



ITC

TRADE IMPACT
FOR GOOD

50 YEARS

1964-2014

ASEAN Services Forum

Jakarta, 19 June 2015

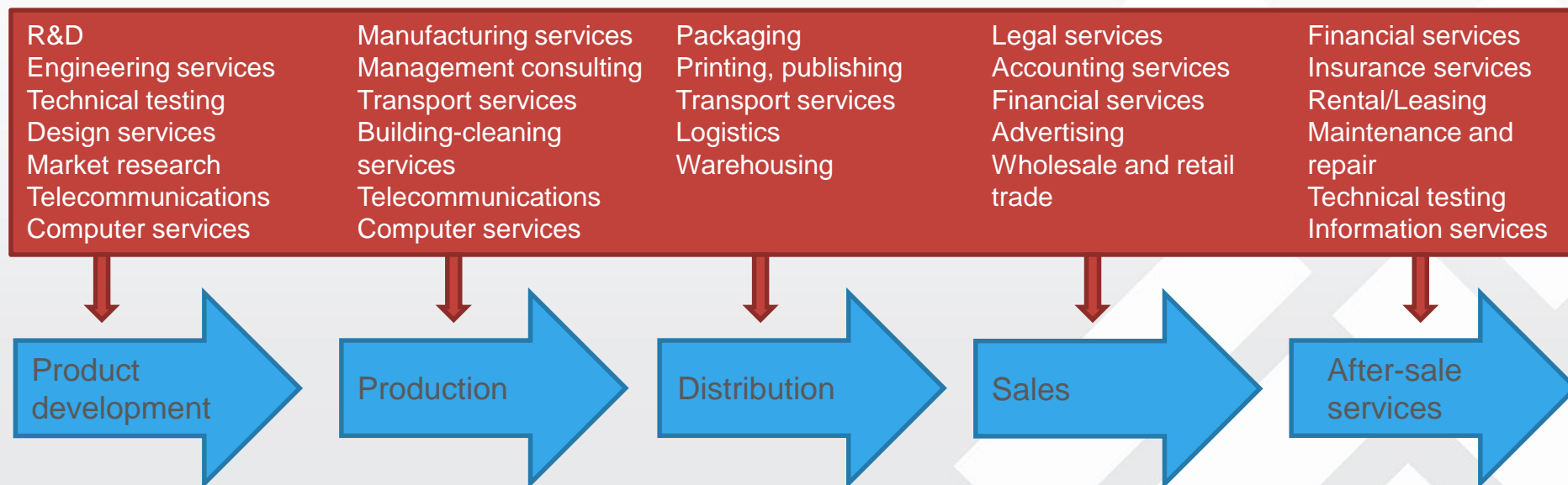
The role of regulatory cooperation in facilitating regional integration in services; experience in APEC

