Asia-Pacific
Economic Cooperation

Advancing
Free Trade for Asia-Pacific
Prosperity

Promoting Services in the GVC Era

-The Work of APEC on services

2014 APEC Workshop on Advancing REI in the GVC Era, Chinese Taipei

Presented by
Bernadine Zhang Yuhua
Analyst, APEC Policy Support Unit

Outline

1. Importance of Services in APEC
2. Understanding Services
3. Services and Global Value Chains
4. Services Promotion – Successes and Gaps
5. Policy Implications

Importance of services in APEC

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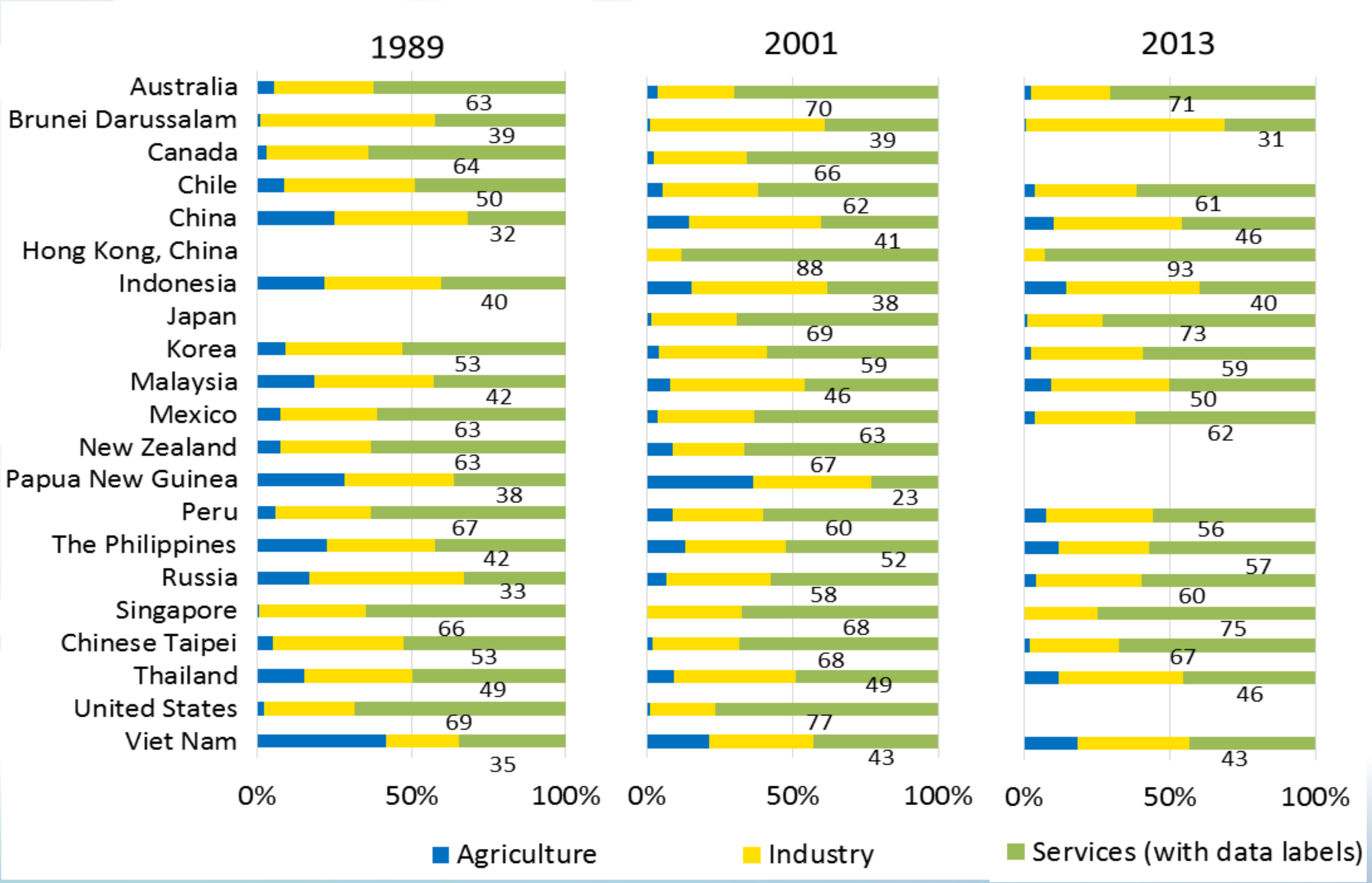
Services – the Largest Sector in Most APEC Economies, % of GDP

