OPPORTUNITIES FOR DIGITAL SERVICES TRADE IN CENTRAL ASIA AND CAREC

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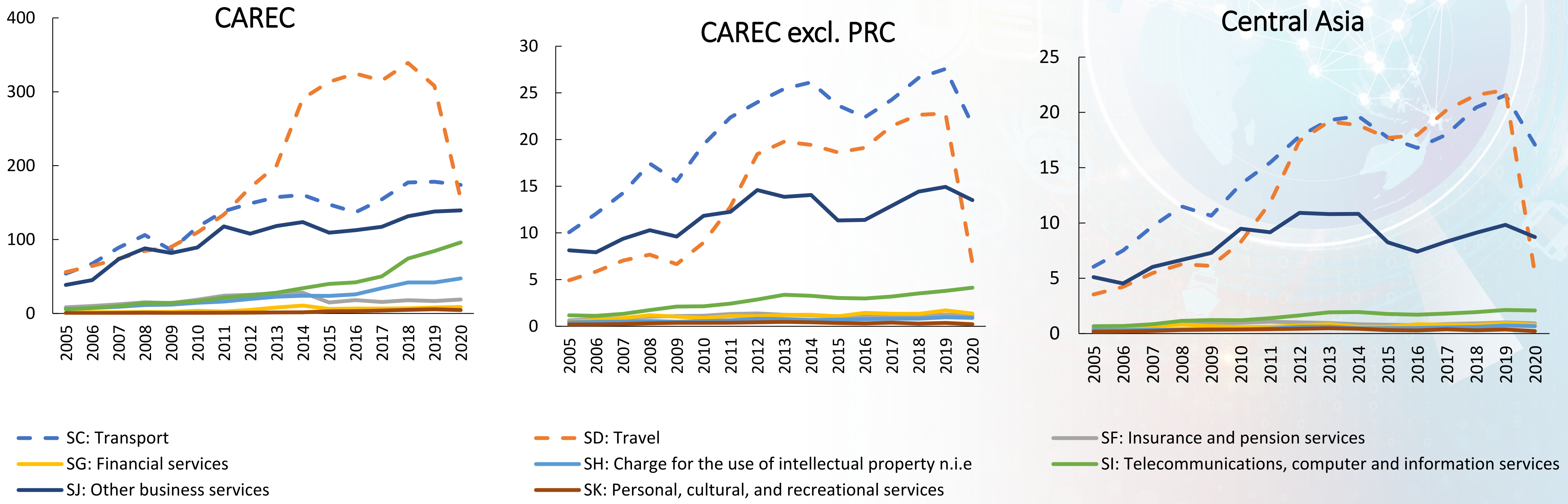
RCI-POD No. 29
Liberalizing Services and Promoting Digital Services: Prospects for Enhancing Trade in CAREC Countries
15 March 2022

Background and motivation

Third unbundling and servicification

Digitalization and COVID-19 shock

Trade in Services in CAREC region and C. Asia, by Sector (in billion USD)

