

Building Blocks for the FTAAP: Investment and Services

Robert Scollay

New Zealand APEC Study Centre, University of Auckland

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Services, Investment and the FTAAP

Objective of FTAAP

- A region where “goods, services, and business people move seamlessly across and within borders” (AELM 2010)
 - Facilitating environment for supply chains and value chains

Pathways to FTAAP

- “Possible pathways” include “TPP and RCEP” (AELM 2014)

Role for APEC?

- Realisation of FTAAP to proceed “parallel with the APEC process”
 - APEC continues as “incubator” of the FTAAP (AELM 2014)

Vital Roles of Services

Role in Trade

- Almost 50% (probably more) of global trade on value added basis
- Key determinant of manufacturing competitiveness
 - Services inputs at every stage of production processes
- Key components of trade facilitation

Role of Services in the Economy

- Essential contribution to productivity and growth
- Vital role in growth model for breaking through Middle Income Trap

Role in Connectivity

- Services are the medium for connectivity

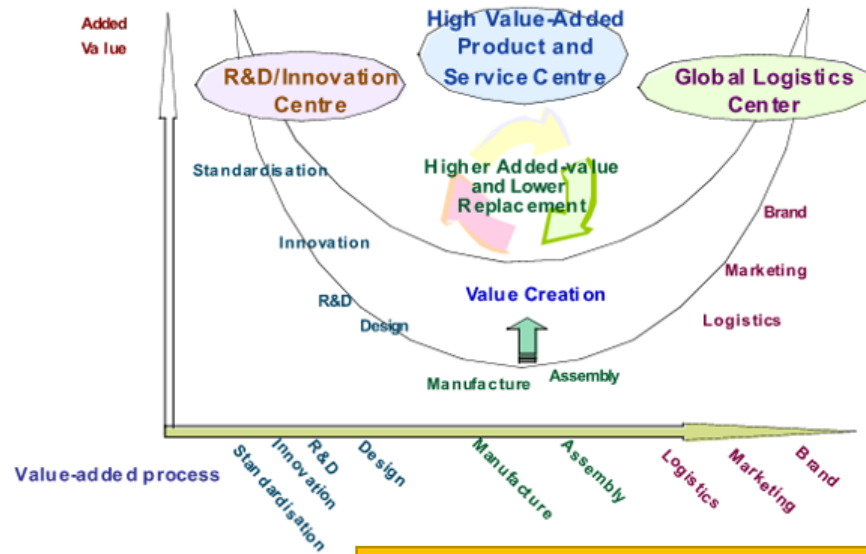
Role in Global Value Chains and Production Networks

- Key to efficient connection between supply chain links (“service link costs”)
- Add value to every link in the chains
- Can raise value across the entire supply chain

Services Can Raise Value Added Across the Entire Supply Chain

SERVICES add higher value, while manufacture and assembly remain at the low value adding end of scale

"Smiley Face": conceptual model of the shift to a high value added, globally integrated, services economy



Source:
Business Week
Online Extra,
May16, 2005

How do SERVICES add value?...
Through Embodied and Embedded Services

Linkage Between Services and Investment

Investment is a major channel for services supply

- “Mode 3” (commercial presence) in GATS terms

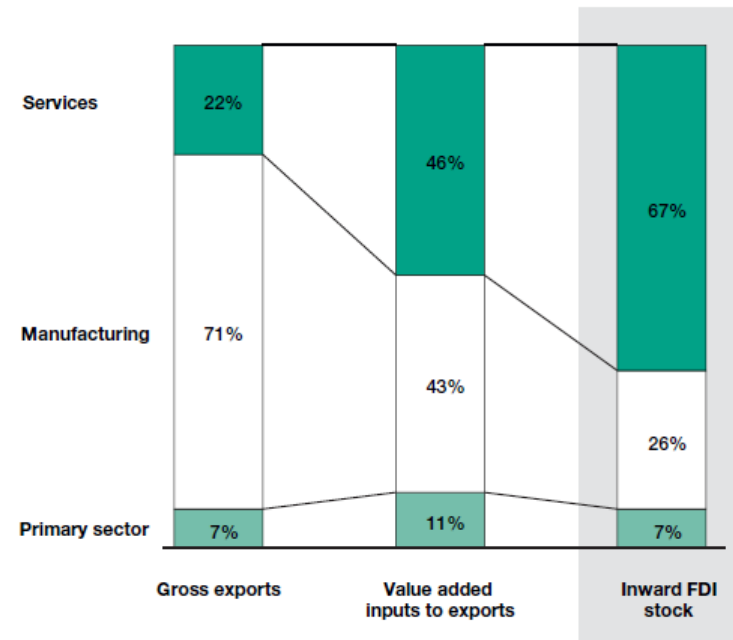
Primary purpose of infrastructure investment is to facilitate provision of services

