Video: Advancing Digital Services in Asia and the Pacific

https://www.youtube.com/watch?v=hCBR2n8wuhs
Background and motivation

- **Third unbundling and servicification**: international division of labor
- **COVID-19 pandemic**: trade in digital services more resilient to the COVID-19 shock

**Trade in Services, by Sector (in billion USD)**

**Note**: Solid lines denote digitally deliverable services, dotted lines are non-digitally deliverable service items.

**Source**: ADB calculations using WTO-UNCTAD (accessed 21 July 2021).
Motivation: Can digital services exports drive economic development?

Share of DDS exports in total exports and GNI per capita

- OECD economies tend to have higher shares in digitally deliverable services (DDS) exports
- Can DDS exports cause growth? A Frankel-Romer approach: positive and significant impact on DDS trade/GDP on GNI per capita
- Potential for Asian economies to expand DDS exports as development strategy
- Persistent challenges for Asia: low productivity and competitiveness and high regulatory barriers.

How to unlock the potential of DDS trade in Asia?
What are DDS main drivers?

## Digitally deliverable services: scope

### Digitally Deliverable Services (DDS)

<table>
<thead>
<tr>
<th>Code</th>
<th>Service description</th>
</tr>
</thead>
<tbody>
<tr>
<td>SF</td>
<td>Insurance and pension services</td>
</tr>
<tr>
<td>SG</td>
<td>Financial services</td>
</tr>
<tr>
<td>SH</td>
<td>Charges for the use of intellectual property n.i.e.</td>
</tr>
<tr>
<td>SI1</td>
<td>Telecommunications services</td>
</tr>
<tr>
<td>SI2</td>
<td>Computer services</td>
</tr>
<tr>
<td>SI3</td>
<td>Information services</td>
</tr>
<tr>
<td>SJ1</td>
<td>Research and development services</td>
</tr>
<tr>
<td>SJ2</td>
<td>Professional and management consulting services</td>
</tr>
<tr>
<td>SJ3</td>
<td>Technical, trade-related and other business services</td>
</tr>
<tr>
<td>SK1</td>
<td>Audio-visual and related services</td>
</tr>
<tr>
<td>SK2</td>
<td>Other personal, cultural and recreational services</td>
</tr>
</tbody>
</table>

**Main Sources**
- WTO-UNCTAD trade in services
- WTO-OECD Balanced Trade in Services (BaTiS) BPM6
- Trade in Services data by Mode of Supply (TISMOS)

**Digitally deliverable services in Asia: Examples**

<table>
<thead>
<tr>
<th>Insurance and pension services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Claim underwriting (PRC)</td>
</tr>
<tr>
<td>• Claim management</td>
</tr>
<tr>
<td>• Digital insurance (Indonesia, Viet Nam)</td>
</tr>
<tr>
<td>• Life insurance</td>
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<tr>
<td>• Freight insurance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• FinTech, Digital payments (Singapore)</td>
</tr>
<tr>
<td>• Marketplace platforms for SMEs (Indonesia)</td>
</tr>
<tr>
<td>• Brokerage services</td>
</tr>
<tr>
<td>• Credit card services</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Information, Computer and Telecommunications services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Internet, mobile telephony</td>
</tr>
<tr>
<td>• Data transmission, data processing, cloud computing, data storage (India)</td>
</tr>
<tr>
<td>• ITC support (Tata, Infosys, Wipro)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Charges for the use of intellectual property n.i.e.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Use of proprietary rights (patents, trademarks)</td>
</tr>
<tr>
<td>• Patent portfolio, licenses (PRC)</td>
</tr>
<tr>
<td>• Franchises fees</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other business services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Professional services (legal, accounting, advertising) (India)</td>
</tr>
<tr>
<td>• Management consulting services (BPO, BPM) (Philippines)</td>
</tr>
<tr>
<td>• Technical services (engineering, architectural, scientific)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Personal, cultural, recreational</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Audio visual services</td>
</tr>
<tr>
<td>• Health services (PRC, Indonesia)</td>
</tr>
<tr>
<td>• Education services (Singapore)</td>
</tr>
<tr>
<td>• Heritage and recreational services</td>
</tr>
</tbody>
</table>
Digital services trade accelerating in Asia and the Pacific while its global share is increasing