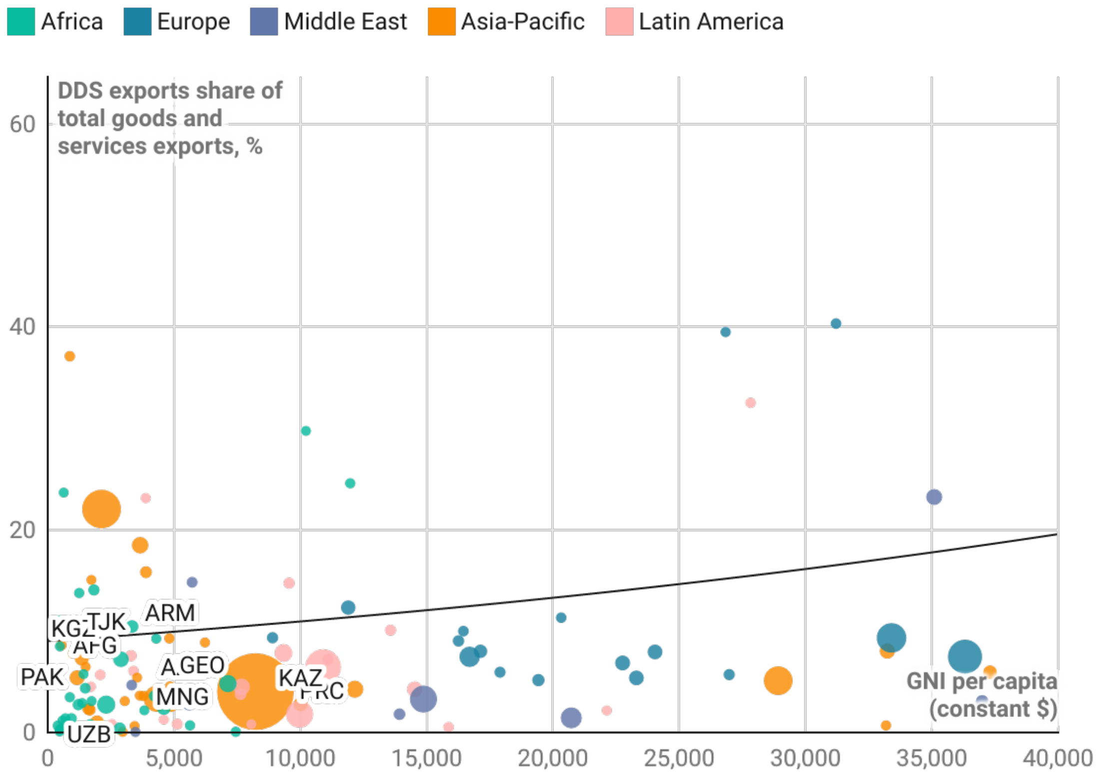


Note: Solid lines denote digitally deliverable services, dotted lines are non-digitally deliverable service items.

Source: Source: ADB calculations using WTO-UNCTAD.

Can digital services exports drive economic development?

Share of DDS exports in total exports and GNI per capita



- **High income** economies tend to have higher shares in digitally deliverable services (DDS) exports
- **Can DDS exports cause growth?** Potential for Asian economies to expand DDS exports as development strategy
- **Persistent challenges for Asia**: low productivity and competitiveness and high regulatory barriers.
- **Specific drivers and barriers in Central Asia and CAREC**

Source: ADB calculations using BATIS and World Bank (accessed August 2021).

Digitally deliverable services in Asia: Examples

Insurance and pension services

- Claim underwriting (PRC)
- Claim management
- Digital insurance (Indonesia, Viet Nam)
- Life insurance
- Freight insurance

Charges for the use of intellectual property n.i.e.

- Use of proprietary rights (patents, trademarks)
- Patent portfolio, licenses (PRC)
- Franchises fees

Other business services

- Professional services (legal, accounting, advertising) (India, **Kazakhstan, Turkmenistan, Azerbaijan**)
- Management consulting services (BPO, BPM) (Philippines)
- Technical services (engineering, architectural, scientific)

Financial services

- FinTech, Digital payments (Singapore)
- Marketplace platforms for SMEs (Indonesia)
- Brokerage services
- Credit card services