- Efficient supply of services needed to make connectivity effective
 - transport, communications, logistics, business services etc

Services account for the largest share of FDI (two-thirds in 2010)

Globally, Services Contribute More Than Manufacturing or Primary Sectors to Inward FDI as well as Value Added Inputs to Exports

Figure 15. Sector composition of global gross exports, value added inputs to exports, and FDI stock, 2010



Source: UNCTAD-Eora GVC Database, UNCTAD FDI Database, UNCTAD FDI Database.

Note: The sectoral breakdown of gross exports is based on ISIC, rather than SITC (normally used for merchandise trade), for consistency with the classification employed for value added trade and FDI. Thus, refined oil/petroleum products and food and beverages are classified under manufacturing.

Services Trade is Highly Restricted

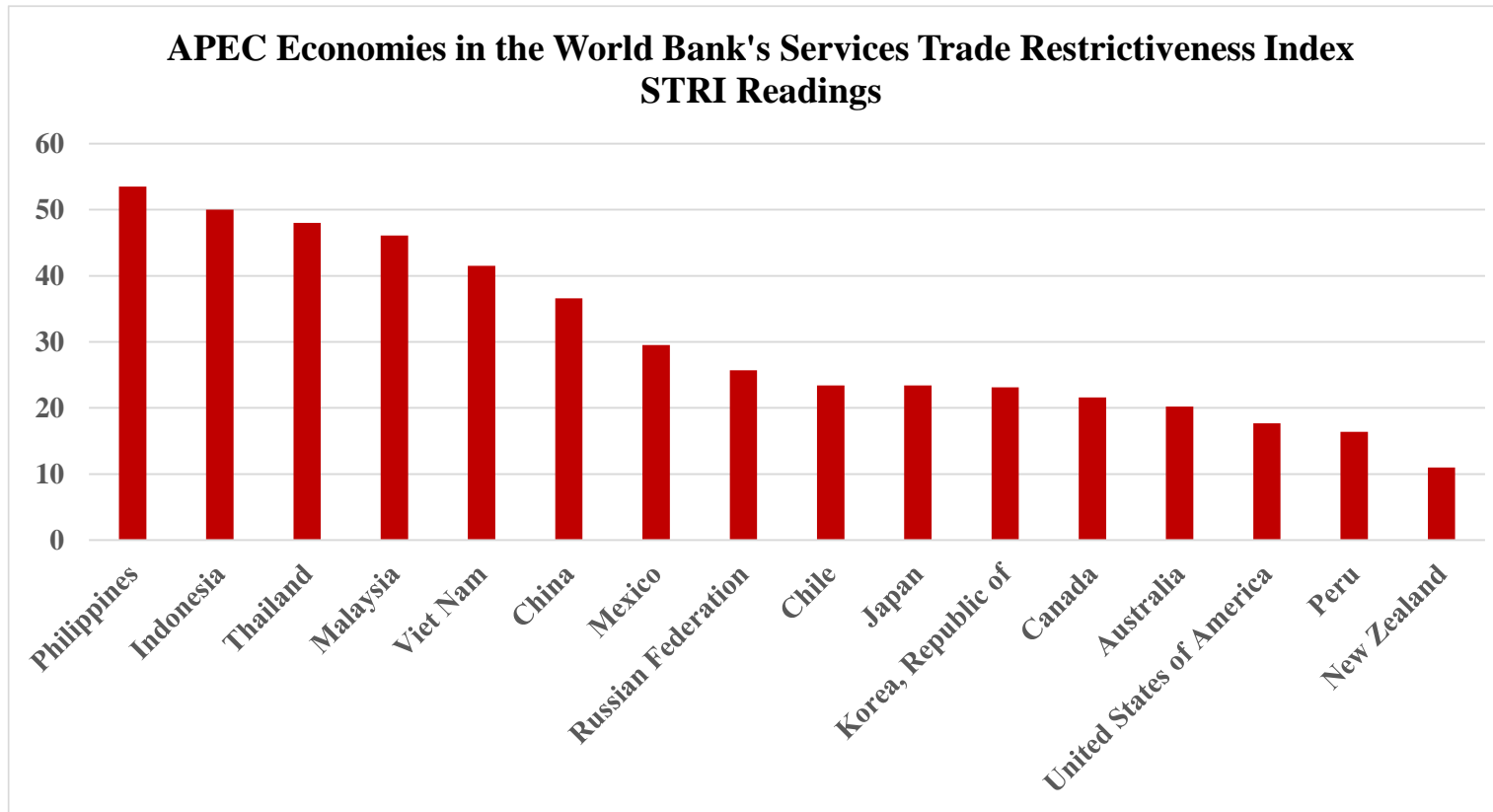
New services trade restrictiveness indexes (STRIs) are confirming that services trade is highly restricted

