

Annex 1

Summary Report and Recommendations APEC Services Competitiveness Roadmap Mid-term Review

Renewing ambition of the APEC Services Competitiveness Roadmap (2016-2025) for a services-led recovery from COVID-19

CONTEXT & ANALYSIS

In 2016, Leaders committed to a mid-term review of the APEC Services Competitiveness Roadmap (ASCR) in 2021 with a view to assessing what individual and APEC-wide actions will be required to complete the objectives by 2025. This paper summarises, for Leaders / Ministers, the reviews by the APEC Policy Support Unit (PSU) and APEC Business Advisory Council, as well as the outcomes of the Group on Services Trade Policy Dialogue on 19 May 2021. As a reminder, the three ASCR targets are to:

1. Ensure an open and predictable environment for access to services markets by progressively reducing restrictions to services trade and investment;
2. Increase the share (%) of services exports from APEC economies in the total world services exports so that it exceeds the current share in world services exports by 2025 (*the APEC's share of world services exports was 38.8 percent in 2014*); and
3. Increase trade in services in the APEC region so that by 2025, the compound average annual growth rate exceeds the historic average of 6.8 percent and the share (%) of value-added of the services sector in the total gross domestic product of the APEC region exceeds the global average level by 2025.

I. Taking stock

It is clear that there has been, and continues to be, a significant volume of work carried out across APEC economies in advancing the objectives of the ASCR. While this work and the many positive outcomes to date provide a solid foundation, APEC economies will need to do more targeted work to get back on track to meet the first 2025 target to progressively reduce restrictions to services trade and investment. While some sectors have become more open (logistics, architecture, engineering and banking), others have become more restrictive (road freight transport, accounting and telecommunications).

APEC economies collectively experienced year-to-year increases in services exports from 2016 to 2019 but those increases did not keep pace with total world services exports. Hence, unlike as envisaged in the ASCR's second target of increasing APEC's share of world services exports by 2025, APEC's share dropped from 38.8% in 2016 to 38.1% in 2019.

There was mixed progress on the third 2025 target. Prior to COVID-19, APEC economies were not on track to meet the target compound average annual growth rate in trade in services of 6.8%. The rate was 5.3% over 2016-2019, with a rate of just 1.1% in 2019. However, APEC economies were still on track to meet the target that the GDP share of services value-added across APEC outperformed the world on average. In 2019, APEC recorded a share 0.7% higher than the global average, but the gap had narrowed since 2016.

Of the 19 APEC-wide actions, data indicated some positive progress had been made toward the stated objectives of 10 actions, but there was mixed progress in relation to four actions and comparative data was not available in relation to five of the actions.

Summary of APEC PSU's ASCR Mid-term Review Recommendations	
Recommendation 1	Accelerate implementation of specific APEC-wide actions: Strategies can include identifying certain APEC-wide actions as priority areas, identifying champion economies and linking APEC-wide actions with work plan of accountable fora.
Recommendation 2	Update set targets and outputs in each APEC-wide action and clearly associate activities with them: Where original targets and outputs have been achieved, accountable fora should deliberate on the next steps. Where progress is lagging behind specific targets, targets should be reconsidered and recalibrated.
Recommendation 3	Respond to COVID-19 decisively and concretely: Steps and updates which economies and fora should consider include rationalization of policies affecting digital trade, further de jure and de facto market opening, dealing with regulatory heterogeneity, and attenuating social costs.
Recommendation 4	Leverage cross-fora collaboration and capture all relevant activities: Assigning each APEC-wide action to accountable fora helps in strengthening ownership, but more should be done to leverage cross-fora collaboration and to ensure that all relevant activities, particularly those outside the purview of the accountable fora, are captured accordingly.
Recommendation 5	Ensure better synergy between ASCR and other APEC initiatives: It is critical that ASCR be realigned to help realize the APEC Putrajaya Vision 2040. Other initiatives where there is room to enhance synergy include APEC Internet and Digital Economy Roadmap (AIDER), the La Serena Roadmap for Women and Inclusive Growth, and Enhanced APEC Agenda for Structural Reform (EAASR).
Recommendation 6	Enhance engagement with the private sector: The private sector is the main beneficiaries, the providers, and the users of services. Further and deeper engagement with the private sector to partake in deliberating, calibrating, and executing the ASCR should be continued.
Recommendation 7	Continue to improve services data and statistics: Improving the state of services data and statistics in the region would assist in monitoring the roadmap implementation, and in better equipping policymakers to plan and make evidence-based decisions.
Recommendation 8	Undertake complementary, measurable, concrete activities: Activities such as information-sharing workshops need to be supplemented with follow-up activities to support economies in undertaking tangible and measurable reforms.

II. COVID-19 challenges and opportunities

COVID-19 has had a major impact on services trade in APEC; although there are some reasons for optimism, it is too early to assess the long-term impacts. The fall in services trade was much larger and recovery slower than the case for goods trade. WTO data shows goods trade was down by 3% in the third quarter of 2020 and up 6% in the fourth quarter, year on year. In comparison, trade in services was down by 24% in the third quarter of 2020 and by 19% in the fourth quarter.

Both consumer preferences to avoid in-person interactions and social distancing restrictions by economies severely limited face-to-face services trade, especially across borders. However, there have been substantial shifts of some types of in-person interactions to online.