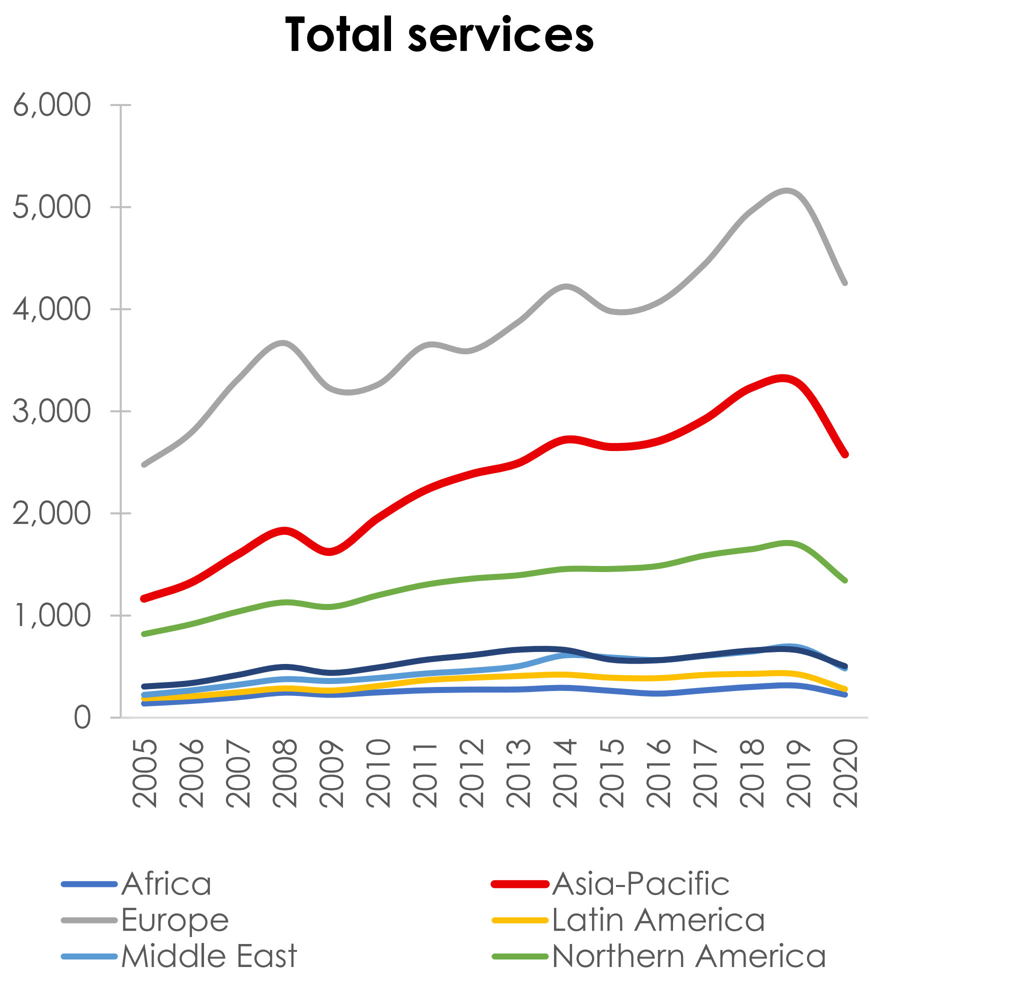
Information, Computer and Telecommunications services

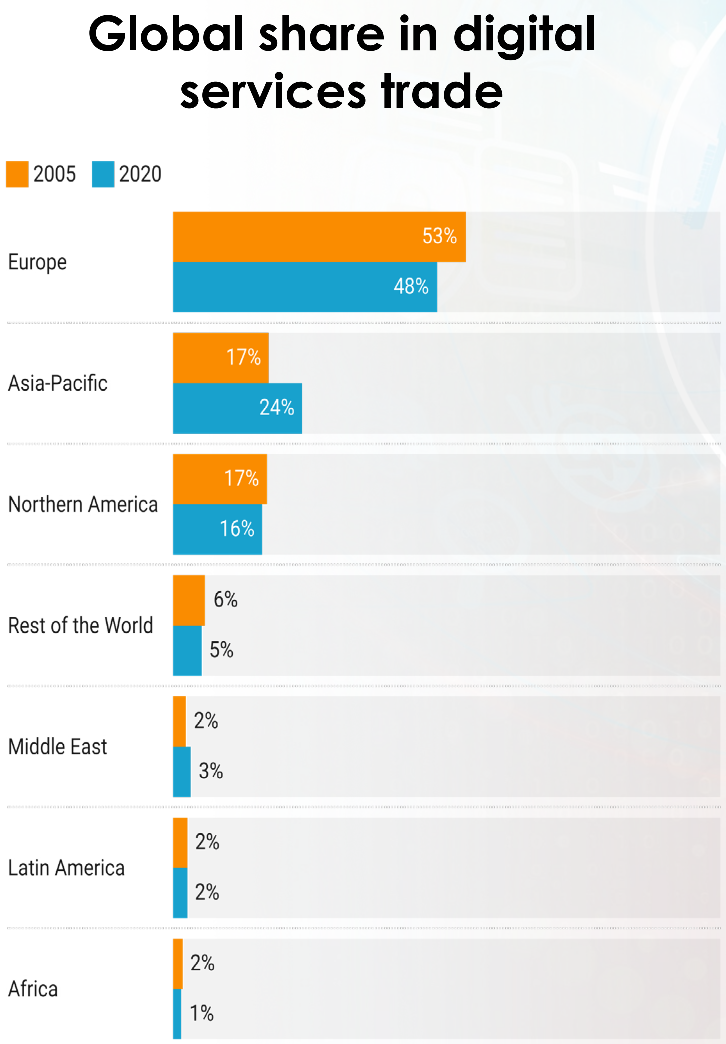
- Internet, mobile telephony
- Data transmission, data processing, cloud computing (**Pakistan, Georgia**), data storage (India)
- ITC support (Tata, Infosys, Wipro)