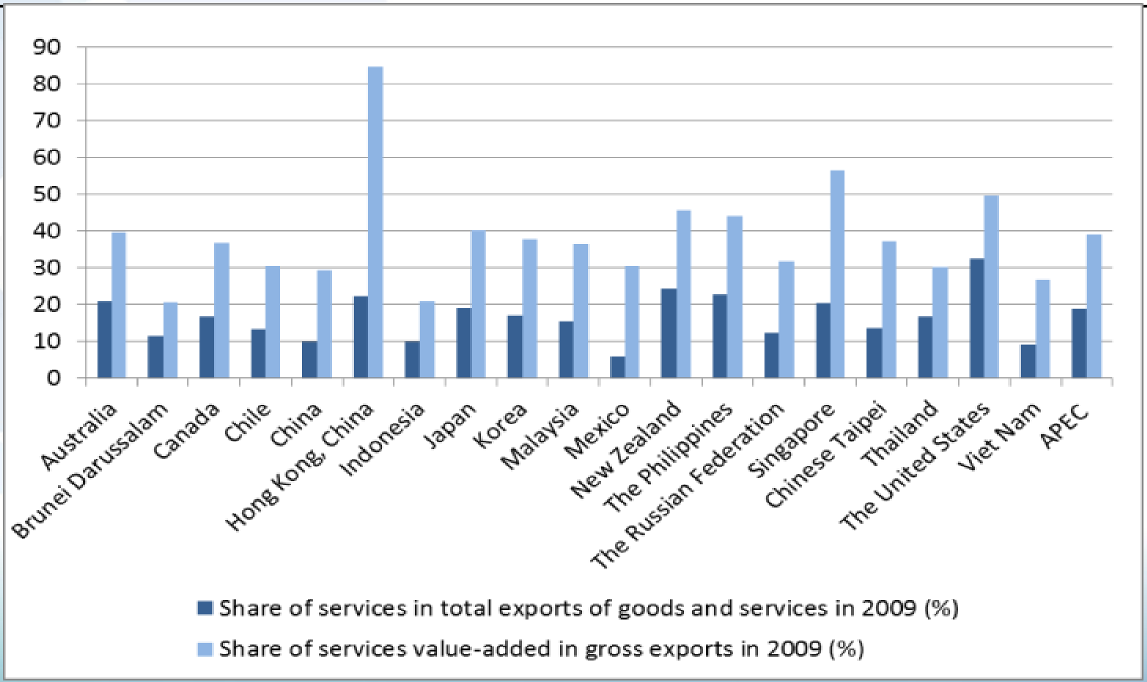


Source: World Bank, World Development Indicators, accessed 26 June 2014; Chinese Taipei's Directorate-General of Budget, Accounting and Statistics, accessed 4 June 2014.

Importance of services in APEC

Services share in total export and value added trade

	APEC Economy with highest value	APEC as a whole
Share in total exports of goods and services, 2009	United States, 32%	18.9%
Share in value-added trade, 2009	Hong Kong, China, 84.6%	39.1%



- HKC: 22% gross; 85% value-added share of services
- PRC: 10% gross vs 29% value-added share of services
- MEX: 6% gross; 30% value-added share of services

Source: APEC Policy Support Unit computation based on OECD-WTO Trade in Value Added and UNCTAD Stat Database.

