

SUMMARY REPORT

Special thanks to Ms. Jane Drake-Brockman for her report at the Meeting of the SOM Friends of the Chair on Connectivity held on 13 May 2016. This summary report is based on her presentation.

The 5th APEC Public-Private Dialogue (PPD) on Services was held in Arequipa City on 13 May 2016 at the sidelines of the Second Senior Officials' Meeting (SOM2). Senior Officials of the 21 APEC Member-Economies, together with ABAC and PECC representatives, engaged in a roundtable discussion with stakeholders from the research and business communities on APEC's role in boosting the competitiveness of the services sector of the Asia-Pacific region. Together, the stakeholders – from both the public and private spheres – exchanged views and policy recommendations on the APEC Services Competitiveness Roadmap, which Leaders tasked Officials to develop in 2016.

As a SOM-level event, the PPD was designed to be interactive and action-oriented, ensuring that the insights drawn would be considered by Senior Officials in determining the next steps of the APEC Services Competitiveness Roadmap as well as in enhancing the policy focus of APEC's cross-fora work on services.

The PPD, in its targeted approach, further recalled the key messages which emerged over the series of APEC PPDs on Services – from Surabaya, Indonesia to Clark, Boracay, and Cebu in the Philippines. Underpinning the series were the messages on the vital role of services in the overall economy as well as in key sectors, and the importance of public-private consultation in achieving inclusive growth through services competitiveness. These key messages were also expressed in the APEC Services Cooperation Framework (ASCF) that Leaders adopted in 2015.

Taking off from the ASCF and the Leaders' APEC 2015 instructions, the 2016 PPD thus allowed Senior Officials to question and review APEC's work thus far, including its level of understanding and policy coherence, would lead economies towards the direction in which it wished to steer the services sector. It was therefore important to open the services discussion to the business and academic communities, before deciding on the concrete steps to be taken in the Roadmap's multi-faceted development.

The PPD and its four sessions thus centered on the theme of Building Services Competitiveness, with the particular objective of setting out the framework for services competitiveness, i.e. what are the factors that, which APEC economies can together work on, would drive improvements in regional services competitiveness.

The key messages from this year's PPD were:

- APEC's multi-year work on services has been substantial, noting the importance of services to the regional and individual economies. APEC's most recent contribution, the APEC Services Cooperation Framework (ASCF), embodies economies' shared commitment to work together in the pursuit of services growth and competitiveness. APEC's work on services should continue to complement, inform, and align with regional economic integration interests, given the now dominant role of services in GDP and employment in all APEC economies.

Session 1: Enabling Factors of Services Competitiveness

- To underscore APEC economies' "interest to focus with urgency, individually, and collectively, on services competitiveness", the PPD affirmed the dominant global role of services in driving GDP and productivity growth as well as an instrument of poverty alleviation. It must also be noted that the services sectors are sources of jobs especially for women and MSMEs.
- Services is a significant contributor to FDI flows. This contribution stands in comparison with a traditional under-performance in trade terms, which is reflected also in a below global average services value added content in gross APEC exports.
- Services play a significant role in all production that services competitiveness impacts on all sectors' competitiveness and on productivity across the whole economy including the other key economic sectors such as manufacturing and agriculture. In manufacturing, services are needed for effective supply chain and delivery of goods. Services are vital to agricultural and food systems, e.g. rice value chain, wheat value chain, hog value chain.
- Services is an enabling factor in competitiveness especially in manufacturing. There is a positive correlation between manufacturing exports and a large share of services; if economies want to be effective they have to have an effective services sector. If productivity is positively correlated with usage of services, unsurprisingly, economies that have high use of services also have higher exports.
- Growth in manufacturing competitiveness needs efficient services. It is important to understand the role of manufacturing-related services in different firms: what they are and how they enter the value chain.
- The opening of services markets can contribute to the competitiveness of services. For goods and services, there is no simpler way to increase competition than to open the economy to competition at the border. Greater openness at the border shall deliver growth and quality growth. Services are more complicated: it involves the movement of people and some key services industries are government-owned and natural monopolies.

Session 2: Promoting Connectivity and Enabling Inclusive Growth

- This session sought to help answer the questions: Why is regulatory cooperation important to achieve further services liberalization? How can services regulatory reform lead to more inclusive growth? And, can APEC develop common principles for services regulation?
- The PPD focused inter alia on the importance of reducing regulatory compliance costs on firms, by ensuring the simplest aspects of regulatory efficiency namely removing opaqueness, duplication, overlap and inconsistency in services regulatory regimes. Every opportunity the regulators lose to get the regulatory houses in order, MSMEs go out of business because compliance costs impact disproportionately on smaller firms.