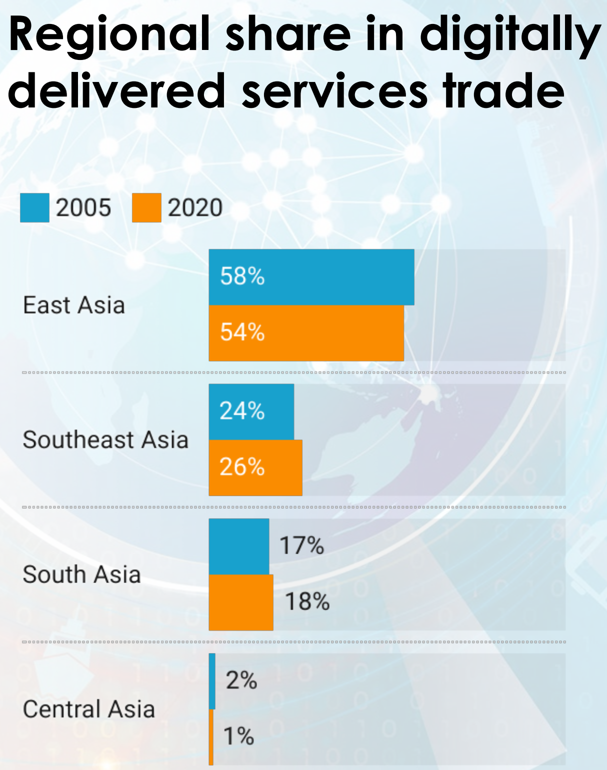
Personal, cultural, recreational

- Audio visual services
- Health services (PRC, Indonesia)
- Education services (Singapore)
- Heritage and recreational services
- Other personal, cultural, and recreational services (**Kyrgyzstan**)

Digital services trade accelerating in Asia and the Pacific, while share for Central Asia remains modest