Importance of services in APEC

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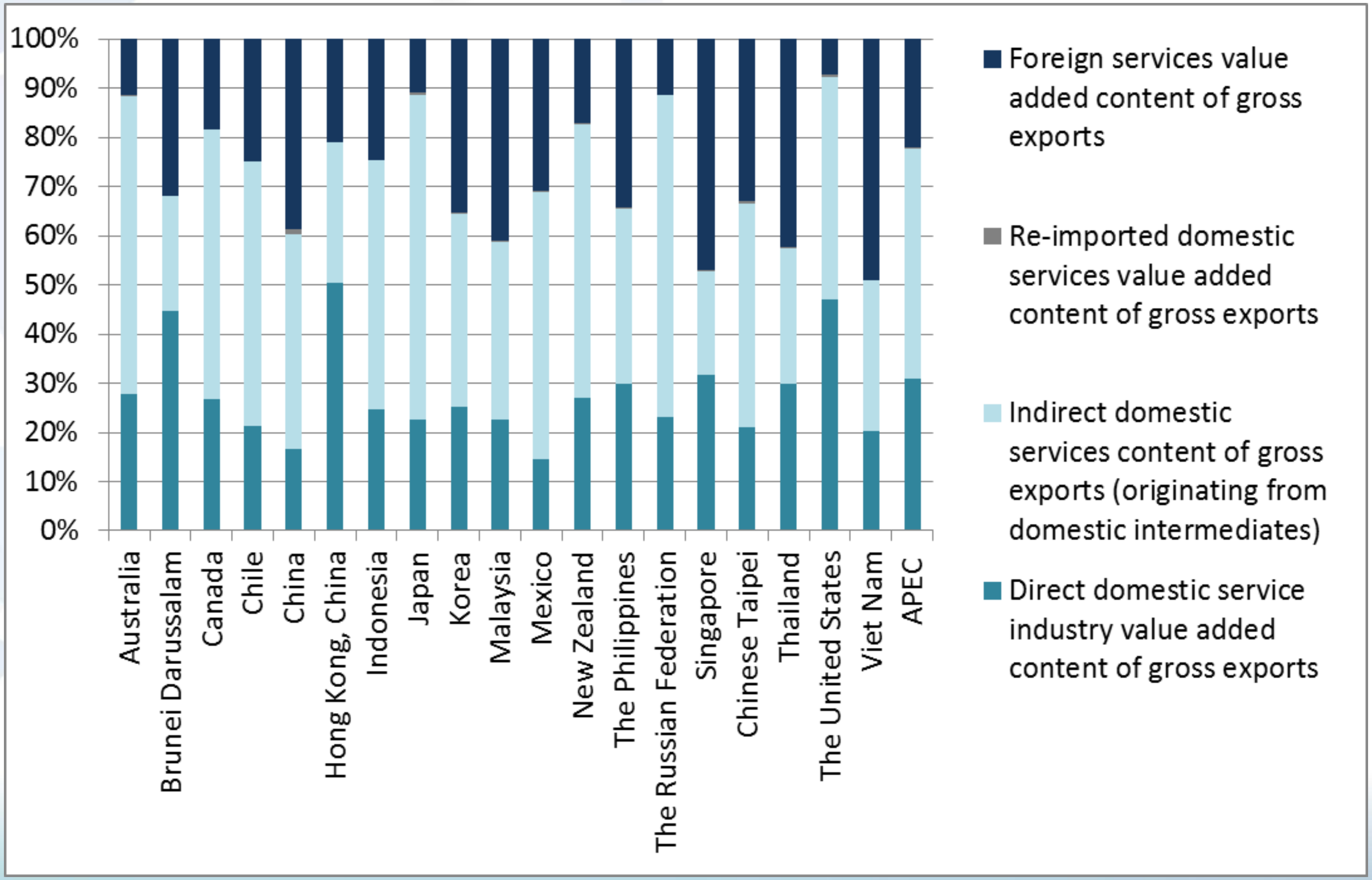
Services Value-added Component of Gross Exports



Source: APEC Policy Support Unit computation based on OECD-WTO TiVA Database. Data are for 2009 and APEC total does not include Papua New Guinea and Peru.

Understanding services

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What are services and where are they?

Global Value Chains (GVCs)

Pre-Production | Production | Post-Production

	Pre-Production	Production	Post-Production
1	‘Producer’ services		‘Consumer’ services
2	‘Embodied’ services		‘Embedded’ services
Examples	• Research • Consulting • Prototyping • Design	• Transport • Distribution • Accountancy • Engineering	• Branding • Leasing • Financing and insurance • Repairs and maintenance

Understanding services

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Servicification

– the term that has been employed to denote the closer integration of services in manufacturing businesses.