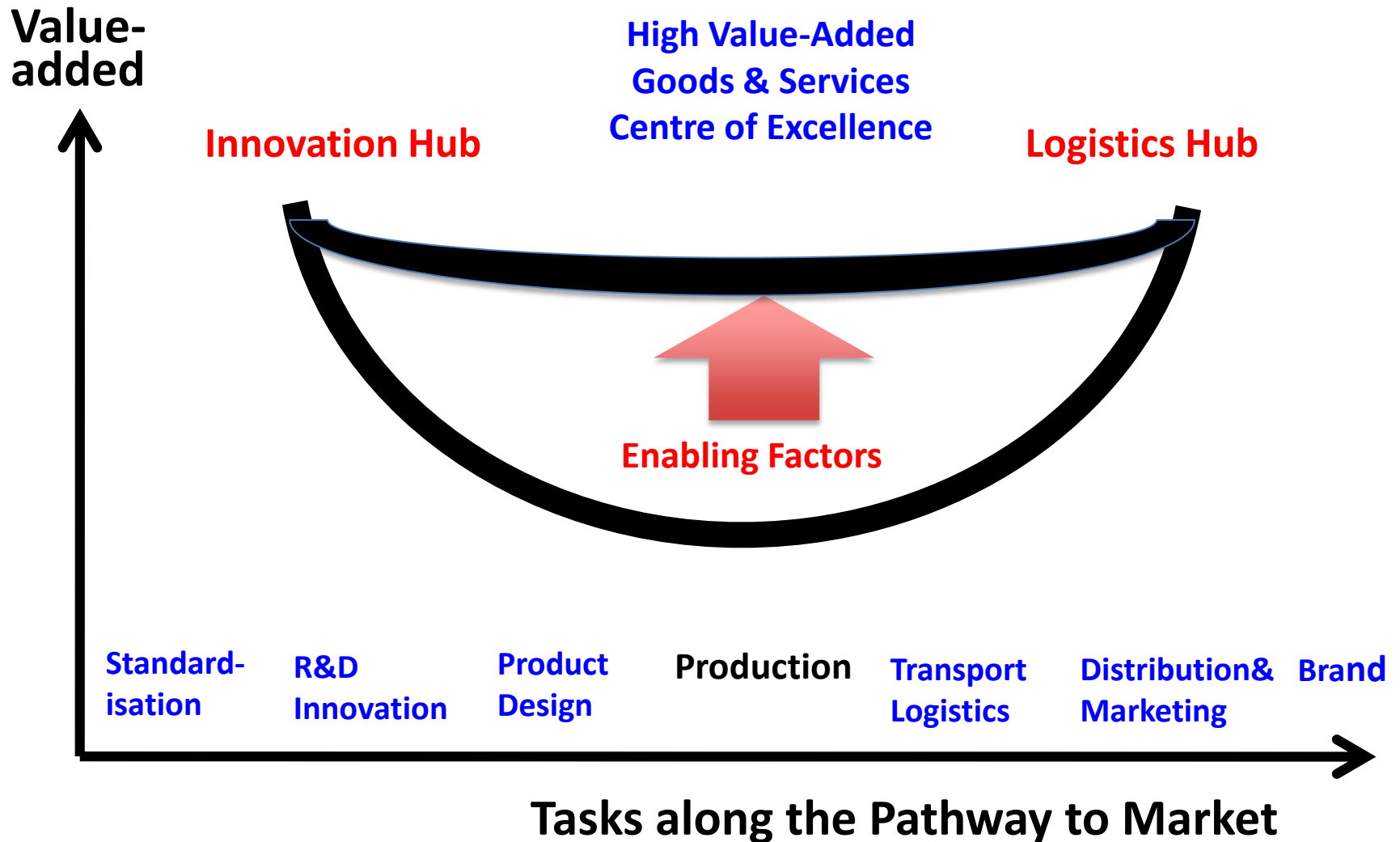
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Reminder: Services matter for the whole economy

1. Services are traded in their own right as direct exports and also as intermediate inputs in fragmented services value chains (outsourcing)
2. Services activities are also embodied in, bundled with and traded via goods exports - “servicification” of goods production
3. Competitiveness in services therefore impacts on the whole economy





Reminder: If we get the enabling factors right for competitiveness in services, we can shift up the “smiley face” to become centres of excellence in both goods and services. Efficiency-achieving reforms in services can “rescue” declining competitiveness in other sectors and create new comparative advantage.

Reminder: the enabling factors

1. **Human Capital** (talent, education, skills, ideas)
2. Investment in **Intangible Assets** and supportive environment for **Innovation**
3. **Digital** and other knowledge-economy **Infrastructure**
4. Quality of **Institutions** (complexity, rigidity, independence)
5. Efficiency of Domestic **Regulation** (reduce compliance costs & allow firms flexibility to adapt to change).
5. **Connectedness** with the International Markets (trade & investment openness, visas, standards, mutual recognition)
6. Organised **Services Business Advocacy** and public/private **Stakeholder Consultation and Dialogue**
7. Deliberate National **Policy Focus** (statistics, inter-agency coordination)

Why efficiency of regulation is especially important for services

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

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

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

Why is regulatory efficiency relevant to regional economic integration?