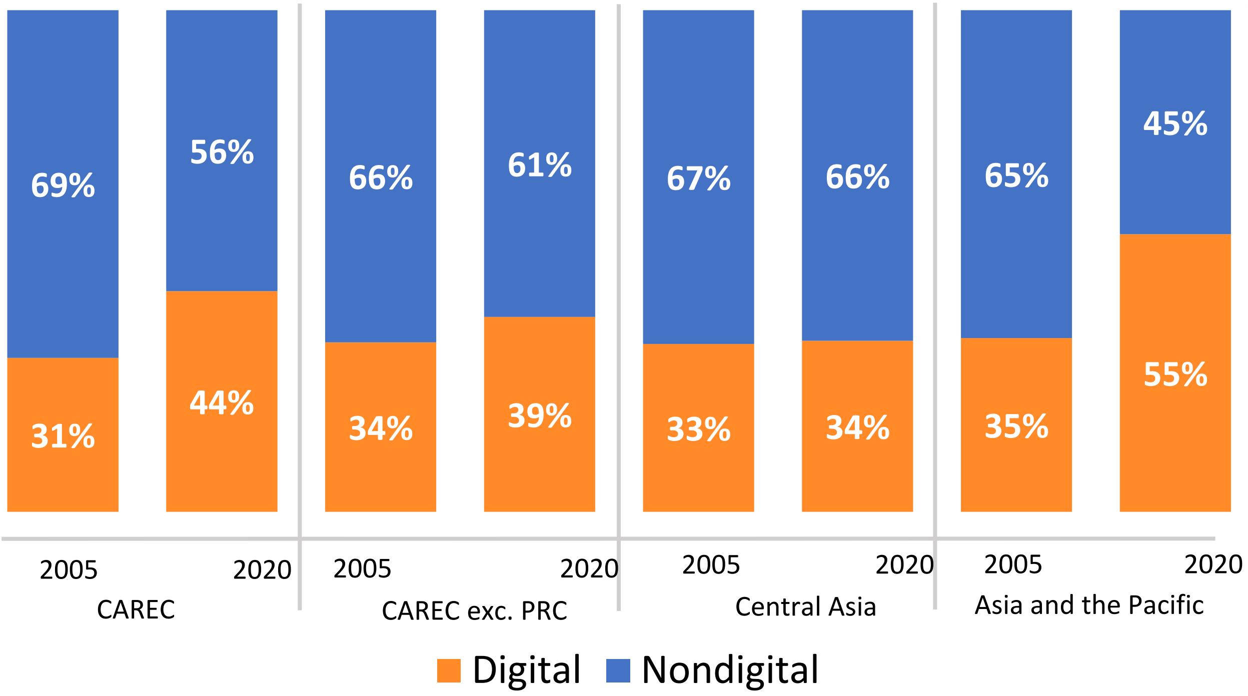




Source: ADB estimates, based on WTO-UNCTAD (accessed 21 July 2021).

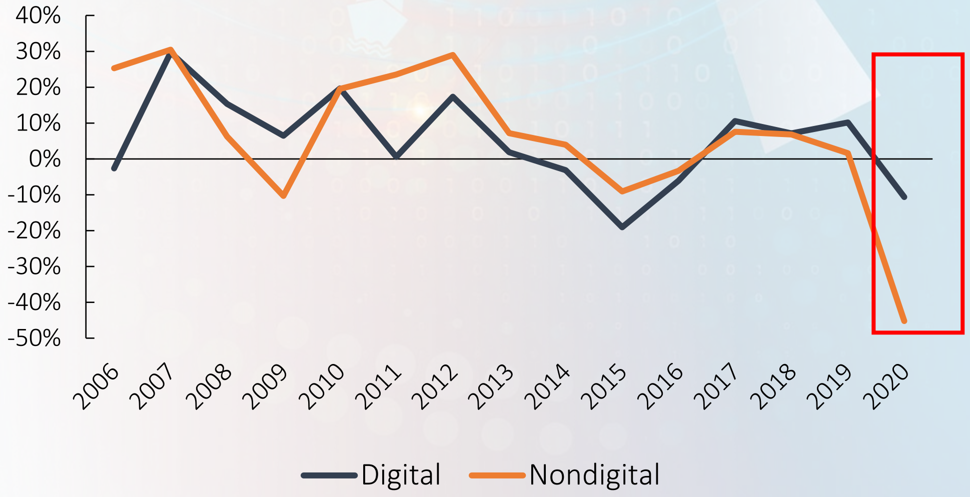
Services trade in CAREC and Central Asia is predominantly non-digital, with a shift after COVID-19

Share of digital and non-digital services in CAREC and Central Asia



DDS trade growth – CAREC (%)

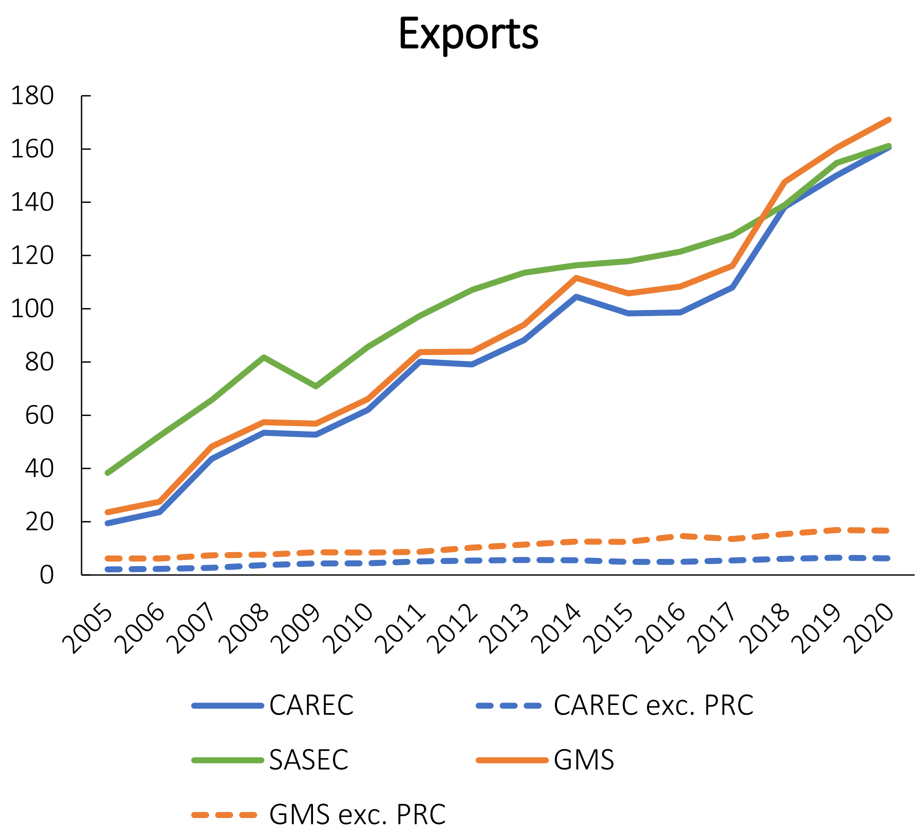
DDS trade growth - Central Asia (%)