Servicification Trends

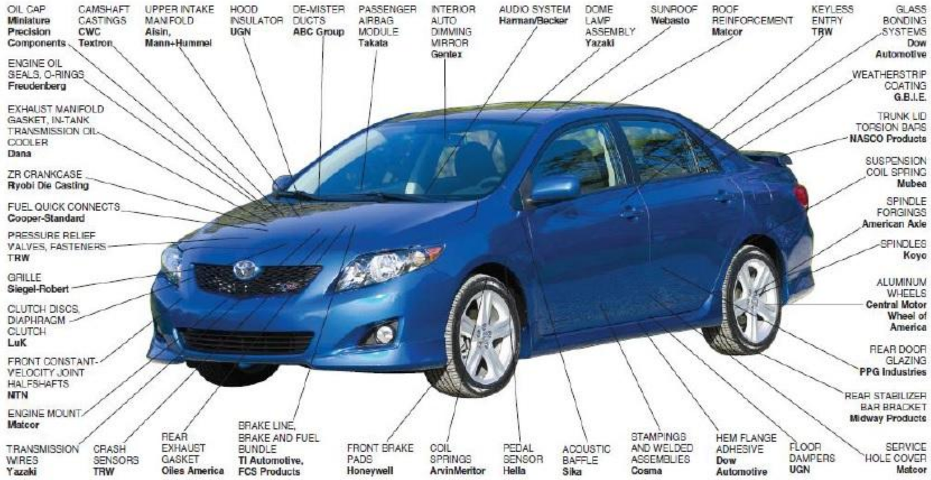
- A source of competitiveness for manufacturing, value-enhancing product differentiation

- Liberalization is shifting to progress in large group trade arrangements

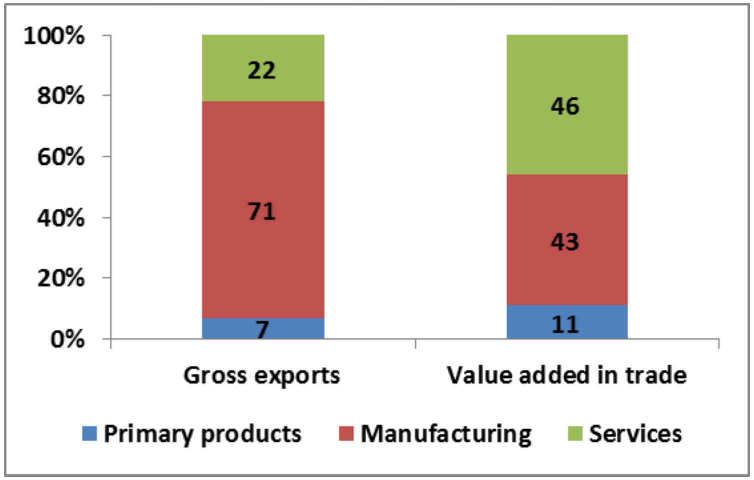
- A driver of outsourcing, encouraging broader participation in GVCs

- A focus for innovation, combining knowledge, technology, entrepreneurship and innovation to create value

Understanding services



Source: Wingett (2009)



Source: UNCTAD (2014)

No.	Export channel	Example
1	**Direct services** exports	**Engineering services** provided to manufacturing plant abroad.
2	**Indirect services** embodied in domestic intermediate goods	**Research services** provided by locally-based company and embodied in domestic intermediate goods.
3	**Re-imported domestic services** embodied in imported intermediate goods	**Design services** provided domestically and embodied in imported intermediate goods.
4	**Indirect services supplied to other service sectors** which enter export market in one of the above	**Telecommunication services** used by logistics company which delivers intermediate goods to manufacturing plant for final assembly before export.

