

## **The Role of Infrastructure-Related Services in Developing APEC Economies: A Review**

Raymond Atje and Widdi Mugijayani

### ***Introduction***

Members of the Asia-Pacific Economic Cooperation (APEC) are among the most diverse economies that attempt to promote free trade among them. In 2007, income per capita of the member economies based on PPP constant 2005 price ranged from a low US\$ 1,948 in Papua New Guinea to a high US\$ 49,739 in Singapore. Moreover, unlike many of the existing preferential trade arrangements which are often established within a compact region among neighboring countries, APEC encompasses a vast region and some of its members locate in one of the far corners of the Pacific Ocean or the other. Inevitably, trades among the members may involve a long haul of products from, say, Russia, Japan or South Korea in the northwest to Chile in the southeast or, from Canada or the US in the northeast to New Zealand and Australia in the southwest corner of the Pacific.

Since an additional distance necessarily entails an extra cost then, other things being equal, any economy will prefer to trade with its immediate neighbors than with the distance ones. However, distance is not the only factor that influences trade costs. There are other factors that have been identified as influencing trade costs.<sup>1</sup> Some of those factors are of interest of this paper, such as transport and related services as well as telecommunication services. The efficient provision of these services depends on the availability transportation and telecommunications infrastructure which, for many developing countries, may necessitate the opening up the sectors to foreign direct investment (FDI). The opening up of these and other services sectors to foreign providers can in principle stimulate trade in services as well in goods (Deardorff, 2001). But the potential impacts of services liberalization are not limited to trade but essentially to the entire economic development activities as well.

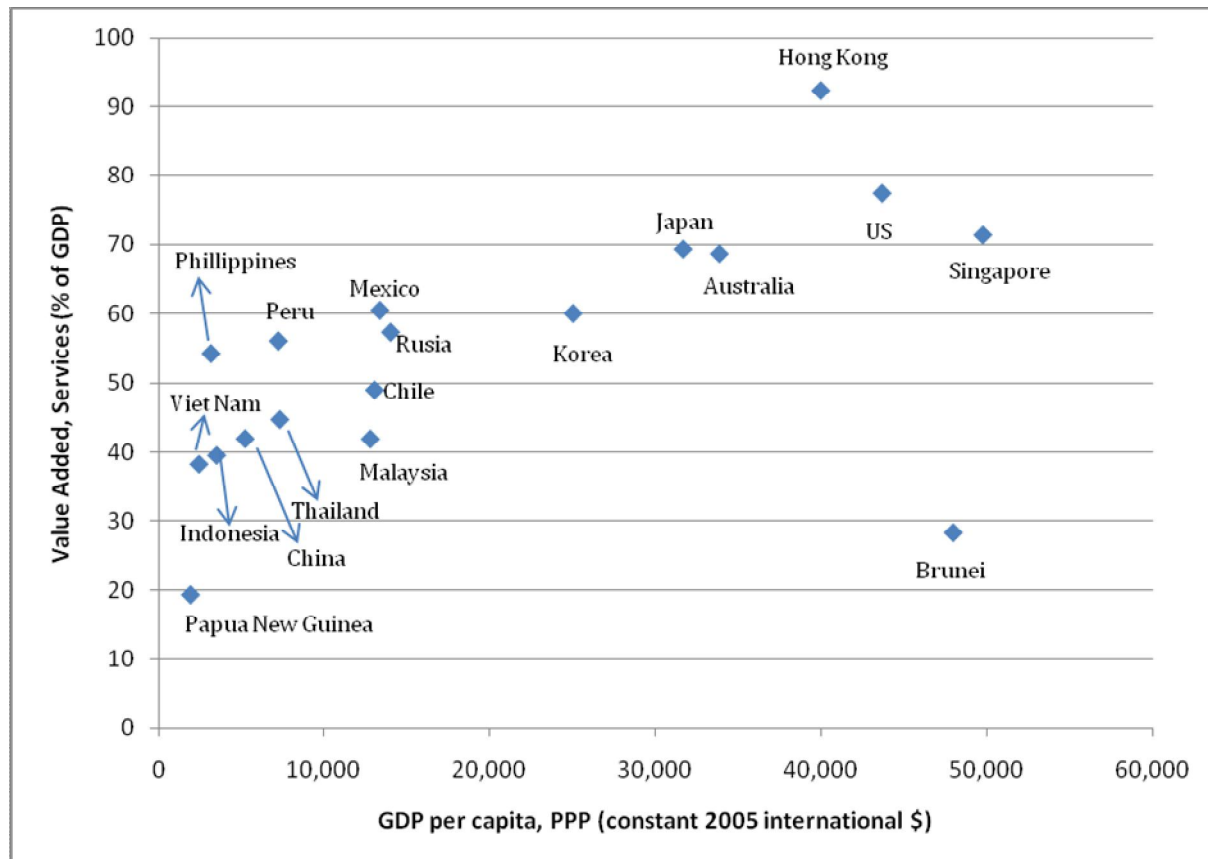
Services play an increasingly important role in APEC economies as a whole. However, a closer look at individual APEC member's economic structure confirms the claim that the contribution of the services sector tends to increase with GDP per capita. In 2007, Papua New Guinea with income per capita US\$ 1,948 has the lowest services sector share of less than 20 percent, while Hong Kong with income per capita US\$ 39,958 records the highest services share of about 92 percent (Figure 1). Some however argue that, in general, the contribution of the services sector to an economy is higher than what statistics may have suggested (Francois and Reinert, 1996, and McGuire, 2002) partly because services are important inputs in production and processing of goods and services.<sup>2</sup>

---

<sup>1</sup> See e.g., Pomfret and Sourdin (2008)

<sup>2</sup> Francois and Reinert, for instance, argue that while developed countries' exports concentrate in manufactures, their economic activities are actually concentrated in services. The services content of merchandise exports are significantly high.