AEC Blueprint Objective

"no restrictions to ASEAN services suppliers in providing services and in establishing companies across national borders within the region, *subject to domestic regulations*"

- ◆ Domestic regulation is a matter of national sovereignty. All countries are entitled to their own domestic regulatory regimes; there is no one size fits all: every country has slightly different public policy concerns and local community preferences.
- ◆ Trade negotiators traditionally have been inclined to keep domestic regulation off the table.
- ◆ But the regional trade policy community has understood for a long time that this is not *entirely* possible because so many barriers to trade in services are “behind-the-border” hidden in domestic regulatory regimes.
- ◆ And the economic policy community knows that that the important thing for national productivity is to ensure that all domestic government intervention achieves its objectives in the most efficient least costly way
- ◆ And the business community knows that inefficiency in domestic regulation will impose an excess compliance cost which will reduce international competitiveness
- ◆ Coherence in regulatory settings among trading partners helps improve cross-border inter-operability for firms

This is especially important for services

- Regulatory rules and administrative practices have a direct effect on services firms. **Regulation can influence the structure of the firm, where the firm locates, whom they hire, and how they find markets and serve their clients.**
- Poor regulatory and administrative practices can unnecessarily absorb a firm's productive resources, **raise the costs of market entry for new firms, slow the rate of innovation and deter investment.**
- Typically, many government agencies do not have a deep understanding of all the various aspects of the national regulatory frameworks for services because **in services the number of affected agencies is much larger than for goods and the consultation process is much more complex.**
- Given the strong international evidence of **links between regulatory reform and productivity growth, especially in the services sector**, services regulators need technical assistance to expose them to the experience of other countries with respect to regulatory pitfalls and inefficiencies as well as best regional practices.
- Governments also need **coordinating mechanisms** through which to communicate and consult with each other; and work together to ensure **whole-of-services policy coherence.**
- Regional experience has many potential lessons to share, which can be readily shared in a non-threatening format via a **self-assessment tools.**
- A key to progress on this will be working with institutions already taking this approach to **benchmark** appropriate and efficient regulatory practice for services.

APEC approach, led by ASEAN

- Trade facilitation has always been equally important as trade liberalisation - plus capacity building
- **Regulatory cooperation in services is a fundamental element of the trade facilitation agenda in APEC, and always has been**
- Relevance of standards and technical barriers; harmonisation, international standards, mutual recognition of qualifications, quality assurance
- Original Structure of APEC : Committee on Trade and Investment focussed on trade facilitation, “soft” dialogue and sharing of best practices, never negotiation
- Many APEC subfora focussed on regulatory best practice in individual sub-sectors, eg APECTEL
- APEC/OECD Regulatory Self Assessment Tool Kit
- APEC Economic Committee
 - 2004 Leaders Agenda to Implement Structural Reform (focus on regulatory reform, competition policy, public sector governance, corporate governance and economic and legal infrastructure)
 - 2008 First meeting of Ministers responsible for Structural Reform
 - PECC went to Peru in 2008 to stress the importance of this regulatory coherence agenda specifically for services, given the regulatory “fog” affecting services businesses across Asia Pacific



APEC approach

Regulation: any law or other government-endorsed “rule” that influences or controls the way that people and businesses behave.

Competition policy: laws, cases, policies, rules and regulations aimed at protecting and preserving the competitive process in markets in order to promote economic efficiency and consumer welfare.

Corporate governance: processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered, controlled.

Public sector governance: structure, laws, regulations and decision-making processes that govern, enable and constrain the provision and financial sustainability of the provision of goods and services by government.