Services and GVCs

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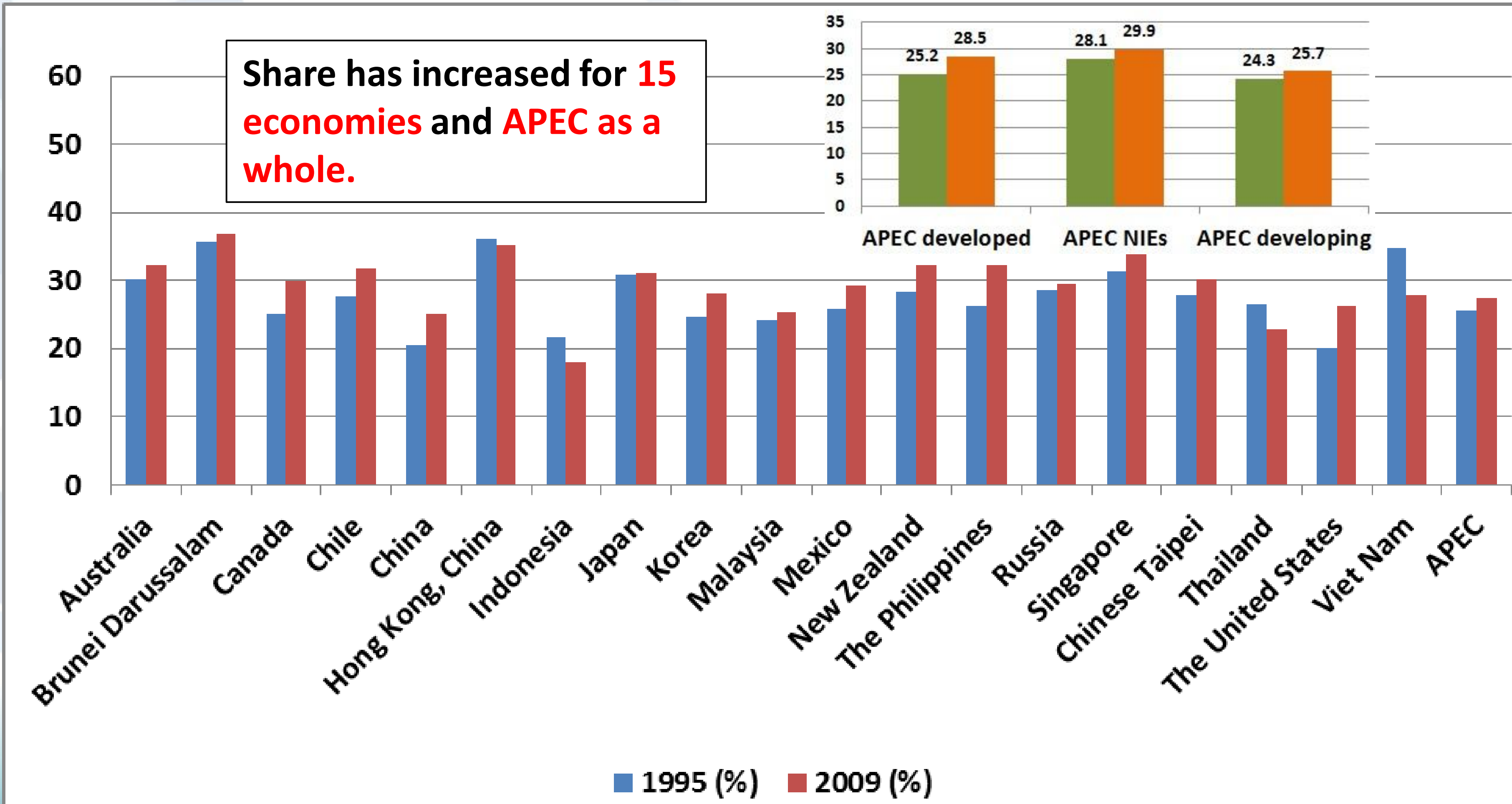
Share of services value added in manufacturing (1995 and 2009)



Source: APEC Policy Support Unit computation based on OECD-WTO Trade in Value Added (TiVA) database.