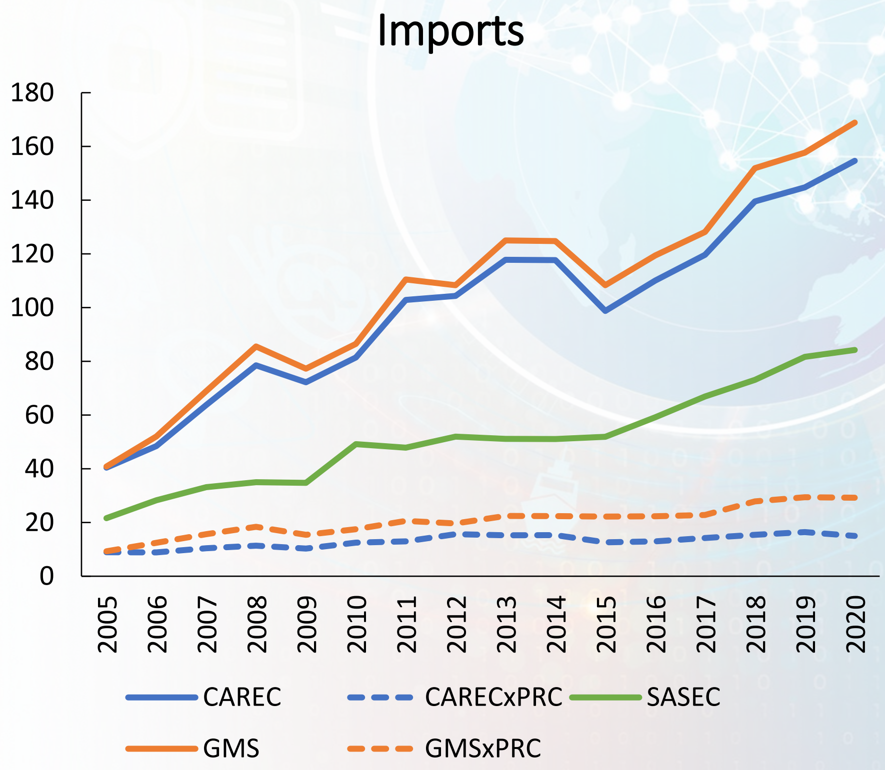


Source: ADB estimates, based on WTO-UNCTAD (accessed 21 July 2021).

Trade in digital services has evolved similarly across subregional initiatives

Digital services trade in developing Asia by subregional initiative
(USD billion)