- **World Bank: 103 countries (16 APEC members)**
- **OECD: 40 OECD members and associates (11 APEC members)**

Measuring restrictiveness by

- **sector**
 - **key sectors are some of the most restricted**
- **type of restriction**
 - **relative importance varies**
 - **restrictions on foreign entry generally important**
 - **restrictions on competition, movement of people – each important in some sectors**
- **region**
- **country**

Services Trade Restrictiveness of APEC Members in the World Bank STRI



Implications for Impact of Services Liberalisation

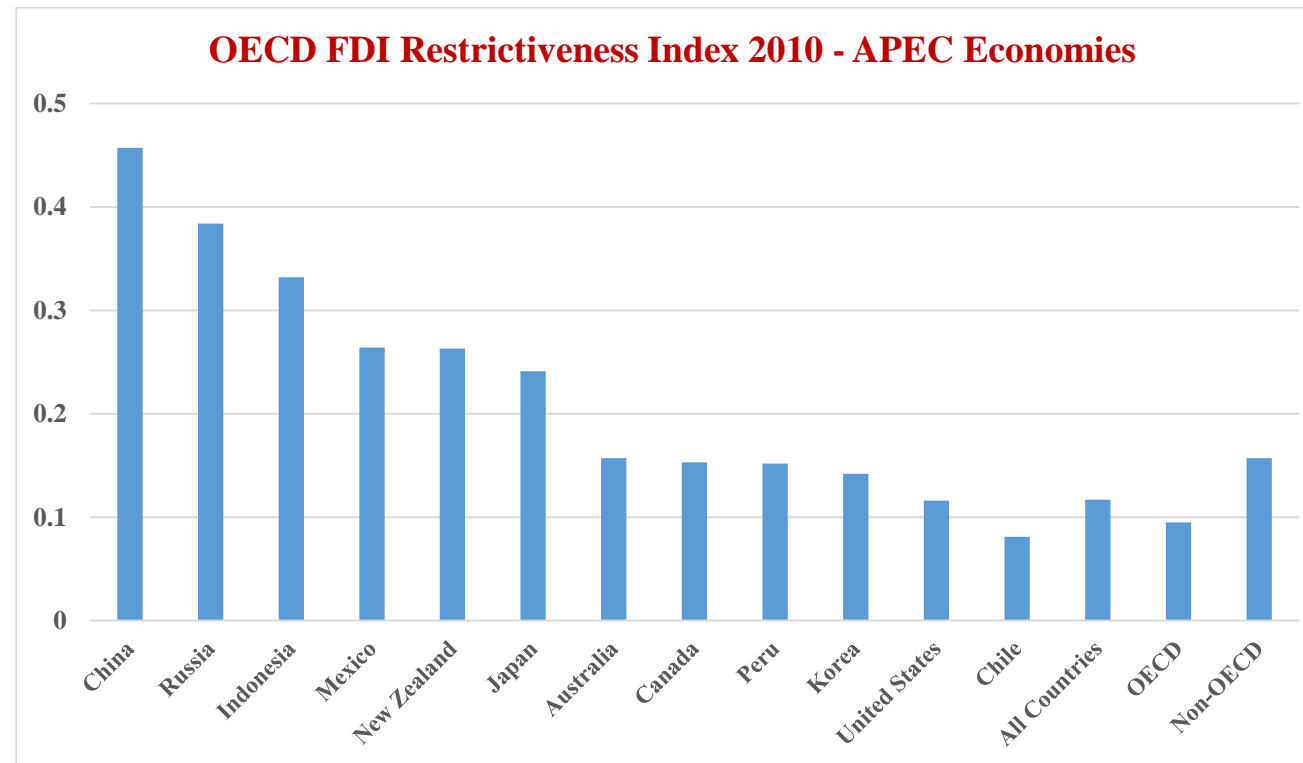
Substantial impact on trade expected from liberalisation where restrictiveness is high