Digital services trade in Asia remains highly concentrated in few economies

Top Exporters of Digitally Deliverable Services, 2020
($ billion)

Top Global Exporters

United States of America
United Kingdom
Ireland
Germany
India
PRC
France
Netherlands
Singapore
Japan

Top Asian Exporters

India
PRC
Singapore
Japan
Republic of Korea
Hong Kong, China
Philippines
Taipei, China
Australia
Thailand

Asia remains a global hub of digital services FDI, which showed resilience amidst the pandemic

Inward FDI in Digitally Deliverable Services by Region, 2020 ($ billion)

- North America
- EU + UK
- Asia
- Rest of the World
- Middle East
- Africa
- Latin America

Digital and non-digital services FDI in Asia

- a. Greenfield
- a. M&A

EU+UK = European Union including the United Kingdom, FDI = foreign direct investment, M&A = merger and acquisition.
Sources: ADB calculations using data from Bureau van Dijk, Zephyr M&A Database; and Financial Times. fDi Markets (both accessed May 2021).
Drivers of digital services trade

- **Human Capital:** educational attainment, technical skills to make full use of digital technologies

- **Digital connectivity:** availability, quality, cost and divide

- **Investments:** telecommunication and digital solutions

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**Expected Years of Schooling**

**International Bandwidth per Internet User (bit/s)**

**Mobile Broadband Subscriptions**

Note: Values are for reporters.
Source: ADB calculations based on BATIS and UNDP (accessed July 2021)
Policies: Deregulation and trade liberalization

- Regulation (ex. data restrictions)
- Trade liberalization (ex. Regional trade agreements)
- International co-operation (ex. Mutual recognitions arrangement)

Digital Services Trade Restrictiveness Index—Asia

Source: OECD.
Methodology

• Quantitative general equilibrium model based on the ADB MRIOT for 2019.

• Two counterfactual simulations: Reduction of iceberg trade costs in digitally delivered service sectors
  ❖ **Scenario 1 (Trade Liberalization):** International trade costs reduction by 10% (intranational costs unchanged).
  ❖ **Scenario 2 (Deregulation):** International and intranational trade costs reduction by 10%.

• Impact on trade flows, GVC linkages and aggregate real income
Trade liberalization and deregulation can have spillover impact through GVC linkages

Percentage of Gross Exports by Sector, Intra-Asia (% change over baseline)

Backward GVC participation

Forward GVC participation

Scenario 1

Scenario 2

Source: ADB estimates
**Impact of data restrictions**

- Trade in digital services is reliant on the transmission of data across economies.

- Categories of data-related policies:
  1. Data localization policies (DL)
  2. Local storage requirements (LS)
  3. Conditional flow regimes (CF)

- Proportion of data localization measures applied by Asian economies is larger than the rest of the world (70%).

### Impact of Cross-Border Data Restrictions

**Summary of Results**

<table>
<thead>
<tr>
<th>Sectors/Region</th>
<th>Reference: Non-Digital</th>
<th>Overall</th>
<th>DL</th>
<th>LS</th>
<th>CF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>World</td>
<td></td>
<td>-14%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Asia</td>
<td></td>
<td>-9%</td>
<td>-0.6%$^a$</td>
<td>-24%</td>
<td>-8%</td>
</tr>
<tr>
<td>Asia</td>
<td></td>
<td>-70%</td>
<td>-94%</td>
<td>-29%</td>
<td>-45%</td>
</tr>
</tbody>
</table>

$^a$ = statistically insignificant; DS = Telecom, Computer, Information, Insurance, Financial.
International Regulations

World Trade Organization

- Main obligations of the regulation of digital trade under the existing WTO legal framework can be found in the **GATS Telecom Annex**.
  