Figure 1: GDP per Capita and Services Value Added (% of GDP)



Source: World Development Indicators

### ***Services Liberalization and Economic Development: A Brief Review***

There is a large and growing body of literature concerning service liberalization and its potential impacts on economic development. There are at least three different channels through which services trade liberalization can affect economic development. Firstly, it stimulates trades in goods as well as in services. Secondly, it stimulates foreign direct investment. And, thirdly it promotes production network and outsourcing. This paper focuses on the first two.

It has been pointed out that services liberalization can stimulate trade activities by reducing trade costs (Deardorff, 2001). Among the trade costs that have attracted a lot of attentions are concerning transport costs. As it turns out, transport costs depend on many factors. Limao and Venables (1999) focus primarily on the impact of land transport infrastructure on transport costs in African countries. They argue that African countries tend to trade less with the rest of the world and with themselves and the reason for that is their poor infrastructure. Their

measure of transport infrastructure includes road and rail networks as well as telecommunication density. Improving infrastructure in these countries will benefit them tremendously. In particular, improving infrastructure by one standard deviation is equivalent to reducing distance by around 6500 sea km.

Clark et al. (2002) on the other hand focus their attention to maritime transport costs. They list a number of factors that, according to them, may affect transport costs. They are: distance; the unit value of the merchandise which determines insurance costs per unit; price fixing between liner companies or the lack of it; the level of containerization; the level of trade that goes through a particular route; and, port efficiency. Port efficiency, is an important determinant of handling cost inside the port. Countries with efficient ports such as Singapore or Hong Kong charge lower fees for their services than countries with inefficient ports. Port efficiency, in turn, depends on quality of port infrastructure, port management, port procedures and custom clearance among other factors. Their empirical result suggests that most of these factors are indeed important determinants of trade costs.

Two important factors from the study above, i.e., the level of containerization and especially port efficiency, are of interest of this paper because of their nature. In another study Fink et al. (2001) point out that it is quite common to find monopoly practices in activities related to ship management in ports (port services) and activities related to cargo handling (auxiliary services). All these factors essentially policy-related variables in that it is within the capacity of any governments, including developing countries' governments to change them if necessary. Fink et al indeed propose to either allow foreign vessels serving the domestic market access port and auxiliary services or, allow foreign competition in the provision of those services.

There are other factors that have been identified in the literature as influencing transport costs. Pomfret and Sourdin (2008) argue that transport costs are subject to economies of scale and the potential size of bilateral trade. As such, a significantly unbalanced trade is likely to raise transportation costs, as ship may have to travel empty in one direction. In Indonesia, the critics of cabotage principle raised a similar issue against the government plan to implement cabotage for maritime transport services. That is, because of the cabotage, foreign vessels that carry goods in are likely to leave the country without cargoes and, therefore, will be compelled to charge higher fees for the services rendered than otherwise. The government nevertheless caved in to the demand of the domestic carriers association who argued that the domestic shipping companies barely profitable and therefore needed protection, a reminiscent of infant industry argument.<sup>3</sup> Meanwhile, it seems that collusive practices among international carriers remain strong. Shipping companies are able to price discriminate across products and charge especially markups on goods with a relatively inelastic import demand (Hummels et al., 2007, and Fink et al., 2001). According to Hummels et al., shipping prices for the mean shipment of Latin America's imports are 1.83 times higher than prices for the lowest markup shipment. Moreover, international carrier conferences continue to enjoy antitrust immunity. Nevertheless, as Fink et al. point out the introduction of competition in port and auxiliary

---

<sup>3</sup> Recently the Indonesian government decided to apply the cabotage principle in domestic maritime transport services.

services is likely to improve not only allocative efficiency but also compel carriers to cut costs and therefore improve their internal efficiency.

In addition to transport costs, trades are also affected by telecommunications costs. Fink et al. (2002) investigate the impact of telecommunication costs on the aggregate bilateral trade and find that indeed international telecommunication costs have a significant effect on the patterns of trade. They also find, using disaggregated data, that communication costs have a greater impact on trade in differentiated products than on trade in homogeneous products. This result indicates that communication costs may also reflect search costs.

Unlike trade in goods, trade in services often requires direct transactions between customers and providers which necessitate movements of factors of production, i.e., capital (FDI) and labor. Many of the services which require FDI are producer services, i.e., services that are inputs to the production of goods and services. According to Markusen et al. (2000) allowing FDI in services sector will increase variety of producer services that, in turn, will lower the costs of these services for downstream industries. Their study focuses on producer services that require, in addition to FDI, also movement of skilled labor. It argues that foreign skilled labor may complement rather than substitute for domestic skilled labor. In addition, FDI may foster the accumulation of skilled labor. However, it also cautions that allowing foreign skilled labor in may lead firms to economize on scarce domestic skilled labor and therefore harm domestic skilled labor market in the long run.

Meanwhile, Konan and Markus (2004) argue that FDI involves not only inflows of capital and personnel, but more importantly it also tends to embody transfer of technology. Moreover, services liberalization tends to have more neutral impact on the production of goods and services. This is quite opposite to the impact of goods trade liberalization which tends to lead toward specialization. Their quantitative study using CGE on the potential benefits of services liberalization in Tunisia shows that permitting FDI in services sector generates large welfare gains. In addition, it also shows that the costs of adjustment, measured in terms movement of labor is lower with services trade liberalization than with goods trade liberalization.

In an empirical study concerning the impact of services liberalization on the manufacturing sector in the Czech Republic, Arnold et al. (2006) find a positive correlation between services liberalization and the performance of the country's manufacturing sector. In particular, they find that the presence of foreign services providers has greater impact on the manufacturing sector performance than privatization or competition. In another study, Fernandes and Paunov (2010) find positive effect of services FDI penetration on TFP (Total Factor Productivity) in the manufacturing sector in Chile. That is, an increase in services sector FDI leads to a significant increase in TFP for firms using services more intensely.