Good economic and legal infrastructure: ensuring property rights are protected, and contracts and regulations enforced

3 key elements of the approach

- **Policy dialogue:** Structural policy reforms can be supported by discussing and drawing on examples of good practices from other economies. APEC facilitates the discussion and sharing of experiences on structural policy reforms in the Asia-Pacific region through holding policy discussions, workshops, seminars, and developing good practice guidance in areas such as regulation, competition policy and corporate governance.
- **Capacity building**
- **Awareness raising:** For reforms to be successful, it is important that the costs and benefits of policy approaches are well communicated and understood by key stakeholders. Practical steps suggested by the World Development Report (World Bank, 2005). The role institutions have played in supporting structural reforms in some APEC economies is discussed in the 2007 APEC Economic Policy Report (APEC Economic Committee, 2007).
- **The APEC Economic Committee prepared a multi-year programme that took off in 2008 in Peru's host year.**
- **In 2015, in the Philippines' host year, the focus will shift specifically, for the first time, to cover SERVICES.**

Business message: why is regulatory reform so important?

Because in a rapidly changing global environment, business is having to handle an increasing level of risk and future uncertainty.

- The business case to do anything always entails a risk but the pace of technological change is now so rapid that the future is becoming much harder for companies to read.
- Government can help reduce business risk and uncertainty by at least ensuring that the regulatory environment is straightforward and predictable.

Because business decision-making has to be fast and flexible governments are generally way too slow. Companies need to get all their regulatory consents in place more quickly.

And because the regional business experience with red tape is not good.

Business message: Inefficient regulation adds to firm-level costs and reduces competitiveness

- The cost factor will ultimately prevail.
- If the immediate business environment is too costly, business *will* eventually relocate elsewhere. That includes high value-add services expertise.
- Whatever other obstacles government puts in place, global experience is that work *does* eventually flow to where it is performed best and “best” does include a cost dimension.
- APEC economies *can* and must make *their* regulatory regimes more conducive to doing new business.
- In general a vibrant business community prefers a lighter regulatory touch, and a least trade restrictive touch, subject to safeguarding of all legitimate consumer, end-user and other public interests.

Business message: Regulatory fog

First a new market entrant can't necessarily get through the door - they can't necessarily get a license to operate - at all - or sometimes the rules are not that clear - maybe they *can* get a license

If they are patient

When they *do* get the license, its scope is often unexpectedly limited

And the regulatory compliance obligations are unexpectedly expensive

Importantly for services companies (where human capital costs are often 70-80 % of total cost) everything to do with recruiting, training and deploying people can be extraordinarily complex.

The degree of regulatory frustration is too high

Business message: intra-agency coordination matters

- ◆ In many APEC economies, there is no single Ministry with full understanding of all the specific details of any particular regulatory regime; many Ministries are unaware of the requirements imposed by other Ministries.
- ◆ The result can be a highly complex, uncoordinated, overlapping and duplicative regime.
- ◆ One shop stops for business are similarly rare.
- ◆ No-one wants to reform what they don't even know exists, let alone what they don't have line responsibility for
- ◆ In the interests of trade and economic integration, however, its time for Trade Ministries to get on top of this issue and start to champion regulatory review in their own economies and regulatory dialogue with other regional economies
- ◆ **Inconsistent regulations are often unintentional** but they do increase the costs incurred by businesses, potentially driving them away to locate in other regions. It is therefore important that there be a high degree of coordination across government agencies and departments.

APEC approach, led by ASEAN

- ABAC has been telling this story for the last 5 years.
 - Marshal Business School of Southern California business survey results; domestic regulatory impediments to regional business
 - Need to reduce the cost of doing business in services
 - ABAC Philippines has championed Services; now ABAC Singapore
- PECC has been telling this story for the last 5 years and deliberately addressing the message to all the key APEC for a, not just the CTI
- 2011 PECC/ABAC/ADB collaboration for a Conference in Hong Kong, which called for
 - A big new APEC initiative on services, ratcheting services to a higher profile
 - Work on a generic set of regulatory principles for services
- 2015 Philippines year will see a big new initiative; the APEC Services Cooperation Framework, including eg
 - Virtual Knowledge Platform for sharing information including best practices
 - Regulators Forum
 - Cross fora collaboration between CTI and EC,
 - Structural Reform and Services
- Ongoing transparency effort in APEC STAR DATA BASE of domestic regulations
- Capacity Building being offered
 - Workshops on Regulatory Best Practices, sector by sector

Mining and energy services – what are they?