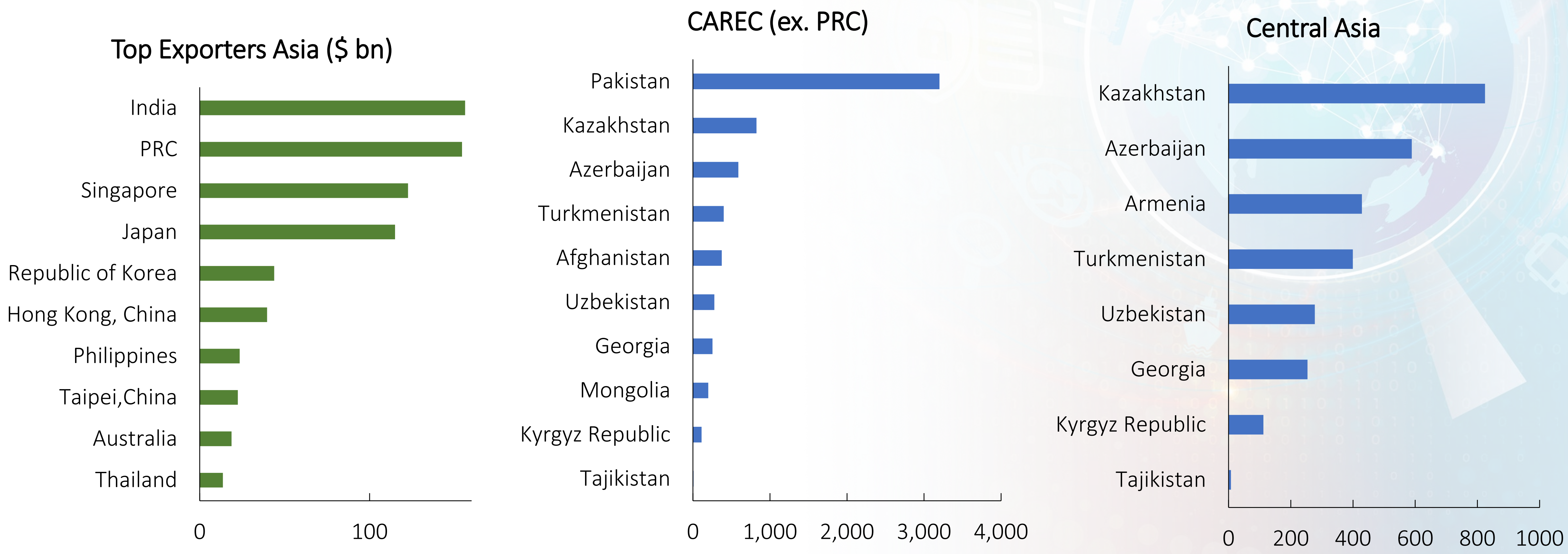


Note: Dotted lines indicate estimates by subregion excluding People's Republic of China.

Source: ADB estimates, based on WTO-UNCTAD (accessed 21 July 2021).

Digital services exports in Asia remain highly concentrated

Top Asian Exporters in Asia, CAREC and Central Asia, 2020
($ million)

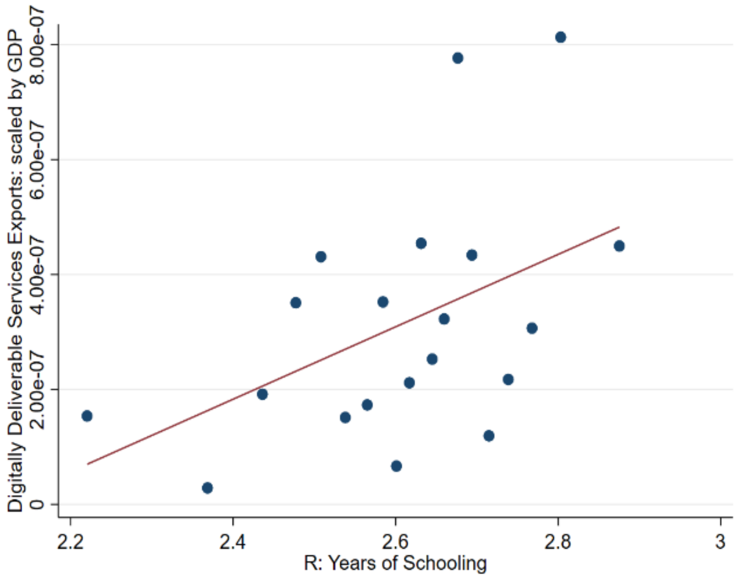


Source: ADB calculations using WTO-UNCTAD (accessed 21 July 2021).