## *The Role of Services Sector in APEC Economies*

As noted, services play an increasingly important role in APEC economies as a whole. In 1990s services contributed around 62 percent of APEC total GDP, but absorbed only around 27 percent of the region's total employment. Since then its contribution to the region's GDP rose gradually and by 2007 it reached 68 percent. Meanwhile, during the same period, the sector's employment share grew vigorously to 61 percent (Table 1).

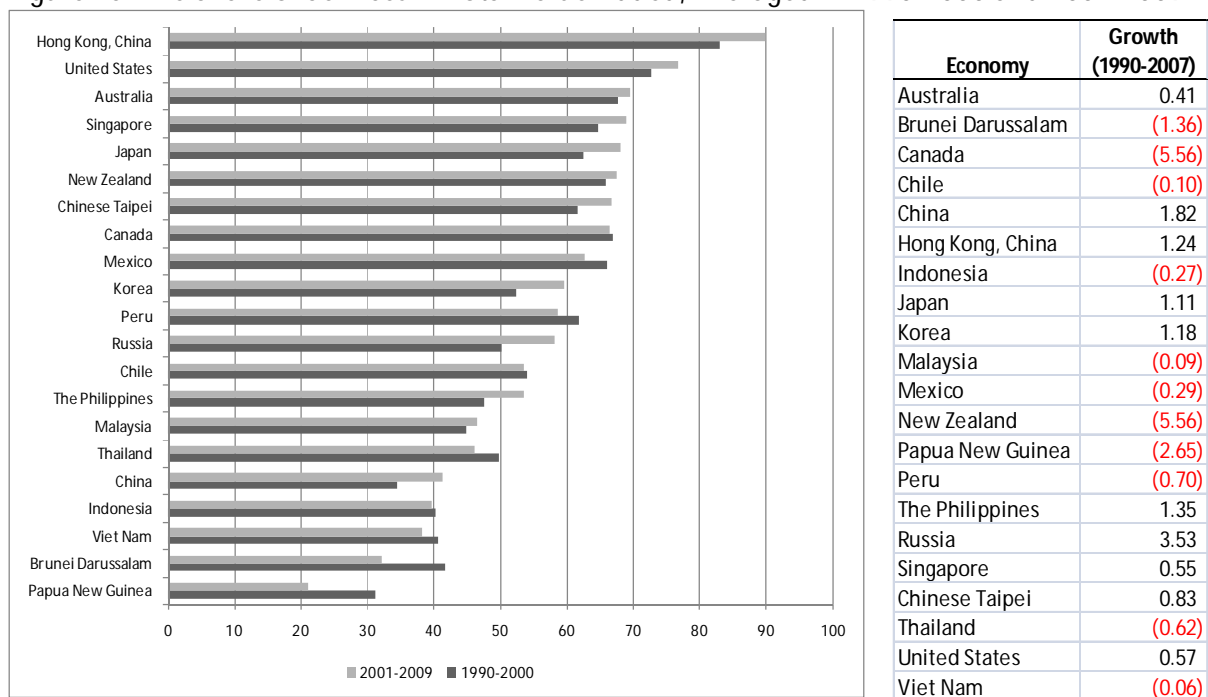
Table 1: Value Added (% of GDP) and Employment (% of total employment)

Country	1990			2000			2007		
	Agriculture	Industry	Services, etc.	Agriculture	Industry	Services, etc.	Agriculture	Industry	Services, etc.
<b>APEC</b>	<b>4</b>	<b>33</b>	<b>62</b>	<b>3</b>	<b>29</b>	<b>68</b>	<b>3</b>	<b>29</b>	<b>68</b>
	(40)	(22)	(27)	(35)	(20)	(32)	(16)	(23)	(61)
Australia	5	31	64	4	27	70	2	29	69
	(6)	(25)	(69)	(5)	(22)	(73)	(3)	(21)	(75)
Brunei	1	62	37	1	64	35	1	71	28
Darussalam	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Canada	3	31	66	2	33	65	n.a.	n.a.	n.a.
	(4)	(24)	(72)	(3)	(23)	(74)	(3)	(22)	(76)
Chile	9	41	50	6	38	55	4	47	49
	(19)	(25)	(56)	(14)	(23)	(62)	(12)	(23)	(64)
China	27	41	32	15	46	39	11	47	42
	(53)	(19)	(10)	(46)	(17)	(13)	n.a.	n.a.	n.a.
Hong Kong SAR, China	-	24	75	-	13	87	-	8	92
	(1)	(37)	(62)	-	(20)	(79)	-	(14)	(86)
Indonesia	19	39	41	16	46	38	14	48	38
	(56)	(14)	(30)	(45)	(17)	(37)	(41)	(19)	(40)
Japan	2	39	58	2	32	66	1	29	69
	(7)	(34)	(58)	(5)	(31)	(63)	(4)	(28)	(67)
Korea, Rep.	9	42	49	5	38	57	3	37	60
	(18)	(35)	(47)	(11)	(28)	(61)	(7)	(26)	(67)
Malaysia	15	42	43	9	48	43	10	47	42
	(26)	(28)	(47)	(18)	(32)	(50)	(15)	(29)	(57)
Mexico	8	28	64	4	28	68	4	35	61
	(23)	(28)	(46)	(18)	(27)	(55)	(14)	(26)	(60)
New Zealand	7	28	65	9	25	66	n.a.	n.a.	n.a.
	(11)	(25)	(65)	(9)	(23)	(68)	(7)	(22)	(71)
Papua New Guinea	31	32	37	36	41	23	36	45	19
	n.a.	n.a.	n.a.	(72)	(4)	(23)	n.a.	n.a.	n.a.
Peru	9	27	64	8	30	62	7	37	56
	(1)	(27)	(72)	(7)	(19)	(74)	(9)	(42)	(49)
Russian Federation	17	48	35	6	38	56	4	36	59
	(14)	(40)	(46)	(15)	(28)	(57)	(9)	(29)	(62)
Singapore	-	35	65	-	36	64	-	29	71
	-	(38)	(62)	-	(34)	(66)	(1)	(23)	(76)
Thailand	12	37	50	9	42	49	11	45	45
	(63)	(14)	(23)	(49)	(18)	(34)	(42)	(21)	(37)
Philippines	22	34	44	16	32	52	14	32	54
	(45)	(15)	(40)	(37)	(16)	(47)	(36)	(15)	(49)
United States	2	28	70	1	23	75	1	22	77
	(3)	(26)	(71)	(3)	(23)	(74)	(1)	(21)	(78)
Vietnam	39	23	39	25	37	39	20	41	38
	n.a.	n.a.	n.a.	(65)	(12)	(22)	n.a.	n.a.	n.a.