Services and GVCs

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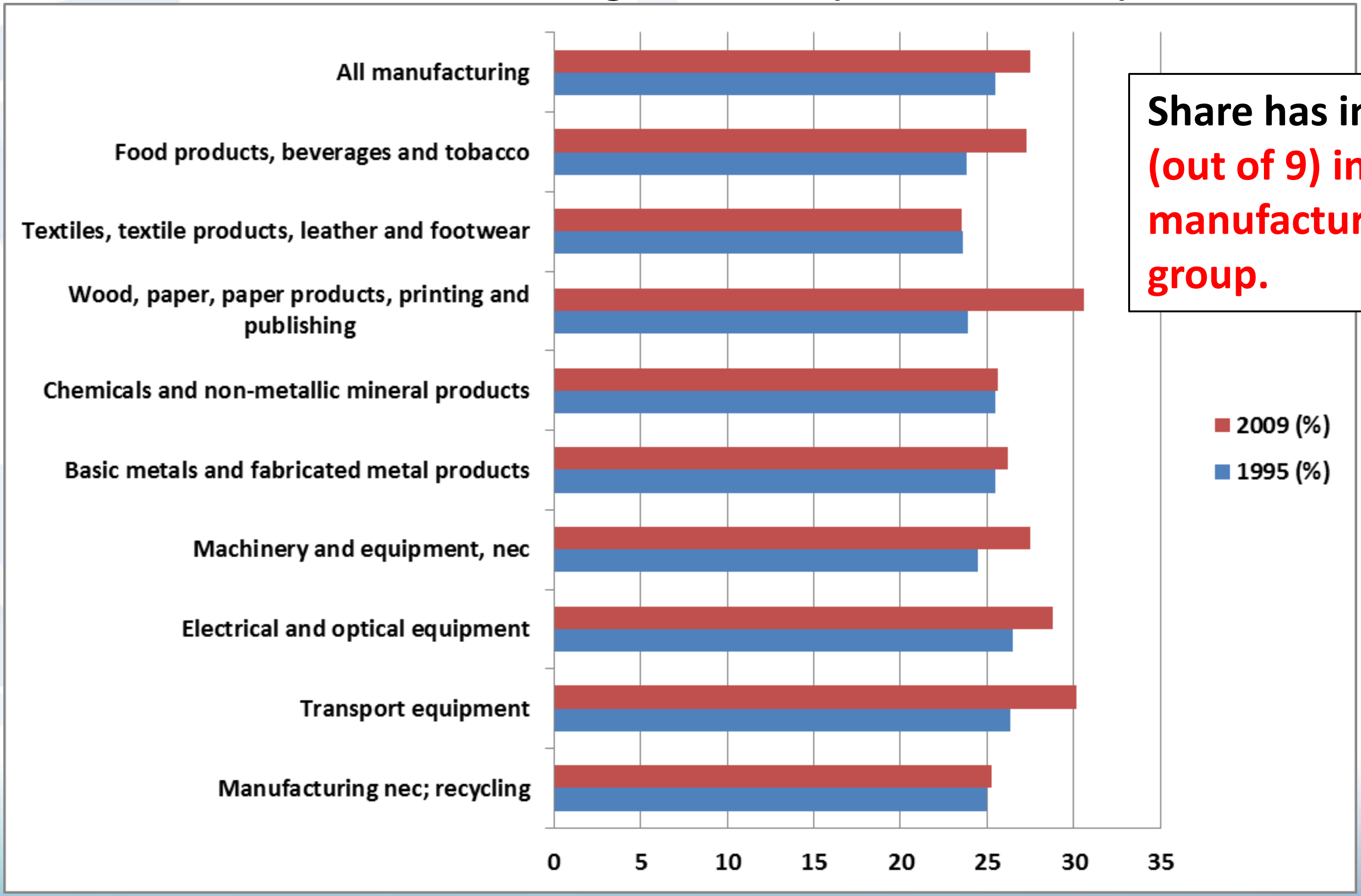
Services' contribution in manufacturing industries (1995 and 2009)



Share has increased for 8 (out of 9) industries and manufacturing as a single group.

Source: APEC Policy Support Unit computation based on OECD-WTO TiVA database.

