trade policy brief

Lowering APEC trade costs through services domestic regulation reform

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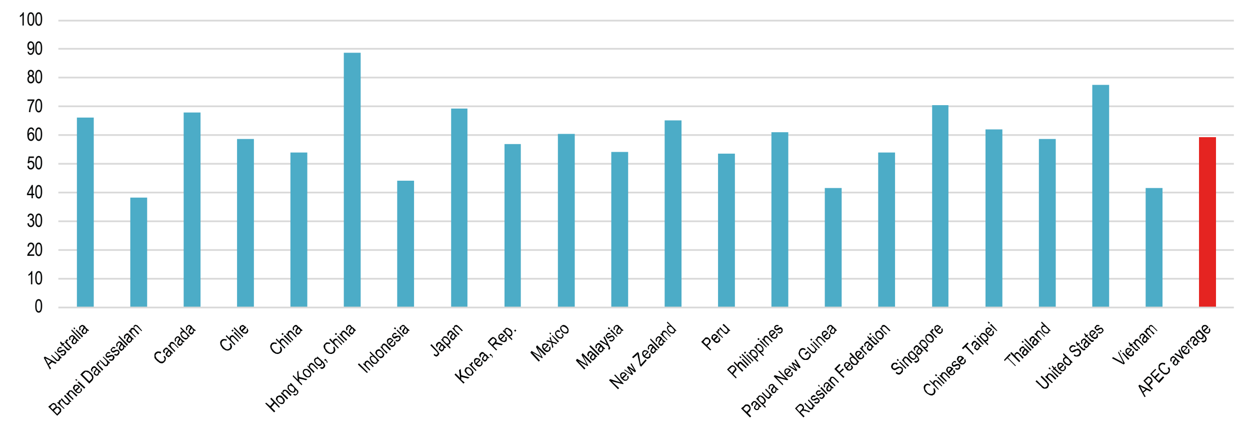
- APEC economies' regulatory environment has become more trade facilitating in recent years, including on measures related to regulatory transparency. Nonetheless, there is scope to further improve services domestic regulations across key sectors such as computer services, some professional services, telecoms and financial services.
- Further streamlining domestic services regulations, including through outcomes in the WTO Joint Initiative on Services Domestic Regulation, could further help reduce trade costs for APEC businesses by an average of 7% across sectors and economies in the medium term (after 3-5 years).
- Most benefits from lower trade costs would impact highly regulated sectors where licensing, registration processes and recognition of qualifications are prominent, such as commercial banking, telecommunications and insurance services.
- APEC SMEs would be the first to benefit from more efficient domestic regulations for services through lower trade costs and fewer regulatory hurdles.

Global trade in services has been growing faster than trade in goods in recent years, including through the development of new technologies that increasingly facilitate cross-border supply of services. This is particularly visible in the Asia-Pacific region, where growth strategies across economies have placed services at the forefront of the policy agenda. Indeed, services now contribute nearly two-thirds of the region's GDP (Figure 1). APEC has developed forward-looking principles and policy instruments aimed at facilitating the flow

Figure 1. Services are key economic drivers across the APEC region

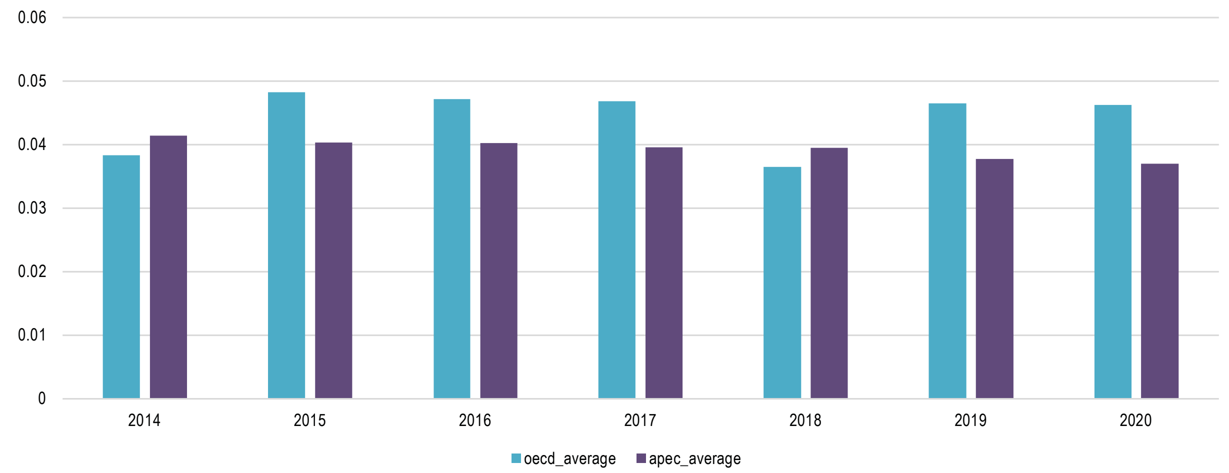
Services value added as percentage of GDP, 2019



Source: World Development Indicators (2019). Data for Hong Kong, China, Japan, and Peru is for 2018. Data for New Zealand, Papua New Guinea, and data for Canada is for 2016. Data for Chinese Taipei is from Directorate-General of Budget, Accounting and Statistics for 2019.