Preliminary OECD analysis (Nordas and Rouzet 2015)

- **Using gravity model approach to “test” their STRI (for 12 of 18 STRI sectors)**
- **Results seems to support the expectation**
- **Highlights likely pervasiveness of trade effects of services liberalisation**
 - **indication of benefits of joint liberalisation by a large number of countries (benefits maximised when both importer and exporter liberalise)**
- **Liberalisation of services trade associated with**
 - **larger (approximately double) increases in services exports than services imports**
 - **larger more robust results for the most restricted sectors**
 - **increases in goods exports (especially from liberalisation in transport, telecoms, financial services – link to GVCs)**
 - **increases in intra-industry trade**
 - **spillover effects along GVCs**

OECD FDI Restrictiveness Index Shows Relatively High Restrictiveness in APEC Economies

(and restrictiveness increased between 2006 and 2010 in 8/12 APEC economies)



Existing Services Liberalisation Modalities: Progress and Limitations

GATS Approach

- positive list for sectoral coverage
- scheduling of commitments allows reservation of substantial “policy space” in many or all commitments

In WTO (Borchert et al. 2010)

- Uruguay Round bindings have generally been well above restrictiveness of actual policy
- “No iota of liberalisation” in Doha Round offers

In FTAs

- “WTO-Plus elements typically small
 - e.g. ERIA analysis of ASEAN-Plus FTAs (Fukunaga and Ishido 2013)
- Adlung and Morrison (2010) found “GATS-minus” elements in 80% of FTAs
- Lack of coherence in treatment of investment

Existing Services Liberalisation Modalities: Progress and Limitations (2)

