ASIA PACIFIC SERVICES COALITION

2 December 2021

Back from the Brink! The WTO gets on with Serious Business.

Some matters are too important and too urgent, as well as too obviously good for the global trading community, to let another postponement of the WTO Ministerial Conference get in the way of timely joint action.

With or without a WTO Ministerial Session, WTO members simply cannot walk away, for example, from the chance to save an immediate estimated USD150 billion in trade costs. Sensibly, the 67 WTO Members participating in the WTO Joint Statement Initiative (JSI) on Services Domestic Regulation https://www.wto.org/english/news_e/news21_e/jssdr_26nov21_e.pdf have recognized the need to go ahead and get on with it, and announce the deal in Geneva before the week is out. The 67 WTO Members are at all levels of development from across the globe; together they account for 90% of world trade in services.

As stakeholders in this matter, co-convenors of the Asia Pacific Services Coalition (APSC) and representatives of the Philippine Services Coalition (PSC) and Australian Services Roundtable (ASR) respectively, we write to congratulate all WTO Members signing on to this historic outcome.

In a nutshell, what they have agreed to do is sign on a new GATS Reference Paper which sets out best practice principles for domestic regulation of services, and to reflect those principles in their individual schedules of services commitments.

Business stakeholder support for this services domestic regulation agenda is overwhelmingly strong and has a long history in APEC which signed on to the "APEC Non-Binding Principles on Domestic Regulation for the Services Sector" under Papua New Guinea Chairmanship in 2018. The issue is largely a matter of "streamlining red tape" to reduce the burden and cost of regulatory compliance for businesses, a matter of deep concern for all small and medium enterprises.

In the Public-Private Dialogue on Services organized by the Asia Pacific Services Coalition and the APEC Business Advisory Council last October, experts underscored the critical role that the services sector can play in the economic recovery. One recurring theme raised by both government and the private sector was the need for good regulatory practice - adopting and implementing necessary reform measures that would facilitate trade in services and promote the ease of doing business.

Regulatory reform, unlike trade reform at the border, has been shown time and again in the economic literature, to be a win-win all around, leading chiefly to a rise in the level of domestic production of services and the size of the sector. The recent report prepared by the APEC Policy Support Unit https://www.apec.org/Publications/2021/10/APEC-Services-

Competitiveness-Roadmap-Mid-term-Review for this year's mid-term review of the APEC Services Competitiveness notes that inefficient services regulation has a negative impact on the growth rate of services value-added, on productivity, and on exports of services-dependent industries. Improvements in regulatory efficiency mean in practice that local businesses are more likely to grow. Local MSMEs tend to experience the deepest trade cost reductions and biggest productivity gains.

The WTO World Trade Report for 2019 showed that trade costs for services were double the costs for trade in goods. More recently, the OECD showed that 40% of these costs are regulation related. These findings led both the OECD Secretariat and the WTO Secretariat to undertake recent empirical studies to determine the impact of implementing the outcome of these particular negotiations. The WTO study shows that more efficient services domestic regulation goes hand in hand with larger, more entrepreneurial, services sectors, more active participation in global value chains and stronger trade performance across all modes of services delivery. The OECD research calculates the expected size of the cut in services trade costs which implementing this deal can be expected to deliver for services firms.

For the APEC region, the OECD identifies a 7% cut in trade costs across all services sectors, translating to trade cost savings of USD75 billion for the region (and USD150 billion globally). Trade costs would fall much more than average for economy-wide infrastructural services such as telecommunications and financial services, followed by computer services, engineering/architecture and logistics – all equally infrastructural for the new digital economy. For fast growing, rapidly digitalizing business services alone, including the IT and business process outsourcing sector, APEC region trade costs are estimated to fall by USD20 billion. Transport services costs would fall by USD23 billion.

These are not cost savings any business or any government can afford to ignore. But the biggest gains are for smaller enterprises. On average, trade costs would fall for SMEs by an additional 2-3 percentage points to a total of 9% or 10%. For computer services, telecoms and financial services, the benefits for MSMEs would be even larger, as these cuts could make or break their businesses.

Today's announcement is a rare and precious occurrence – and deserves more than a moment's notice. The persistent, dedicated, evidence-based messages from the business, academic and think-tank community have been heard. As a result, the WTO is finally delivering an outcome and one which can be expected to deliver verifiable benefits at local industry level as measured by firm level trade costs.

Services trade has been on a long run growth path exceeding growth in trade in goods. But traditional services sectors such as transportation and travel plummeted as much as 30% when the pandemic hit in 2020. This deal is designed to make things easier for business to recover. As a result, the troubled outlook for early services trade growth and post pandemic recovery is looking much brighter.

This is indeed a welcome development to all economies which are yet to get fully back on track to new normalcy. A more enabling local business environment is a fitting complement to the opening of borders to travel and tourism, and greater trade and investment. Greater regulatory transparency will better accommodate the evolving business models and governance landscape as the global economy does digital. Adoption and implementation of the new GATS Reference Paper will ensure our regulatory regimes are fit-for-purpose as we strengthen our economies, address the pandemic, and meet the challenge of digital transformation and environmental sustainability.

It is important to note that this is not a reciprocal deal. It might have been negotiated plurilaterally but the outcome will be implemented on an MFN basis, for all WTO Members; the benefits will be experienced by all WTO Members whether they themselves participate in the initiative or not. The new GATS Reference paper on Services Domestic Regulation happens to be the first and only outcome on services in the nearly 30 years since the WTO was created. Until announcement of this Joint Initiative in 2017, it was famously the case that WTO Ministers had spent no more than 2 hours all up on trade in services. Thanks to the solid step forward this week, WTO credibility with the services business community is brought back from the brink.

2 December 2021 is a date to celebrate – and a date that will be remembered as an upturn for global and regional trade. It is also the date on which the first provision banning domestic regulatory discrimination between men and women makes its way into WTO law.

Asia Pacific Services Coalition members are proud to have played their part in this long negotiating process. We congratulate APEC for the role it played in kick-starting the dialogue and incubating the idea. We hope all APEC members will join the initiative. We applaud the leadership in South East Asia shown by Thailand, Singapore and The Philippines. We start a new APEC year this week in Bangkok, knowing there is much more work to be done on trade in services, but inspired by the determination shown in Geneva to get a services trade deal done this week. Congratulations to all our governments.

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