  “service suppliers shall be accorded access to and use of public telecommunications transport networks and services on reasonable and non-discriminatory terms and conditions”

- **Three elements to consider:**
  - **Classification:** goods or services trade? Critical practical implication on border measures vs. domestic regulations
  - **Liberalization levels:** from «none» to «unbound»
  - **Exceptions:** allowing WTO Members to deviate from their trade obligations

Regional Trade Agreements

- Three main sovereign approaches (United States, the PRC, European Union) reflected in trade agreements
- Balancing the interests of stakeholders with different priorities.
- Digital provisions have been increasing over the last decades
  - Trade facilitation, consumer protection, regulatory autonomy and enabling business
Domestic Regulations

Services regulations
- Transparency
- Deregulation
- Qualification requirements and procedures
- Technical standards
- Licensing requirements

Cybersecurity
- Safety of digital services trade transactions – cybercrime prevention
- Confidentiality, integrity, and availability of information
- Legitimate policy objectives vs. Protectionism?
- Lack of adequate regulatory framework and limited human and financial capacity in DC and LDCs

International Cooperation in Domestic Regulations
- Mutual recognition agreements
- Formal (e.g., WTO plurilateral negotiations) or informal cooperation arrangements (e.g., MoU) cooperation among like-minded economies
Policy Recommendations

- Investments in human capital (digital capacity), ICT infrastructure and connectivity
- Services sector deregulation and trade liberalization
- Balancing between data protection/privacy and data flows
- International cooperation for transparent, fair and harmonized regulations, taxations, and liberalization through RTA and DEPA
- Possible differential impacts and trade-offs, for example for skilled vs. unskilled workers, or in urban vs. rural area

Governments’ role in fostering competitiveness of digital services across society and addressing digital divide and distributional impact
Thank you for your attention!

Asian Economic Integration Report 2022 - Theme Chapter
Annex
Impact of digital services trade on households’ welfare

• Transmission channels: consumer prices, wages, technologies and productivity
• Widespread impacts on wages not only on services sectors but also on manufacturing wages through GVC linkages.
• In the short-run, we may expect differential impacts and trade-offs, for example for skilled vs. unskilled workers, or in urban vs. rural area.
• Gradual adjustments to disperse development benefits and overcome digital divide related challenges

→ Governments to understand and address the factors affecting the competitiveness of digital services trade and distributional impact to set up an enabling framework in an equitable manner.
## “Digital provisions” of Trade Agreements in Developing Asia

<table>
<thead>
<tr>
<th>Category</th>
<th>Provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade facilitation</td>
<td>Ban on customs duties on e-transmission</td>
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<tr>
<td></td>
<td>Non-Discriminatory Treatment of Digital Products</td>
</tr>
<tr>
<td></td>
<td>Domestic Electronic Transactions Framework</td>
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<td></td>
<td>Electronic Authentication</td>
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<td></td>
<td>Electronic Signatures</td>
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<td></td>
<td>Paperless Trading</td>
</tr>
<tr>
<td>Enabling business</td>
<td>Access to and Use of the Internet for Electronic Commerce</td>
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<tr>
<td></td>
<td>Free Flow of Data</td>
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<td></td>
<td>Prohibition of Data Localization</td>
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<td></td>
<td>Prohibition on Forced Transfer of Source code</td>
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<td></td>
<td>Open Government Data</td>
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<tr>
<td>Consumer protection</td>
<td>Online Consumer Protection</td>
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<td></td>
<td>Privacy and Personal Information Protection</td>
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<tr>
<td></td>
<td>Unsolicited Commercial Electronic Messages</td>
</tr>
<tr>
<td>Regulatory autonomy</td>
<td>Cybersecurity</td>
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<td></td>
<td>Exceptions</td>
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<td>Cooperation</td>
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<td>Dispute Settlement</td>
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</tbody>
</table>

Create facilitating environment for digital trade in general.

Minimize the commercial and regulatory burden for digital services trade providers.

Protect the interests of consumers.

Preserve the regulatory autonomy of the government.
Both, the number of agreements and of digital provisions have been increasing over the last decades.

**Average number of categories covered in new agreements**

- **Number of new agreements**
- **Average number of categories**

**Percentage of FTAs with...**

- **... at least one provision in each category**
- **... provisions in at least one to all categories**
New international tax rules and digital services: Implications for Asian economies

**Tax revenues**
- Different impacts across jurisdictions
- Higher tax certainty and sustainability
- Trend towards VAT/GST collection on imported digital services

**Trade**
- Risks of unilateral measures, tariffs or other barriers to trade
- Consistency between tax and WTO rules to prevent future disputes

**Compliance**
- Domestic and international law amendments required
- Administrability of tax admin., firm-data collection
- Coordination to enter into force in 2023

**Competition / FDI**
- Ensuring level playing field between foreign and domestic providers
- Scope of preferential tax regimes may evolve following Pillar 2 implementation