Services and GVCs

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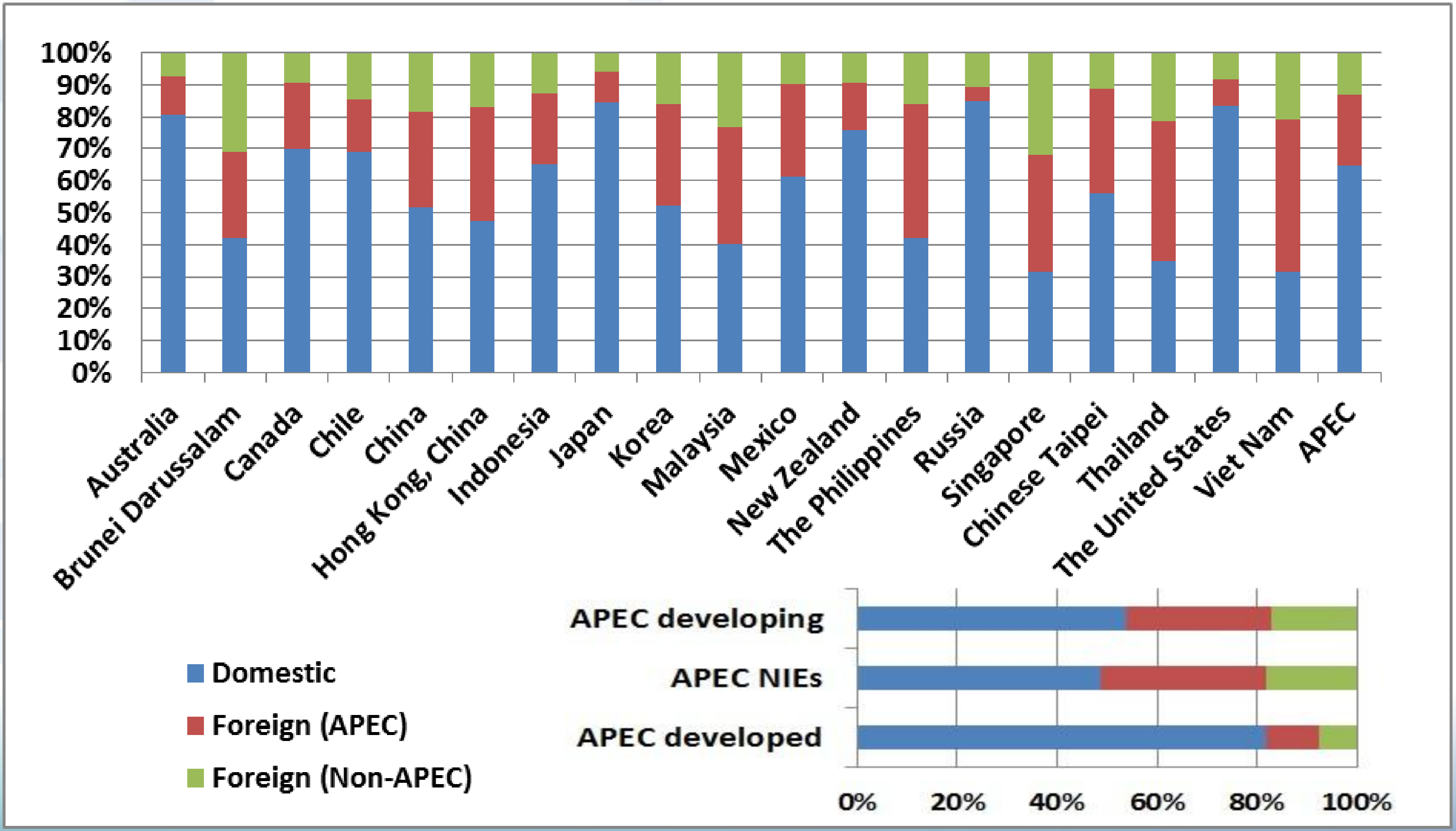
Domestic and foreign share of services value added in manufacturing exports in 2009



Source: APEC Policy Support Unit computation based on OECD-WTO TiVA database.

Services Promotion
– Successes and Gaps

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APEC Services-Related Projects

Type of Projects	Number of Projects		As (%) of APEC Projects	
Workshops/Conference/Capacity Building Seminar		86		24.23%
1. General: services trade	19		5.35%	
2. Mode-specific a/	22		6.20%	
3. Sector-specific	45		12.68%	
Studies/Surveys/Database		49		13.80%
Total		135		38.03%

a/ Mode can be either by 'commercial presence' or investment; movement of natural persons or mobility of persons, either tourism related or people-to-people mobility.
Source: APEC Policy Support Unit computation based on APEC Projects Database, 2006-2012