EXAMPLE MINING AND ENERGY SERVICES

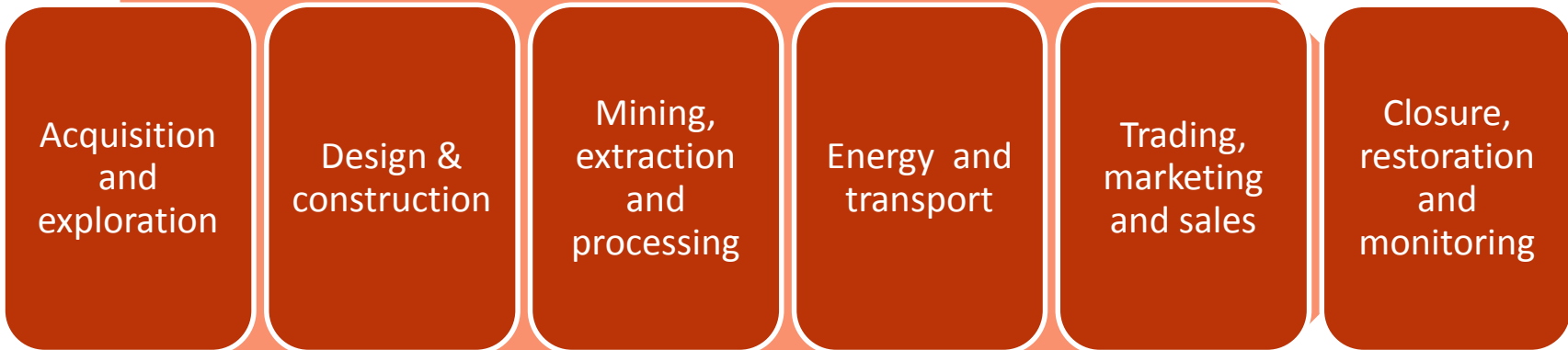
Mining

Site preparation services
Surface and sub-surface satellite surveying/mapping
Drilling services
Metallurgical, geophysical and geotechnical services
Technical testing & analysis
Geological modelling services
Contract exploration services

Mine site design & construction services (fee or contract basis)
Core engineering, design and project management
Consulting services (feasibility/environmental/social studies)
Consulting geologists and engineers

Mine planning, scheduling and optimisation
Blast monitoring services
Mine communication; mine ventilation services
Mining instrumentation
Simulation & remote control
Maintenance and repair
Transport

Mine site remediation services
Environmental services
Disposal & reprocessing of fluids & other waste management services



Oil & Gas

Site preparation services
Seismic studies
Geological modelling
Imaging/Virtualisation
Sub-surface (on-shore & off-shore satellite surveying)
Drilling services
Core analysis
Mud preparation