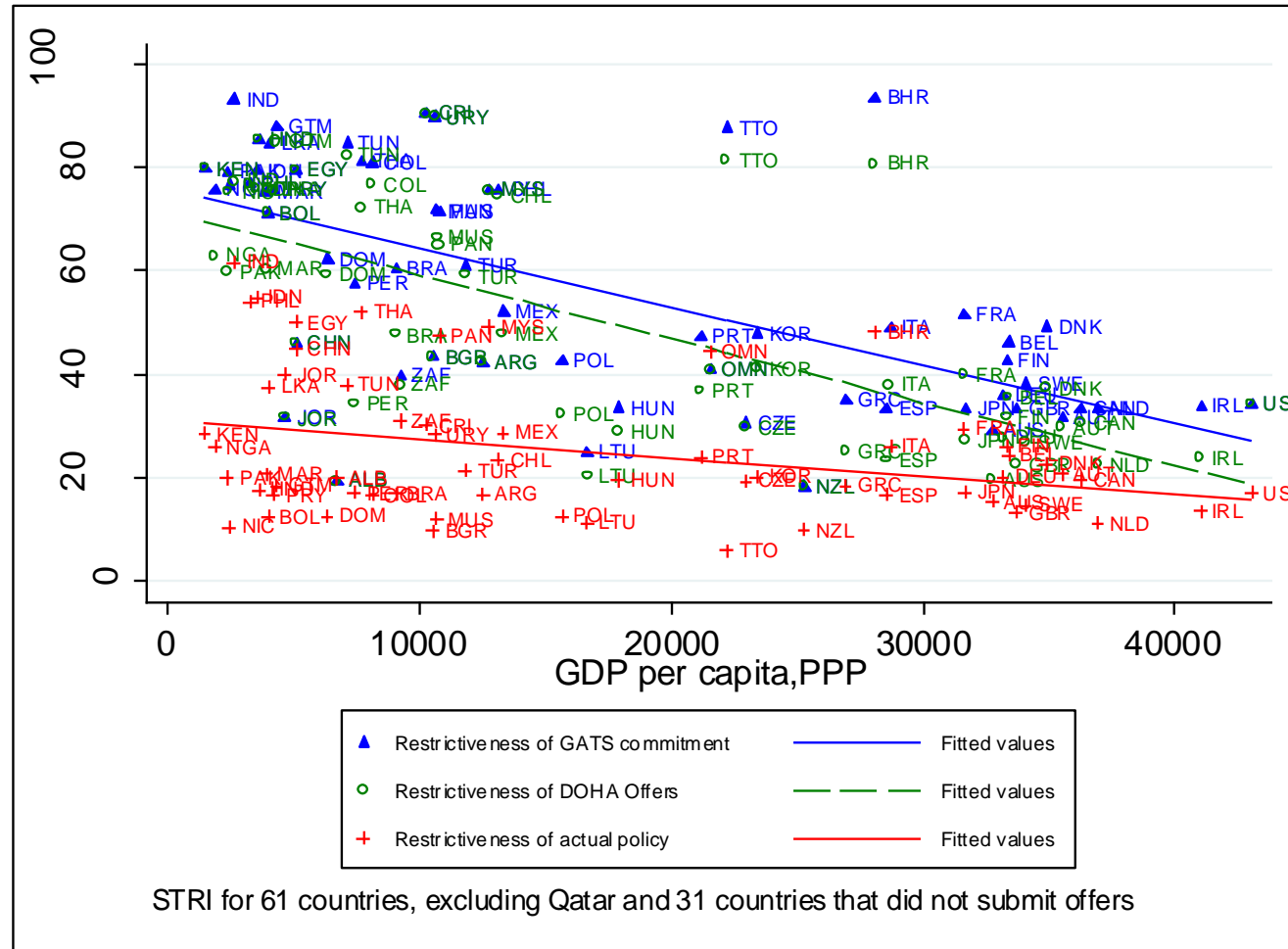
Negative List Approach

- **services provisions cover cross-border supply while all investment (in both goods and services industries) covered in investment provisions**
 - **enables coherent treatment of investment**
- **coverage of all except negative-listed sectors**
- **full commitment to market access and national treatment in covered services sectors except for specified non-conforming measures**
 - **non-conforming measures bound at level of restrictiveness of actual policy (no “water”)**
 - **“ratchet” may lock in subsequent reforms**
 - **allows consistent treatment of investment**
 - **effectiveness depends on length and significance of negative lists**
 - **typically results in wider coverage but relatively little “depth” (Roy et al. 2007)**

“Hybrid” (TiSA) approach

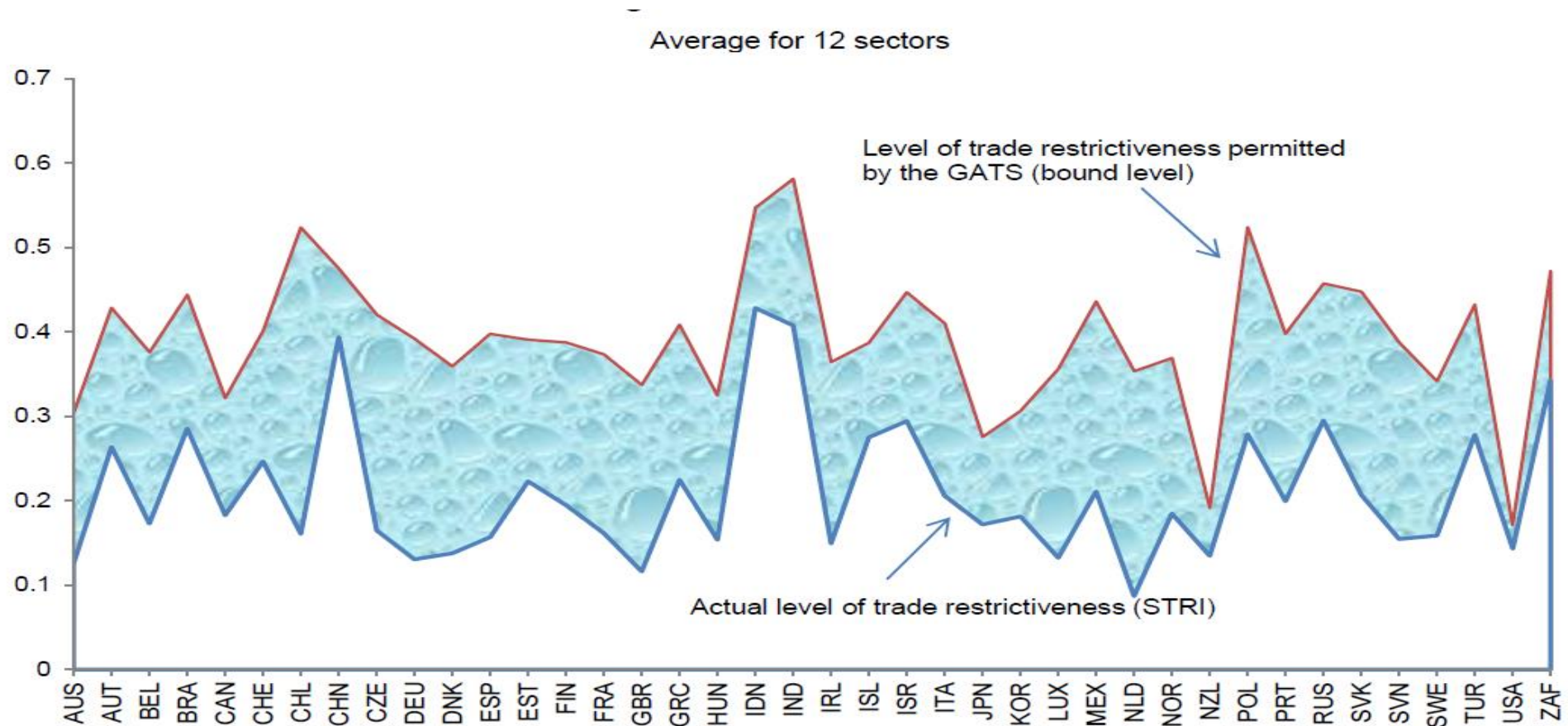
- **combines some advantages of “negative list” with some disadvantages of GATS approach**
- **negative list for sectoral coverage and national treatment**
- **positive list for market access**
- **11/21 APEC members participating in TiSA plus one applicant (China)**