Source: World Development Indicator and APEC Statistics

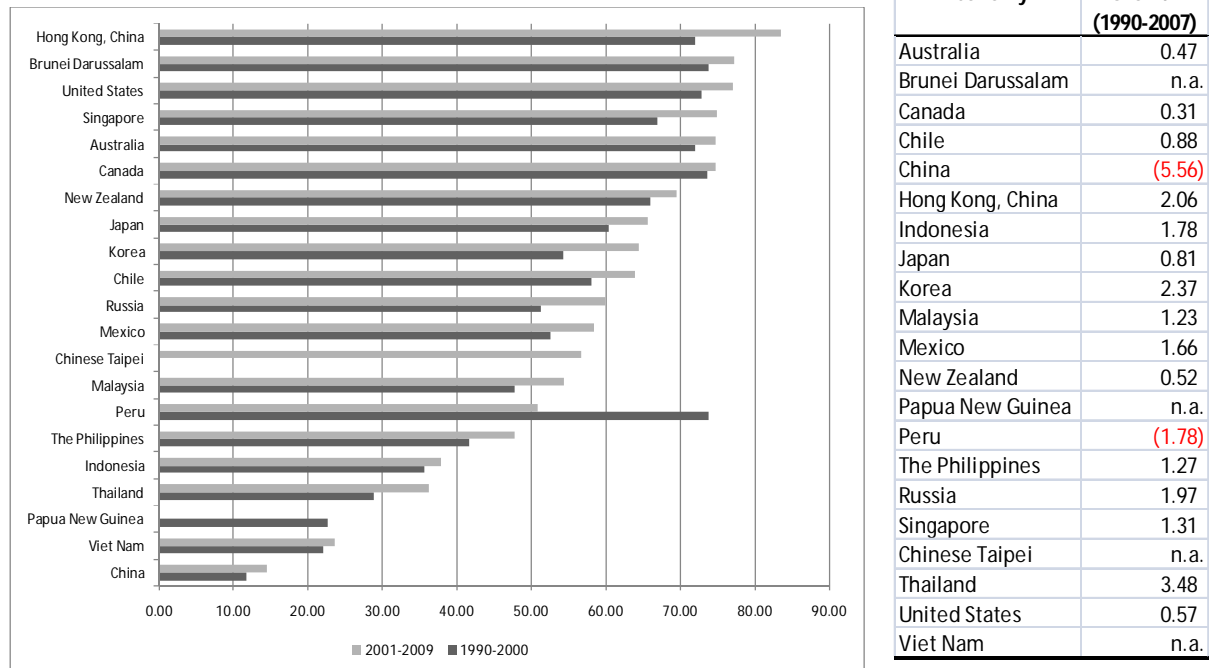
The importance of services varies across the APEC economies (Figure 2a). For APEC as whole, services sectors contributed on average around 55.21 percent of total value added during the 1990-2000 period and increased slightly to 56.42 percent during the 2001-2009 period. In high income member economies, services accounted for over 60 percent of the total value added for the 2001-2009 period, e.g., Australia (69.5 percent), Hong Kong (89.8 percent), Japan (68.1 percent), Singapore (69.0 percent) and United States (76.7 percent). During the same period services contributed a much lower share in the developing economies, ranged from 21.0 percent in Papua New Guinea to 54 percent in the Philippines, with Brunei, Indonesia and Malaysia somewhere in between. It has been suggested that a change in share of services sector in the total value added may be a result of changes in two opposing factors, i.e., price and quantity, which we are unable to disentangle.

Figure 2a: The Share of Services in Total Value Added, Averaged in 1990-2000 and 2001-2009



