapest, most efficient providers
Ownership	- Who owns the data gathered by companies and governments? - Companies versus Governments - When business circumstances change, who owns the data? - How are data monetized?
Classification and storage	- Data is generative, intangible resource and is growing at exponential speed. - Internationalization of data storage is usually safer and cost-effective

Privacy and security	- Regulators need to protect consumers' privacy and sensitive information gathered by service providers to ensure that these are not misused. - Regulators do not act upon until we encounter incidents. - What are private and what are public data? (e.g. GPS/ traffic data, medical records)
Data collection, mining, and aggregation	- Aggregated data are not necessarily anonymized data - Data collection/ mining itself is not illegal especially where the users consent and where used for KYC (know-your-customer) - However, its misappropriation, malignant use or unintended use can be criminal and detrimental.
Compliance cost	- SMEs cannot afford to participate in international competition where compliance costs remain high. - Data storage and protection are very costly when handled individually or localized
Blockchain technology	- BitCoin is a type of cryptocurrency that put blockchain technology on experiment. For now, BitCoins remain a virtual currency stored and spread out amongst 6,000-7,000 data centers around the world. - Can the blockchain technology enhance privacy and security using the distributed ledger system?

Digital identity

- Individuals own multiple digital identities; there are also fake or falsified identities.
- Its digital nature facilitates identity thefts.
- Various facilities and high-tech tools are available yet people - particularly in the emerging economies - do not readily trust third parties and even less so in digital space.
- Reputation/ credibility of a person or a business entity is crucial in digital space.
- We need to think about how to give digital identities to marginalized people who may not have real-world government identities. E.g. id2020.org
- Digital identity enables KYC - intended for better tailored and targeted services and enhance users' experience and convenience, business opportunities and lending.

Financial inclusion

- While technological innovations are fast advancing and digital devices such as smart phones and services such as internet connection are becoming more affordable and accessible, there are still 2 billion people worldwide who are financially excluded and are not engaged in digital economy.
- Financial inclusion is within reach but sound regulatory frameworks supported by infrastructural connectivity are needed to enable these innovations and services to help bridge the development gap in the region. Otherwise the region risks widening of digital divide. Much of the ICT infrastructure deficit problems need to be addressed domestically as part of national strategies.
- Technology and services offer new opportunities to those who seek to enter competition in the international market and global value chains. Capacity-building efforts can help provide a level

playing field, but ultimately, each economy/ government needs to decide for itself where they want to go.

Regulatory environment

- We have enough tools and resources to address issues but the reality is that we are not solving them due to lack of capacity in regulatory framework. These frameworks also need to be tailor-made as there is no one-size-fits-all for different domestic environments.
- It is important to work with respective governments early on when establishing new business models as licensing or taxation rules differ from one economy to another.
- However, it becomes even more challenging when it comes to having to establish borderless and seamless regulatory environment.
- Multiple options and choices in services become available for businesses and consumers with technological innovations that successfully pass the tests and sandbox stages. We need convergence of regulatory processes given the integration of various services.

Impact on next-generation trade agreements

- As we advance further in plurilateral and regional trade agreements, one of the challenges is to ensure that we do not opt for the lowest common denominator which would jeopardize opportunities offered by these technological advancements.
- Objectives should be made very clear on the APEC Services Competitiveness Roadmap from the onset and we should remain aspirational in our goals.
- Businesses should be further engaged in these policy discussions. Protection of intellectual property (IP) is extremely important for innovations to flourish and drive businesses.
- Trade agreements take a long time to materialize. We need better negotiation processes given that technologies and new business environments change very rapidly.

Education and training

- We need to design and provide education that can prepare the next generation for future needs and business landscape. Specialized modules should be established in six months rather than ten years later.

Conclusion

The future is now. Disruptive technologies offer new opportunities to individual consumers and businesses. With these technological changes, business models are evolving fast and constantly. The speed of these changes will not slow down and we need to adapt very quickly. Policies need to catch up but the real challenge is having to balance between agility and consistency in design and enforcement. Another challenge is to balance between protection of consumers and offering more choices by not hindering innovations.

We should try to capture the benefits of the digital economy and digital trade opportunities so that governments can understand, explain, and enable them rather than taking traditional regulatory approach. We should enable the regulations to protect market opportunities, not inefficiencies.

With the servicification of goods, policy agenda (e.g. movements of people and investments, data flows, etc.) that traditionally separated goods from services will have to merge. We would need to take horizontal, holistic approach to discuss these cross-sectoral policy agenda. New competition policy issues are also emerging as various services are integrated online.

Even with various technologies, infrastructure and services made more accessible, the main question is the utilization. It requires mindset change more than skillset to embrace these changes. "Everything has changed except our thinking." Where there is lack of trust, there will be less usage of what is already available. Where consumer protections are needed to safeguard private data, regulators need to provide safe and secure environment for both consumers and businesses, thereby enhancing trust in digital space.

Establishing a seamless regulatory environment should be the main objective of opening up trade and investment in services that are borderless. But the reality is such that regulators do not sit at negotiating tables to discuss international trade issues despite new policy issues emerging with the changing nature and models of business. APEC could take the lead by convening regulators to work together with trade and investment negotiators to tackle the challenge of managing borderless services trade and digital economy.

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