- Regulations on services are needed to correct market failures or externalities, or meet public policy objectives such as universal access to services. Regulations are problematic in services area for these reasons: (1) difficulty in getting both the type of regulation and intensity of regulation correct; (2) regulations differ between countries based on differences in consumer preferences and the assessment of the nature and degree of risk; and (3) some regulations can have a protectionist impact on trade. Further, domestic regulations can restrict services trade even if not directly.
- Services is a human capital story. Human capital should adopt to a continually evolving services sector in order to address challenges such as rising inequality, rising wage gaps and missing hollow between low-skilled and high-skilled workers, etc.
- However, technology is changing the way services is being delivered. Services is likewise driving innovations in technology. The evolution of the services sector requires that human capital development efforts also consider not only education but also training of people for a variety of tasks needed and/or required at certain points in services supply chains.
- TVET and SME development are important to balance up the human capital needs; services have a very low entry cost
- The private sector and government have an important role to play in providing the necessary infrastructure and facilitating an enabling environment. There is a new kind of public-private partnership in human capital development – when the private sector gets involved early enough through technical training partnerships with government, the results are better.
- Human capital resources must be flexible to changes in technology. With new services emerging, human capital is being displaced due to changes in employment structures and required skills. In response to challenges such as the rising wage gap between the skilled and unskilled, aging populations, and rising inequality, the public and private sectors can jointly create educate funds for lifelong learning.

Session 3: The Impact of Technology on Services Delivery

- Technology shall change the fundamental way for business, technology, processes, structures, and peoples. Technology leaders are positioned to drive and realize the vision and image of the future.
- Agility and taking advantage of technologies are important. Organizations that benefit from inefficiencies will see their business models disappear when customers have the option to get better/cheaper experience.
- Given the pace of technological change, there is a need to look at moving from a risk-management oriented regulatory mindset to a more enabling business-oriented regulatory mindset. In the context of the collective agenda, the PPD discussion included the perennial importance of strong renewed energy on trade and investment openness at the border, to flows of goods, services, capital, people, ideas and data.

- Digital economy competitiveness requires the reliability of soft and hard infrastructure to ensure connectivity and interoperability of networks across platforms, no matter when and where. Soft and hard infrastructure include internet access, interoperable digital payments, good regulatory policies, and a conducive business environment.
- Mobile/E-commerce is the future and MSMEs can take advantage of this trend as it allows them to access the global market at lower costs, thus ensuring a higher rate of survival. However, MSMEs continue to face challenges, including gaps in skills, capabilities, and resources.
- The biggest single problem for the digital economy after connectivity is payments.
- The PPD recommended the following responses to the above challenges: free cross-border data flow; data privacy regimes that are interoperable, seamless payments across economies; consistent tax treatment across jurisdictions; trade and customs rules, and cross-cutting policy enablement.

Session 4: Implications for APEC's Work on Services

- APEC has a unique role and an opportunity to lead the way globally in identifying and implementing the relevant best practices. The PPD highlighted the importance of peer learning as well as public-private dialogue in advancing APEC's cause. APEC's potential to increase its services value-added (from an APEC average is 38%) is great.
- Consistent with World Bank research, the framework of enabling factors for services competitiveness that PECC presented during the PPD identifies a positive role for organized stakeholder advocacy and public-private dialogue. 2016 saw a step forward on this front, with formation of the Asia Pacific Services Coalition in September 2015 at the sidelines of SOM3 in Cebu, The Philippines.
- The stakeholders noted throughout the PPD that the factors that drive competitiveness in services are not exogenous and there is much that policy and regulatory settings can do to address the inefficiencies and barriers. Policies merit careful consideration when crafting an economy's political and economic framework especially in drawing its vision and plans for generating growth, jobs, and development.
- Sherry: I prefer sector by sector in the beginning, as this is easier. Harder to do cross sectoral cooperation. Identify sectors with most flagrant market failures, and reach understanding with regulators. Developing nonbinding principles makes regulators more comfortable and enable governments to move forward and bind them.
- It was clear that steps to be taken in the context of the APEC Services Competitiveness Roadmap need to build on APEC's existing work and yet, as ABAC stressed, take on a whole new dimension.

- The PPD was reminded by the APEC Committee on Trade and Investment (CTI) Chair of the work of the APEC Group on Services on the *Menu of Options* developed 15 years ago. This was designed to help APEC economies determine what they should be doing on services in their Bogor Goals Individual Action Plans (IAPs). In the years since, and within a very different environment, APEC Economies can evaluate what has been done in these 15 years? Further still, are IAPs sufficient or must we also consider Collective Action Plans on Services as we push ahead to make more rapid progress in the few remaining years till 2020?
- As APEC moves forward with its development of the APEC Services Competitiveness Roadmap, the work done at the sub-fora level continues to advance. Services indeed has become a horizontal APEC topic.
 - CTI is undertaking various activities that contribute to services competitiveness, including its work on manufacturing-related services and ECS. The Group on Services (GOS) also has a comprehensive work program that focuses on services issues.
 - The Economic Committee (EC) is currently working on the 2016 APEC Economic Policy Report which centers on structural reform and services. A CTI-EC joint meeting will be held at SOM3 to discuss inter alia the cross-fora collaboration on the drafting of the Roadmap.
 - The SOM Committee on ECOTECH (SCE) includes APEC Working Groups that cover particular services sector such as transportation, telecommunications, human resources, education, energy, etc. While noting the need to have cross-fora collaboration in APEC, it was also emphasized that the SCE and its sub-fora should be involved in the drafting and subsequent implementation of the Roadmap. Policy direction and coherence across APEC fora are crucial to the Roadmap's success.