Impact on services sectors varied greatly. The large declines in 2020 were driven by a dramatic collapse in trade in travel, transportation and construction services. Although results for domestic travel and tourism, telecommunications and business services were mixed, financial and insurance services generally increased; this was not sufficient to offset the direct COVID-related impacts on travel and related services, however.

Data suggests announced greenfield investment in services sectors in 2020 compared to 2019 declined within APEC by 37%. Investment from APEC economies to non-APEC economies fell by 24%. This has negatively impacted services trade via commercial presence.

Estimates suggest 255 million full time jobs were lost worldwide. In many economies, the services sector employs large numbers of women, as well as individuals from other groups with untapped economic potential in some sectors. Job losses in services have a larger impact on these populations.

Governments took active steps to support affected businesses; however, of the 378 support measures tracked within APEC economies, 94% were assessed as harmful to trade liberalisation more generally as they discriminated against foreign firms.

Despite these challenges, it is important to recognise that the services sector will play a crucial role in facilitating the economic recovery of all APEC economies coming out of the pandemic.

The pandemic accelerated the shift towards services and the use of digital technologies in production, such as digital marketplaces, automation, and related software. This increased services-intensity in production will improve productivity and drive growth. While this creates opportunities for firms and workers, the overall impact will depend on the feasibility of using of digital technologies, the ability of workers to learn new skills, and the availability of education opportunities to reskill the workforce in a changing context. There will be a major role for governments in dealing with adjustment pressures and costs.

The pandemic saw governments experiment with the easing of regulations in some areas, such as remote health consultation and diagnosis. There is opportunity to reflect on regulatory experimentations and share best practices in preparation for post pandemic recovery.

As APEC member economies seek to promote economic recovery from the pandemic, there are significant opportunities to promote structural reform of key services sectors. The 2016 APEC Economic Policy Report on Structural Reform and Services highlighted how structural reform of the most restricted services sectors had the potential to promote both significant productivity gains and increases in trade in services. It will be important for the Committee on Trade and Investment and the Economic Committee to collaborate in supporting efforts by member economies to institute such reforms.

RECOMMENDATIONS FOR ENDORSEMENT BY APEC ECONOMIES

III. Proposed additional targets/initiatives for 2025

- Measures adopted by APEC economies in response to the pandemic that create barriers to trade in services to be wound back in 2022, with the aim of removing them, as conditions in each economy permit, and no later than 2023. APEC economies should continue to ensure consistency of any such barriers with their World Trade Organization (WTO) and preferential trade agreement obligations and commitments.
- Strive towards full participation by APEC economies in key multilateral processes related to services trade and investment, including:
 - WTO Joint Statement Initiative on Services Domestic Regulation;
 - WTO Joint Statement Initiative on E-commerce;

- WTO Joint Statement Initiative on Investment Facilitation for Development.
- Strive towards full participation by APEC member economies in:
 - APEC Business Travel Card (including accepting Virtual APEC Business Travel Cards).
- Expanded participation by APEC member economies in:
 - the Asia Region Funds Passport;
 - the Index to Measure the Regulatory Environment in Services Trade of APEC.
- Encourage discussion towards wider implementation and adoption of the APEC Cross Border Privacy Rules System by interested APEC economies and companies.

IV. Proposed priority activities to 2025

- Make services regulation and policy reform in favour of openness a central focus of APEC's structural reform agenda, including in relation to:
 - consistency with the APEC Non-binding Principles for Domestic Regulation of the Services Sector;
 - regulatory challenges dealing with digitalization and automation;
 - regulatory inefficiency and obstacles to establishing a commercial presence.
- Coordination on identifying and reducing regulatory heterogeneity that restrict services provision in order to improve interoperability among APEC economies, including:
 - MSME participation in global value chains to provide research, technical and design services as well as advertising, marketing and repair services, among other areas;
 - digital services standards, particularly in relation to digital transactions and data;
 - mobility of professional services, including mutual recognition arrangements;
 - cross-border trade in financial services, including by exploring interoperability between participating economies in the Asia Region Funds Passport and other schemes;
 - trade in environmental services
- Collective action on protocols, procedures, and the application of technology to facilitate the movement of people, including the APEC Business Travel Card, as applicable, as travel re-opens post COVID-19.
- Enhanced private services sector engagement across the breadth of APEC's agenda, including a private-public dialogue series on the implication of regional servicification, which relates to the growing role of services in manufacturing activities and value chains.
- Improved monitoring, reporting and transparency of the impact of APEC-wide actions, including:
 - where relevant, updating targets of APEC wide actions and identifying measurable indicators¹;
 - collecting information using a common framework to improve comparison of the impact of policy changes affecting services trade in APEC member economies;
 - promoting the collection of more meaningful services statistics across APEC economies, including:
 - on foreign affiliate trade in services (FATS);
 - intra-APEC trade in services; and
 - to enable identification of services subsectors at a more granular level.
 - strengthening cross-fora collaboration, including through a formal cross-fora collaborative event on services at the margins of the annual Second Senior Officials'

¹ Refer to PSU recommendation number 2 from the ASCR Mid-term Review.

Meeting cluster, to reduce duplication of effort and increase the impact through the promotion of ongoing monitoring and evaluation of progress by 2025.