Source: World Development Indicators

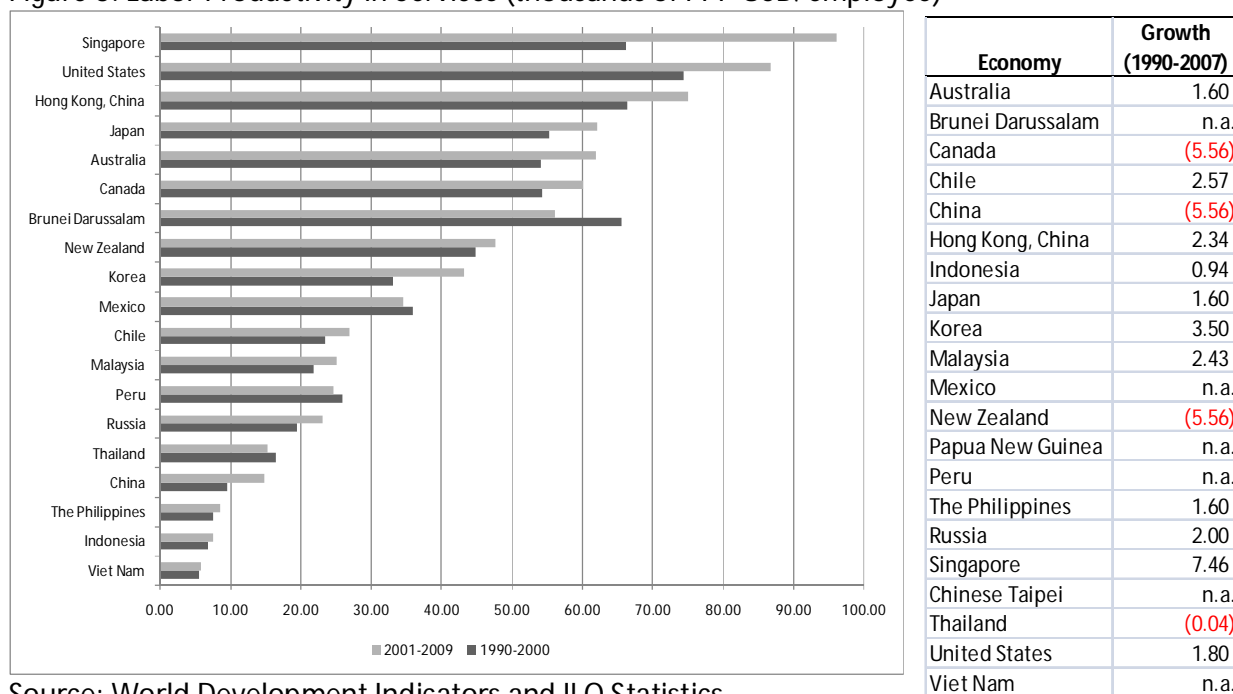
Figure 2b: The Share of Services Employment in Total Employment, Averaged in 1990-2000 and 2001-2009



Source: World Development Indicators

Meanwhile, in general the share of services sector's employment in the total employment also tended to increase during the period under consideration. During the 1990-2000 period services employment was 52.87 percent of total employment (on average). The share increased substantially to 58.29 percent during the 2001-2009 period. The only exception is Peru where the share dropped from well above 70 percent during 1990-2000 to around 50 percent during 2001-2007. Again, services sector in high income economies such as Hong Kong, Singapore and the US absorbed a large fraction of the employment, i.e. more than 70 percent of total employment for the 2001-2009 period, while in developing economies, it was less than 60 percent (Figure 2b).

Figure 3: Labor Productivity in Services (thousands of PPP USD/employee)



Source: World Development Indicators and ILO Statistics

There is a large variation in services sector labor productivity across APEC member economies. The average productivity in Singapore during 2001-2007 was around USD96,000/employee, followed by the US with USD86,700 /employee and Hong Kong with 75,000/employee. On the other hand, labor productivity in Indonesia, the Philippines and Viet Nam were relatively low at respectively, USD7,600/employee, USD8,500/employee and USD5,900/employee. And since, as noted, services are inputs in the production of goods and services, one would expect that any increase in the services sector productivity would have a positive impact on the productivity of the rest of the economy. Indeed, as Casero (2007) observes, the recent sectoral shift towards services has contributed to an increase in aggregate productivity and economic growth in the Eastern European and Central Asian (ECA) countries.

In general, most of the members experienced an increase in labor productivity but it is particularly pronounced in Singapore. In additions, between 1990 and 2007 the average growth of labor productivity in developing countries is relatively higher than in developed countries. For example, labor productivity growth in Malaysia and Korea was respectively 2.43 percent and 3.50 percent, while, in the US and Japan were only 1.80 percent and 1.60 percent, respectively. It implies that there are on-going catch-up processes and a potential for services driven growth in developing countries.

With regard to trade in services, the average share of services trade (% of total trade) in APEC economies is relatively low at around 17 percent in 2000-2009 period. In general, the share in

high income economies such as the US and Singapore, is more than 20 percent while in the developing economies, the number varies, ranging from 10 percent to 20 percent. Of the APEC members, only three economies, namely Hong Kong, Singapore and the United States that have consistently recorded a surplus in their services trade balance. Most, of the other members have been net importers of services (Table 2).

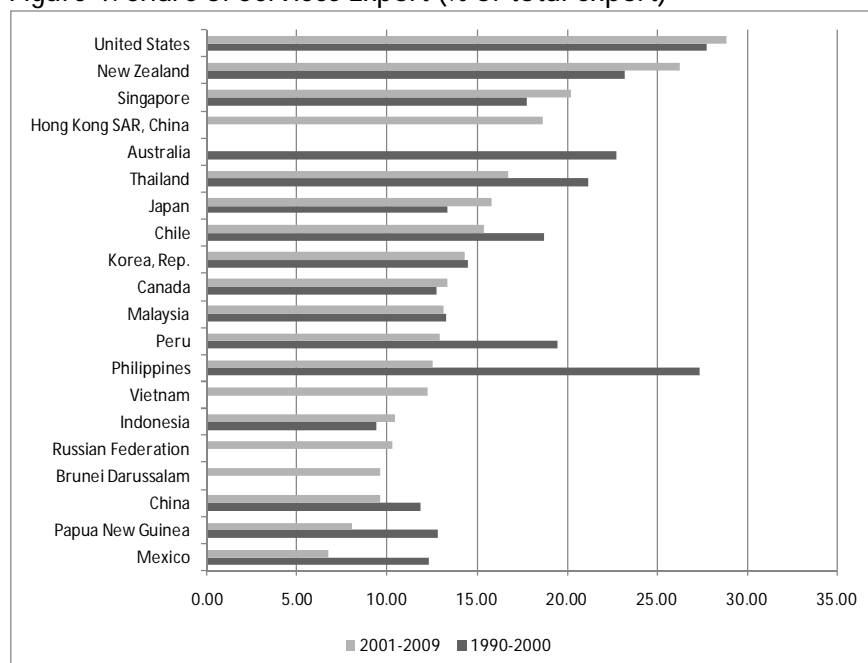
Table 2: Services Balance (in million USD)