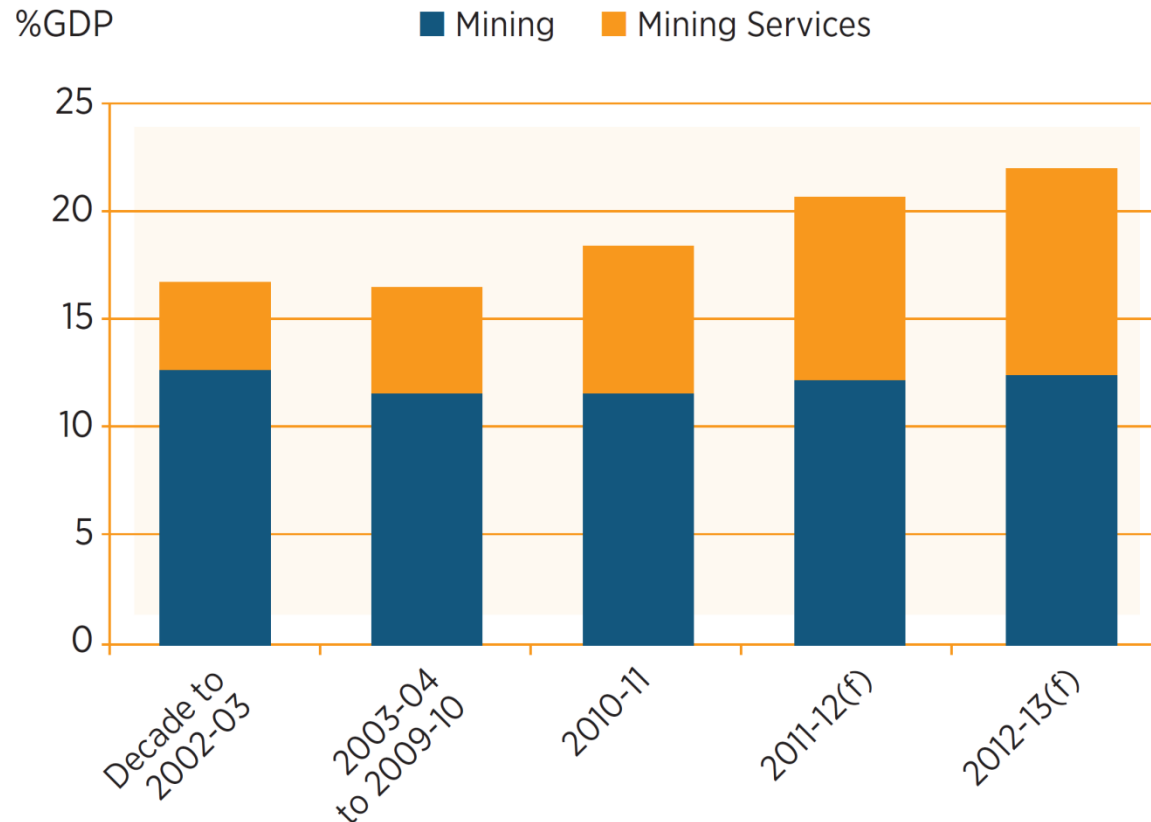
Core engineering, design and project management
Feasibility/ environmental/ social studies by consultants
Environmental management services

Drilling & drilling bit services
Casing & tubular services
Mud engineering & supply
Cementing (pressure pumping)
Stimulation services (fracturing acidising & pressure pumping)
Equipment maintenance and repair services
Transport

Plugging & abandoning of wells
Site reclamation and restoration services
Disposal & reprocessing of fluids & other waste management services