Services Promotion – Successes and Gaps

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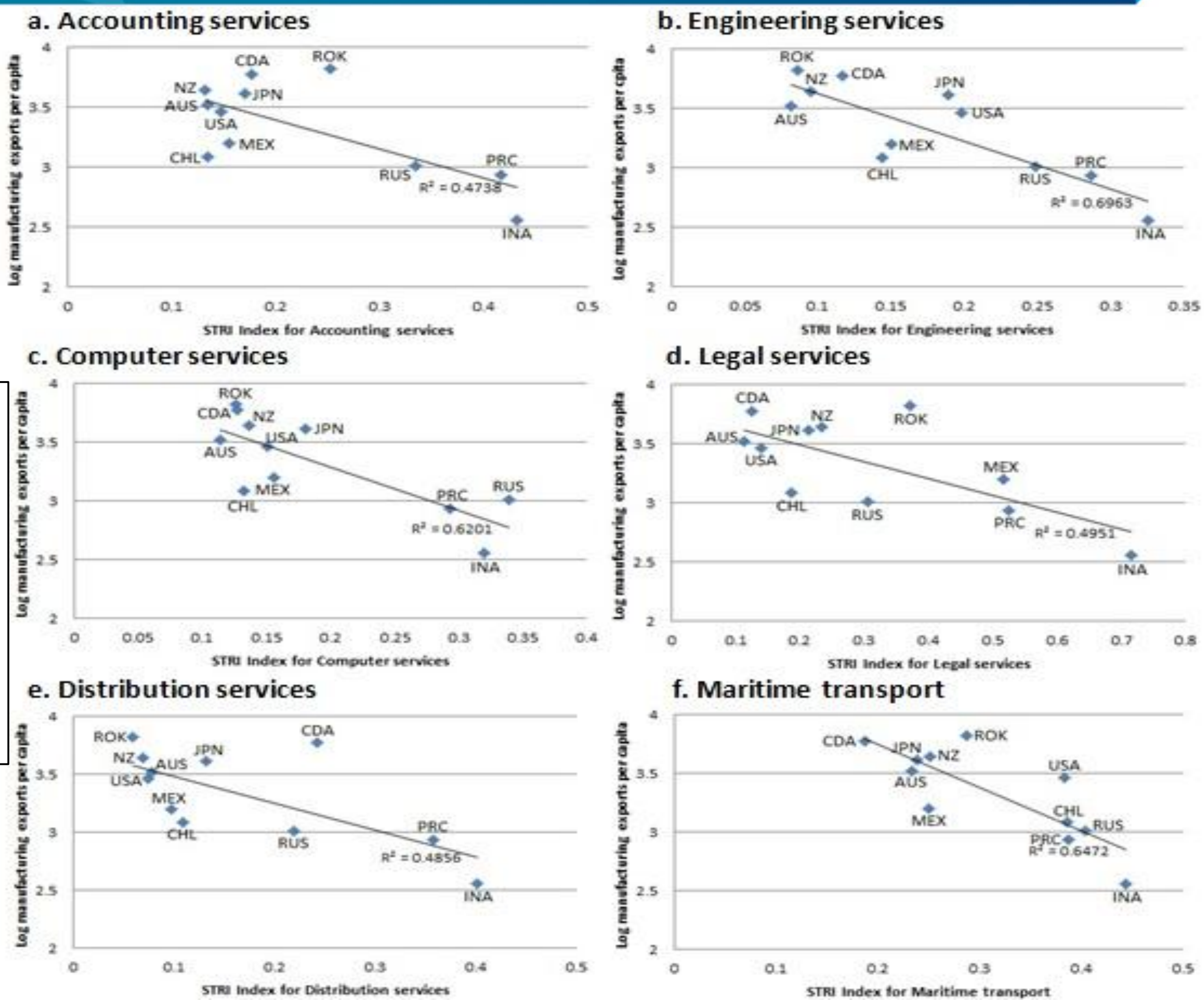
Manufacturing exports and services restrictiveness



The **more restrictive services** are, the **lower manufacturing exports per capita** are

Source: APEC Policy Support Unit computation based on OECD-WTO TiVA, OECD Services Trade Restrictiveness Index (STRI) and World Bank World Development Indicators databases.

Policy implications

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- Policymakers should increasingly think of both goods and services concurrently.
- The need to look at how restrictions on provision of services can be overcome to improve competitiveness.
- Collaborative and coordinated policymaking across government agencies are necessary in view of cross-agency nature of services and GVCs regulations.
- Collection of case studies to understand the value chain of various manufacturing sector to complement research using TiVA data.

Policy Implications

Institutional anchor for services work

'Services Initiative' to be directly coordinated under SOM	Continuation of regulatory reforms work by EC	Close look on investment in services, P2P connectivity, 'sectoral orphans ' in CTI	Sectoral work should continue

Emerging issues

Cloud computing	Data privacy and cross-border trade	'Servicification' in manufacturing
Subsidies in services	State-owned enterprises (SOEs)	Human resources development