Country Name	Average 1990-2000	Average 2001-2009
Australia	(1,022.5)	355.2
Brunei Darussalam	n.a.	(519.0)
Canada	(7,397.7)	(11,876.1)
Chile	(283.2)	(788.4)
China	(1,958.1)	(10,925.2)
Hong Kong SAR, China	3,295.2	30,424.9
Indonesia	(6,964.7)	(11,069.6)
Japan	(49,525.6)	(29,166.0)
Korea, Rep.	(2,219.2)	(12,644.5)
Malaysia	(2,510.7)	(1,343.4)
Mexico	(1,945.8)	(6,010.3)
New Zealand	(482.6)	376.9
Papua New Guinea	(398.2)	(1,081.3)
Peru	(594.7)	(1,047.2)
Philippines	936.3	(475.8)
Russian Federation	(3,910.0)	(14,788.8)
Singapore	4,886.4	2,659.0
Thailand	(1,312.9)	(5,905.0)
United States	65,503.9	81,051.6
Vietnam	(210.1)	(703.8)

Source: World Development Indicators

As for the share of services export in the total export, high income economies tend to export more services than developing ones. The picture is quite different for import of services. Several high income economies such as New Zealand, Japan and Singapore also have relative high of dependency on services import (Figure 4 and 5). This is in line with Neilson and Taglioni's (2004) observation that although developed countries dominate services trade overall, developing countries seem to be particularly successful in certain sectors, such as port and shipping services, construction services and health services. That is, developing countries have a clear advantage in labor-intensive services such as construction services. In addition, technological advancements in telecommunication and computer industries have allowed developing countries which are endowed with a well-educated and cost-competitive workforce to produce and export services globally. Nielson and Tagilioni also note that developing countries will get other benefits from services trade liberalization, such as lower domestic prices, better ability to exploit their comparative advantage, improved market access opportunities abroad and more efficient market at home.

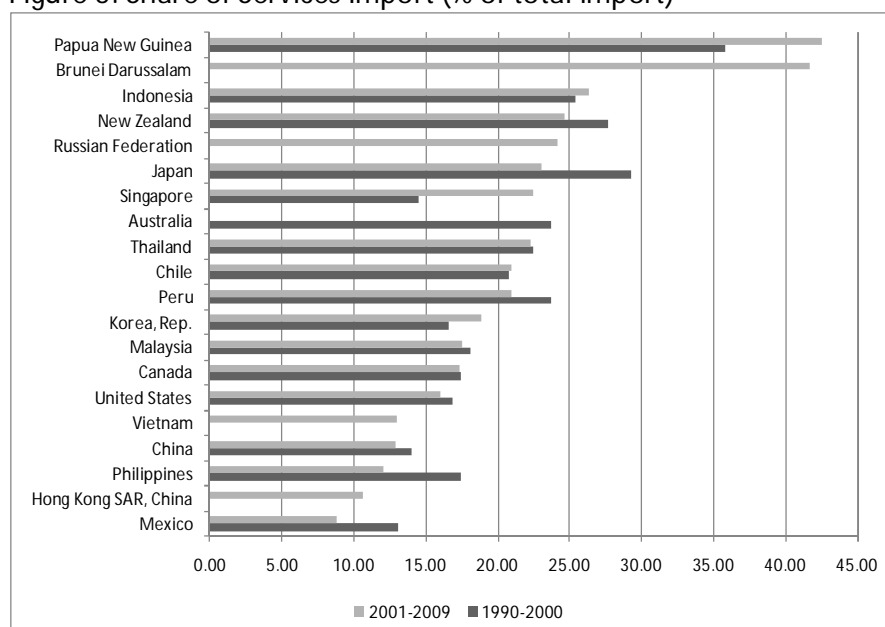
Figure 4: Share of Services Export (% of total export)



Country Name	Growth (1990-2007)
Australia	0.45
Brunei Darussalam	n.a.
Canada	0.13
Chile	(1.98)
China	(0.60)
Hong Kong SAR, China	n.a.
Indonesia	0.70
Japan	1.40
Korea, Rep.	0.50
Malaysia	1.18
Mexico	(3.52)
New Zealand	1.12
Papua New Guinea	(2.98)
Peru	(2.64)
Philippines	(2.33)
Russian Federation	n.a.
Singapore	0.85
Thailand	(1.33)
United States	0.41
Vietnam	n.a.

Source: World Development Indicators

Figure 5: Share of Services Import (% of total import)



Country Name	Growth (1990-2007)
Australia	(1.29)
Brunei Darussalam	n.a.
Canada	(0.41)
Chile	(1.04)
China	1.94
Hong Kong SAR, China	n.a.
Indonesia	0.05
Japan	(1.48)
Korea, Rep.	2.37
Malaysia	(0.04)
Mexico	(3.36)
New Zealand	(0.86)
Papua New Guinea	3.29
Peru	(2.02)
Philippines	(0.49)
Russian Federation	n.a.
Singapore	3.86
Thailand	1.89
United States	(1.00)
Vietnam	n.a.