Figure 2. Regulatory transparency has improved in the APEC region in recent years

Average STRI for regulatory transparency over time in APEC and OECD economies, 2014-2020



Note: Lower values on the index indicate a more open regulatory environment. APEC average is based on data for 14 APEC economies currently covered in the OECD STRI.
Source: OECD STRI, 2020.

of services within the region, including through the 2016 *APEC Services Competitiveness Roadmap* (ASCR). The development of new measurements of the regulatory environments for services in the APEC region strengthens the evidence base to inform APEC-wide efforts on streamlining services trade policies.

The 2018 *APEC Non-Binding Principles for Domestic Regulations of the Services Sector* established a set of core transparency principles designed to create a regulatory environment that facilitates services trade in the APEC region. Over the past years, APEC economies have continuously streamlined their domestic services regulations, eliminating barriers to services trade, particularly in key areas such as regulatory transparency (Figure 2). As a result, in 2020, APEC economies performed 20% better than the OECD average with respect to regulatory transparency as measured by the OECD *Services Trade Restrictiveness Index* (STRI).

The OECD STRI brings together information on services trade barriers from more than 16 000 laws and regulations for 22 services sectors and 48 economies, including 14 APEC members. The STRI uses a scale from 0 to 1, where 1 represents the most restrictive regulatory environment for services trade. The measures in the STRI regulatory database are organised in five policy areas: 1) restrictions on foreign entry; 2) restrictions on movement of people; 3) other discriminatory measures; 4) barriers to competition; and 5) regulatory transparency.

Streamlining domestic regulations for services could substantially lower trade costs for APEC businesses

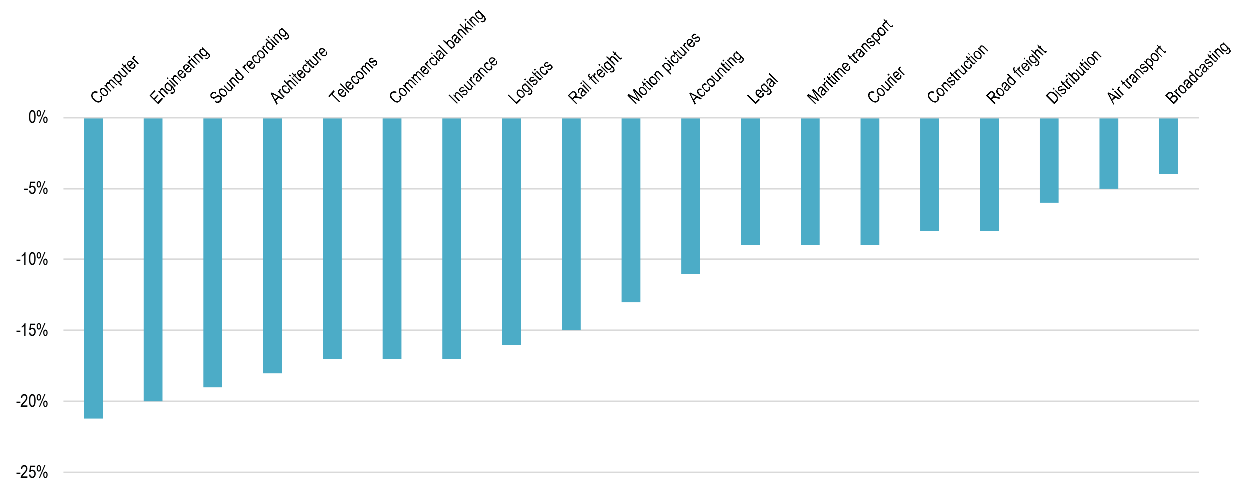
A group of nearly 60 WTO Members launched the Joint Statement Initiative (JSI) on Services Domestic Regulation in December 2017, with the shared objective of improving the existing trade rulebook related to qualification requirements and procedures, technical standards, licensing requirements and procedures for services providers. To date, 13 APEC economies are taking part in the JSI discussions. While negotiations are well advanced on the draft text, greater understanding of the potential benefits of more efficient domestic regulations could help expand interest in participation by other economies.

The OECD STRI collects information on the applied regulations affecting several disciplines included in the JSI discussions, such as transparency in the rule-making process, administrative and procedural hurdles related to registering companies, as well as licensing and authorization requirements across different sectors, including some professional services such as legal, accounting, architecture and engineering services.