Mining and energy services contribution to growth, Australia

CONTRIBUTION OF METS SECTOR HAS GROWN FASTER THAN MINING



2010-2013

METS output grew at 15 to 20% a year

- 4% of national output in 2002-03
- 8.4% in 2011-12

METS contribution to Australia's *GDP*

- 6.7% in 2010-11
- Est. 9.4% in 2012-13

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

Domestic regulation-related impediments to services competitiveness

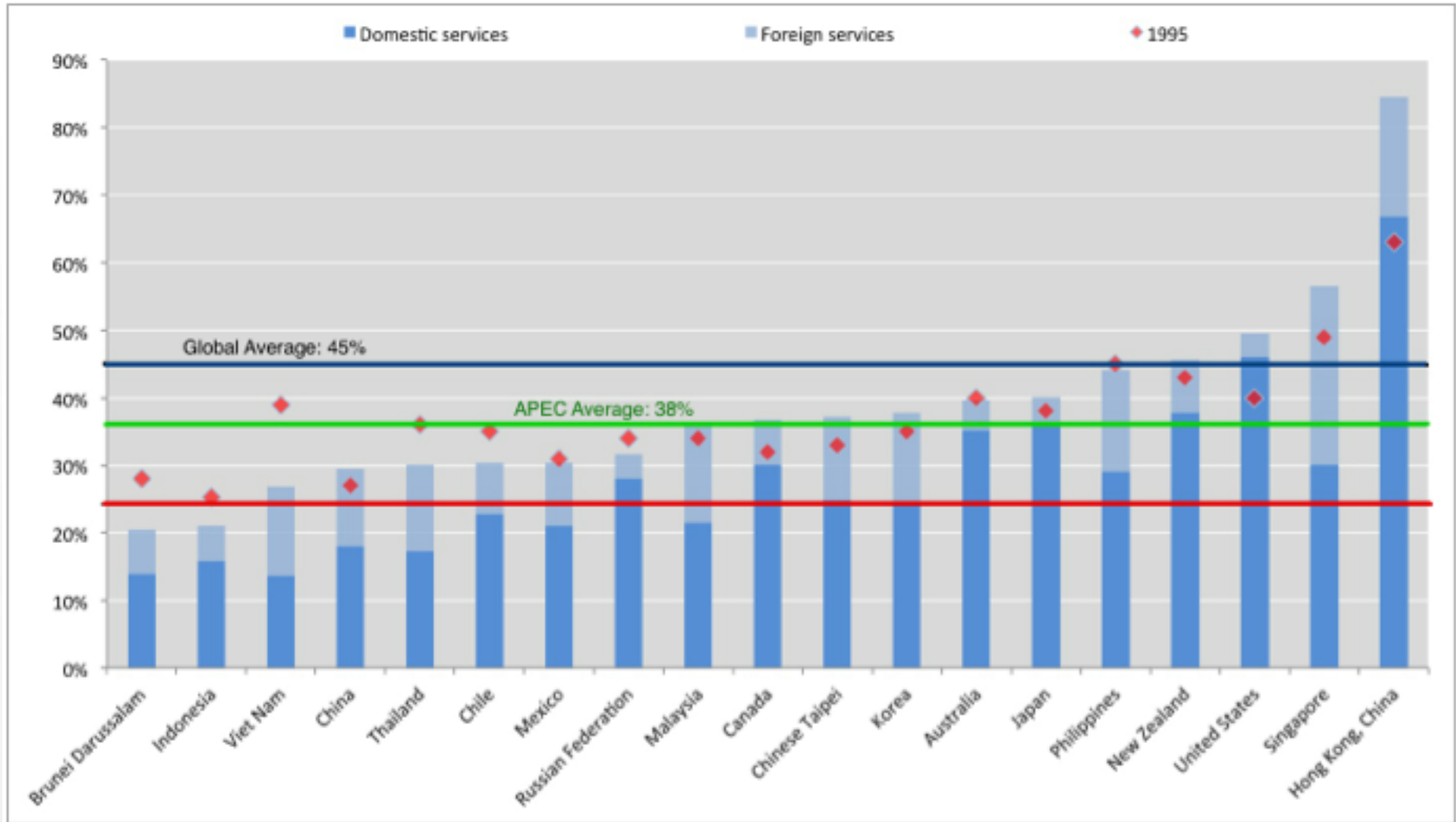
- The domestic regulatory environment is important; transparency, simplicity, efficiency, predictability, third party access, coordination/one stop shops, coherence, light touch....

Inescapable Conclusion:

APEC economies should, in the interests of their own competitiveness, and competitiveness of the overall ASEAN hub, be choosing to cooperate to achieve better regional practice in domestic regulation, in every services sector

*How? To facilitate trade in services, APEC needs to bring regulators together with policy makers and business to develop generic and sector-specific **principles** for greater coherence in domestic regimes regulating services*

ASEAN punches below its weight in terms of integration in the regional services market services



Services value added in APEC exports is 38%, compared with the global average of 45%, the OECD average of 48%, the BRICS average of 47%. The ASEAN average is 34%. EU 26 and India are both over 50%. **The redline is the global average BOP figure**

EXPORT IMPACT
FOR GOOD