Source: World Development Indicators

## ***Infrastructure and Economic Development***

One potential benefit of services liberalization is to stimulate investment in infrastructure. As noted, improving transportation and telecommunication infrastructure is likely to lower trade costs. However, one expects that infrastructure development would have impacts on the whole economic development activities and not just on trade activities. Infrastructure-related services, such as transport, logistics and ICT services are inputs to the production of goods and services. In additions, liberalized telecommunication systems have been associated with wider internet use, and increased access to global markets. From this perspective, infrastructure development will enable the economy in question attain a higher growth path.

A recent paper by Agenor and Moreno-Dodson (2006) identifies a number of channels through which investment in infrastructure may affect economic growth. Firstly, such investment tends to reduce unit production costs by raising the productivity of other inputs, such as labor and the stock of private capital (direct effect). Secondly, it can raise the perceived rate of return on investment and, hence, stimulating further investment (secondary effect). Thirdly, an increase in the stock of public infrastructure may have an adverse effect on economic activities by crowding out private investment. And, lastly, having better infrastructure may indirectly raise labor productivity by reducing transportation and communication costs.

It seems obvious that infrastructure development is at least correlated with economic development and that well developed efficient infrastructure, e.g., transportation and telecommunication networks promote economic growth. It is also obvious that inadequate infrastructure can hamper economic growth and development. Yet, the exact nature of the link remains unclear. The question about the direction of causation and the exact way by which one variable influences the other are not altogether resolved. One would expect that causation runs both ways. On one hand, it seems natural to assume that high income countries would have more sophisticated infrastructure networks. On the other hand, as noted above, additional stock of infrastructure would lead to higher economic growth.

Table 3 below provides information regarding logistic performance in APEC economies. Logistic performance is closely related to logistic cost. Logistics cost, in turn, comprises four elements, i.e., transportation and handling and handling cost; inventory cost, including losses within the system; cost associated with foregone transactions (opportunity cost); and, other costs such as pollution and infrastructure maintenance cost. Among the APEC economies, Singapore has the highest logistic performance index (LPI) followed by Japan and Hong Kong, while Papua New Guinea has the lowest LPI followed by Russian Federation and Indonesia. Higher values of the index signify higher quality of logistics services. It should be noted that all the components of the LPI are strongly correlated with each other so that countries with high quality logistics will also have a strong ability to ensure timely delivery of shipments (Korinek and Sourdin, 2011).

Table 3: Logistics Performance Index

7	24	26	27	62	66
73	77	89	94	103	111
113	114	119	125	137	140
149	153	mode1c.asp			

Country	LPI	Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
Singapore	4.09	4.02	4.22	3.86	4.12	4.15	4.23
Japan	3.97	3.79	4.19	3.55	4.00	4.13	4.26
Hong Kong, China	3.88	3.83	4.00	3.67	3.83	3.94	4.04
Canada	3.87	3.71	4.03	3.24	3.99	4.01	4.41
United States	3.86	3.68	4.15	3.21	3.92	4.17	4.19
Australia	3.84	3.68	3.78	3.78	3.77	3.87	4.16
Taiwan	3.71	3.35	3.62	3.64	3.65	4.04	3.95
New Zealand	3.65	3.64	3.54	3.36	3.54	3.67	4.17
Korea, Rep.	3.64	3.33	3.62	3.47	3.64	3.83	3.97
China	3.49	3.16	3.54	3.31	3.49	3.55	3.91
Malaysia	3.44	3.11	3.50	3.50	3.34	3.32	3.86
Thailand	3.29	3.02	3.16	3.27	3.16	3.41	3.73
Philippines	3.14	2.67	2.57	3.40	2.95	3.29	3.83
Chile	3.09	2.93	2.86	2.74	2.94	3.33	3.80
Mexico	3.05	2.55	2.95	2.83	3.04	3.28	3.66
Vietnam	2.96	2.68	2.56	3.04	2.89	3.10	3.44
Peru	2.80	2.50	2.66	2.75	2.61	2.89	3.38
Indonesia	2.76	2.43	2.54	2.82	2.47	2.77	3.46
Russian Federation	2.61	2.15	2.38	2.72	2.51	2.60	3.23
Papua New Guinea	2.41	2.02	1.91	2.55	2.20	2.43	3.24

Source: The World Bank, accessed on May 4, 2011

Meanwhile Global Enabling Trade Report published by World Economic Forum also provides useful information concerning the supply and quality of telecommunication and transport infrastructure. As expected, high income economies have, in general, better infrastructure than developing ones.

Table 4: The Enabling Trade Index 2010: Transport and communication infrastructure

	Transport and communications infrastructure	Availability and quality of transport infrastructure	Availability and quality of transport services	Availability and use of ICTs
Australia	5.24	5.10	5.34	5.29
Brunei Darussalam	n.a.	n.a.	n.a.	n.a.
Canada	5.24	5.48	4.66	5.57
Chile	4.13	4.81	3.80	3.78
China	4.13	4.30	5.00	3.09
Hong Kong SAR, China	5.79	6.02	5.40	5.95
Indonesia	3.28	3.74	3.59	2.52
Japan	5.45	5.52	5.77	5.05
Korea, Rep.	5.37	5.37	4.93	5.80
Malaysia	4.95	5.88	5.03	3.94
Mexico	3.68	4.20	3.70	3.15
New Zealand	4.88	5.35	4.20	5.07
Papua New Guinea	n.a.	n.a.	n.a.	n.a.
Peru	3.16	3.41	3.19	2.87
Russian Federation	4.00	4.53	3.62	3.86
Singapore	5.74	6.04	5.81	5.35
Thailand	4.19	4.98	4.62	2.98
Philippines	3.31	3.09	4.23	2.61
United States	5.49	5.90	5.03	5.55
Vietnam	3.62	3.21	4.40	3.27

Source: The Global Enabling Trade Report 2010

Developing countries also have shown their potential to export various type of services. Some APEC economies e.g., China, Korea, Malaysia, Thailand and Taiwan are among the main exporters of such services. In addition, China and Korea are major exporters of construction services. Table 5 below provides a list of companies from developing APEC economies that have been successful in exporting distribution services, port, shipping and related services, and telecommunication services. The destinations of their exports are other developing economies as well as some developed ones.