While the regulatory environment of APEC economies has become more trade facilitating in recent years, particularly in relation to measures affecting regulatory transparency, there is scope to further capitalize on services domestic regulation reforms to boost trade. If the current disciplines considered under the JSI were to

Figure 3. APEC economies can further ease regulatory hurdles on services

Average percentage of decrease in STRI values in case of lifting existing impediments on domestic regulations



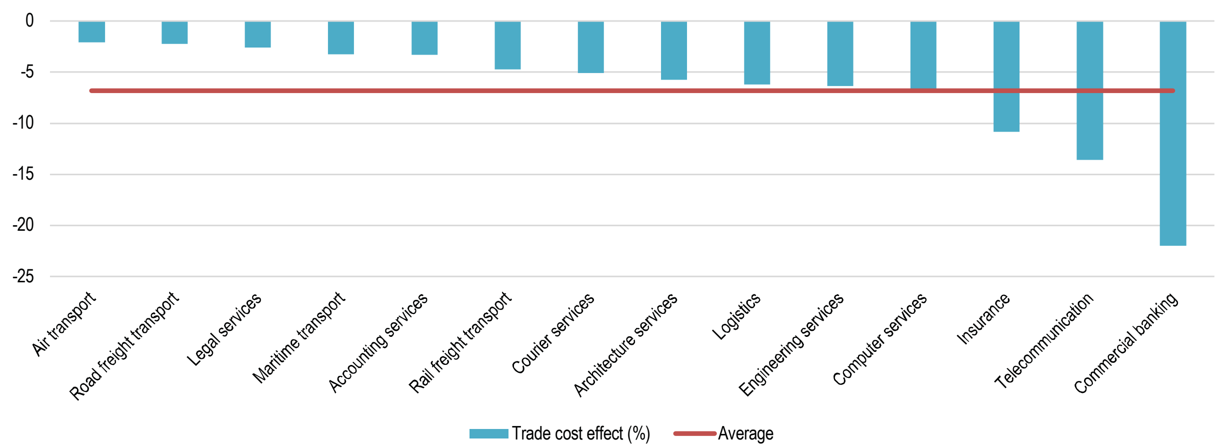
Note: Calculations based on the 14 APEC economies currently covered in the OECD STRI.
Source: OECD STRI, 2020.

be fully implemented in APEC economies, impediments to trade (as measured by the STRI) could be lowered by up to 21% (Figure 3). The most significant progress would be seen in the lifting of regulatory impediments in sectors such as computer services, some professional services, sound recording, telecoms and financial services.

Streamlining of services domestic regulations could potentially reduce trade costs in the APEC region by an average of -7% across sectors and economies in the medium term (after 3-5 years) (Figure 4). Lower trade costs would have the greatest impact on highly regulated sectors which are critical backbones to the economy, where licensing, registration processes and recognition of qualifications are prominent. The highest impact would be in commercial banking (-22%), telecommunications (-14), insurance (-11%), and computer services (-7%). Among professional services, engineering (-6%) and architecture services (-6%) would benefit most.

Figure 4. Potential trade costs reductions could be greatest in some critical backbone services

Trade costs reductions related to certain services domestic regulations by sector, percentage of export values



Note: Calculations based on the 14 APEC economies currently covered in the OECD STRI.
Source: Calculations are based on the methodology in Benz & Jaax (2020).

APEC SMEs will be the first to benefit from more efficient domestic regulations for services

The costs of navigating complex regulatory regimes across economies, dealing with time-consuming procedural hurdles and documenting compliance in every new market fall more heavily on small and medium-sized enterprises (SMEs) than larger multinational firms with more resources. SMEs often export lower services values, while issues such as licensing, authorization and compliance often represent a fixed cost. Indeed, overcoming such challenges may turn out to be insurmountable obstacles for small players with prohibitive consequences for their efforts to expand to new customers in new markets. As barriers to services trade are eased and regulatory co-operation makes tangible progress, SMEs are the first to gain.

On average, trade cost reductions for SMEs could be between two and three percentage points higher compared to large companies. SMEs see an average trade cost effect of up to -9%, compared to -7% in the average across all firms. The benefits s for SMEs would be even larger in sectors experiencing more profound reductions of services trade costs. Improving services domestic regulation and reducing the costs of market entry would help improve the inclusiveness of services trade, allowing more SMEs to take up global opportunities.

Further reading

- Benz, S. and A. Jaax (2020), "The costs of regulatory barriers to trade in services: New estimates of ad valorem tariff equivalents", *OECD Trade Policy Papers*, No. 238, OECD Publishing, Paris, https://doi.org/10.1787/bae97f98-en.
- OECD Services Trade Restrictiveness Index: Policy Trends up to 2021, February 2021, https://issuu.com/oecd.publishing/docs/oecd-stri-policy-trends-2021
- Rouzet, D., S. Benz and F. Spinelli (2017), "Trading firms and trading costs in services: Firm-level analysis", *OECD Trade Policy Papers*, No. 210, OECD Publishing, Paris, https://dx.doi.org/10.1787/b1c1a0e9-en.