Existing GATS Commitments, Doha Offers and Actual Policy by GDP per Capita, 2010



Source: Borchert, Gootiiz, Mattoo 2010

“Water in the GATS” (OECD STRI)



Note: The sectors included in the graph are three audio-visual services sectors, the four professional services, construction, computer services, distribution services, and rail and road transport services.

Outlook for TPP and RCEP

- **TPP has adopted “negative list” approach**
 - **Details of concluded provisions on services not available**
 - **Negotiations reported to be “challenging”**
- **RCEP understood to have adopted “GATS” approach**
 - **Consistent with RCEP Guiding Principles and Objectives state:**
 - **“RCEP will be consistent with the”.. “GATS”**
 - **“liberalization” will build on the participating countries' commitments under the GATS and the ASEAN+1 FTAs**
 - **Choice of GATS-based modality would suggest limited ambition**
 - **given relatively limited ambition in “ASEAN-Plus FTAs”**
 - **Possibility left open of moving to “negative list” approach at later date**
- **Conclusion: TPP and RCEP likely to leave much to be done in relation to services to fulfil APEC leaders' aspiration for FTAAP**

Why is Services Liberalisation So Difficult? (Given the Apparent Benefits)

Hoekman and Mattoo (2011) suggest

- an important factor is uncertainty over regulatory reforms needed to ensure that liberalisation is “safe” and beneficial
- proposed solution is “regulatory cooperation” involving exporting and importing countries
 - purpose is to provide importing countries with assurance of “safety” of liberalisation
- “regulatory cooperation” must be preceded by development of a “knowledge community” to build confidence among participating economies over associated need for regulatory reform
 - evidence- and analysis-based discussion of sector-specific regulatory policies
 - sharing of experiences – what works, what doesn’t, and why
 - identify “best practices”
 - bring together regulators, experts, trade officials, stakeholders

Development of “knowledge community” an obvious task for APEC in its role of “incubator” of the TPP?

- APEC-wide involvement needed to avoid risks of exclusion (within APEC)
- followed by use of FTAAP as “harvesting”, “lock-in” mechanism

Thought Experiment: Is it Possible to Consider a Completely New Approach?

Motivation: inconsistency between 21st century business models and today's trade policy framework (separate rules/modalities for goods, services, and investment)

Today's Business Model: implies simultaneous concern with cross-border movements of goods, services, capital and people

- **common thread: market access**

Is a matching trade policy framework possible?

- **A single market access-focused framework embracing goods, services and investment, with free movement as the default setting except where limited by non-conforming measures in each area**
- **Could APEC in its “FTAAP incubator” role explore this concept?**