Table 5: Services Providers from APEC Developing Economies in Selected Industries

Company name	Country base	Operating Areas	Activities
<b>Distribution Services</b>			
<b>Grupo Gigante</b>	Mexico	the US and Mexico	Operates discount, food service, hypermarket, specialty and supermarket stores and warehouses
<b>Cencosud</b>	Chile	Chile and Argentine	Expected to buy the Argentine supermarket chain Disco (around 237 stores in Argentina) from Dutch retailer Ahold by the end of 2003
<b>Mall Plaza</b>	Chile	Chile and the US	The establishment of Mall Plaza Los Angeles in March 2003
<b>Lotte Shopping</b>	Korea Rep.	Korea and China	Operates convenience stores, department stores and supermarkets.
<b>Dairy Farm International</b>	Hong Kong	Australia, China, India, Indonesia, Malaysia, New Zealand, Singapore and Chinese Taipei	Operates a range of retail stores — convenience, discount, drug, hypermarket, specialty and supermarkets —
<b>AS Watson &amp; Co</b>	China	Asia and Europe	Operates over 3 000 retail stores and employs over 50000 staff in 20 countries. it has retail food, retails non-food and beverages
<b>Lianhua Supermarket Holdings Co</b>	China	China and Europe	is set to establish its first overseas subsidiary in Belgium. Lianhua plans to take advantage of its ready access to Chinese-made products by setting up a distribution company in Belgium specialising in foods exports.
<b>Convenience Retail Asia Limited (Circle K)</b>	Hong Kong	Hong Kong, Macau and China	is a member of the Li & Fung Retailing Group and has the exclusive right to use the Circle K brand name for convenience retailing
<b>NTUC Fairprice</b>	Singapore	Malaysia, China and India	The company's overseas operations will be run in partnership with both a local retailer and a major international player
<b>Port and Related, and Shipping Services</b>			
<b>Hutchison Port Holdings (HPH)</b>	Hong Kong	Asia, the Middle East, Africa, Europe and the Americas	A multinational conglomerate with businesses spanning 41 countries. Port and related services are but one of 5 core businesses of the company
<b>PSA Corporation of Singapore</b>	Singapore	Belgium, Brunei, China, India, Italy, Korea, Portugal, and Yemen	Provides every shipper with a choice of 200 shipping lines with connections to 6000 ports in 123 countries
<b>International Container Terminal Services Inc. of the Philippines</b>	The Philippines	Asia, the Middle East and the Americas	The management, operation and development of container ports and terminals worldwide.
<b>Beijing Long Distance E-commerce Co., Ltd.</b>	China	Global	The scope of the company's service scope is very wide and includes: import & export, booking shipping space, applying to customs, checking up, professional packing, free storage, insurance, certificates of antiquity, loading and unloading of container and freight consultation.

<b>Marindolestari Guna</b>	Indonesia	Indonesia, Singapore and Malaysia	A marine-cargo-transportation company; It specializes in the transportation of aggregates, asphalt, coal, heavy equipment and logs
<b>Telecommunication Services</b>			
<b>Subsidiaries of Telekom Malaysia</b>	Malaysia	Bangladesh, Cambodia and Sri Lanka, the Republic of Guinea, Malawi, Ghana, South Africa, Thailand and Cambodia	Mobile telecommunications services; telecommunications and related services; and telecommunication and broadcasting services
<b>Hutchison Telecommunications</b>	Hong Kong	Europe, Australia, New Zealand, Israel, India, Thailand, Malaysia, Sri Lanka, Paraguay, Argentina and Ghana.	Operates a wide range of integrated telecommunications services worldwide and is one of the world's major providers of mobile communications.
<b>The Asia Satellite Telecommunications Company Limited</b>	Hong Kong	All continents except Africa	A medium sized producer of satellite transponder capacity for broadcasting and telecommunications.
<b>ENTEL</b>	Chile	Latin American countries and in the US	Provides international and domestic long distance calls; and the company is holder of wireless licences.

---

Source: Nielson and Taglioni, 2004

### ***Issues Going Forward***

Notwithstanding the growing body literature concerning potential benefits of services liberalization, many countries, APEC developing economies included, remain unenthusiastic toward the idea of opening up their services sector. There a number possible reasons as to why this is the case. Some people seem to believe that developed countries have an overwhelming comparative advantage in services provision vis-a-vis developing countries. That is, developing countries stand to lose from the opening up of their services sector. Also, as a corollary, there is a concern about costs adjustment such as the potential size of labor market adjustment if one or another of the existing domestic services provider is being displaced by foreign providers. Moreover, in some economies foreign control of certain services providers is seen as unacceptable (Whalley, 2003). This is not however the monopoly of developing countries. There were cases which involved developed countries such as the refusal of Australian government to approve the takeover of the Australian Stock Exchange (ASX) by the Singapore Stock Exchange (SGX) on the national interest ground.

On a related issue, the resistance toward foreign entry into the services sector varies from one industry to another and according to the type of investment. In general, the resistance is stronger in industries with strong labor unions or professional associations. Also, greenfield foreign direct investment tends to be more acceptable than merger and acquisition. People

tend to see the latter as selling national assets to foreigners as the case of ASX mentioned above clearly indicates.

The question therefore is how to assuage the developing countries' concerns so as to persuade them to liberalize their services sector. It seems that there need to be honest discussions among various stake holders not only about the potential upsides but also about how address the potential downsides of services liberalization. That is, the government in question should come up with evidence-based policy.

### ***References***

(To be added)