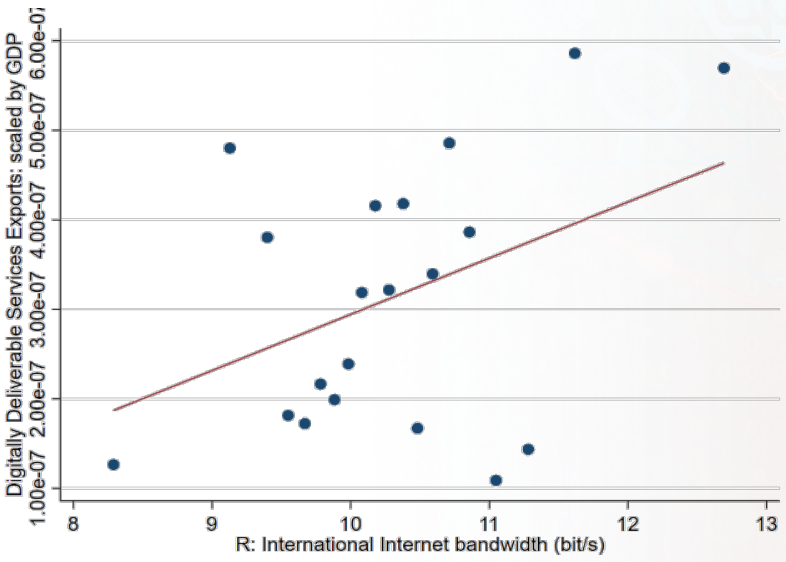
Drivers of digital services trade

- **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

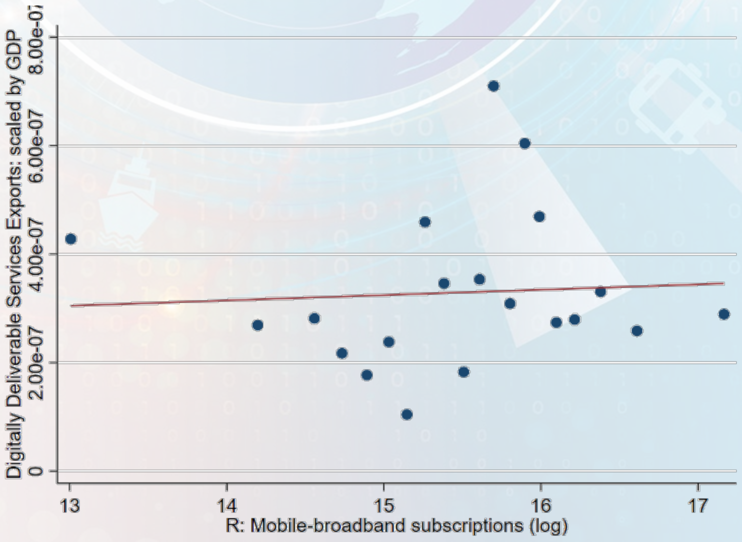
Expected Years of Schooling



International Bandwidth per Internet User (bit/s)



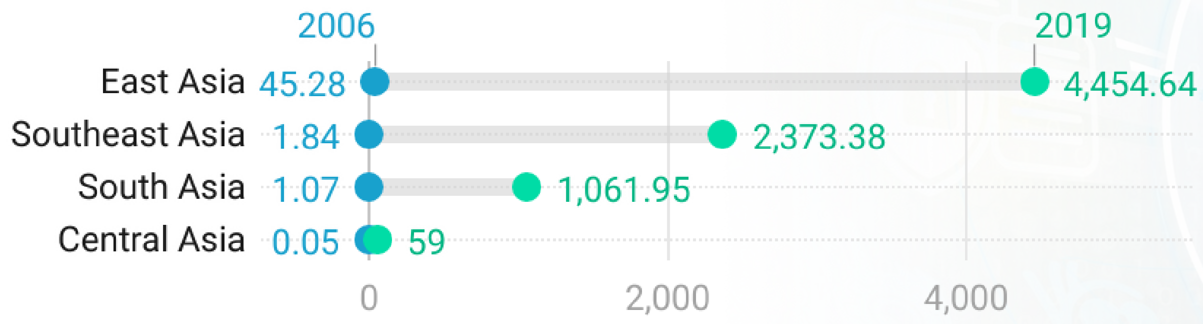
Mobile Broadband Subscriptions



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

Intra and extraregional digital connectivity by subregion

Average Intraregional Internet Bandwidth, by subregion (Gbps)



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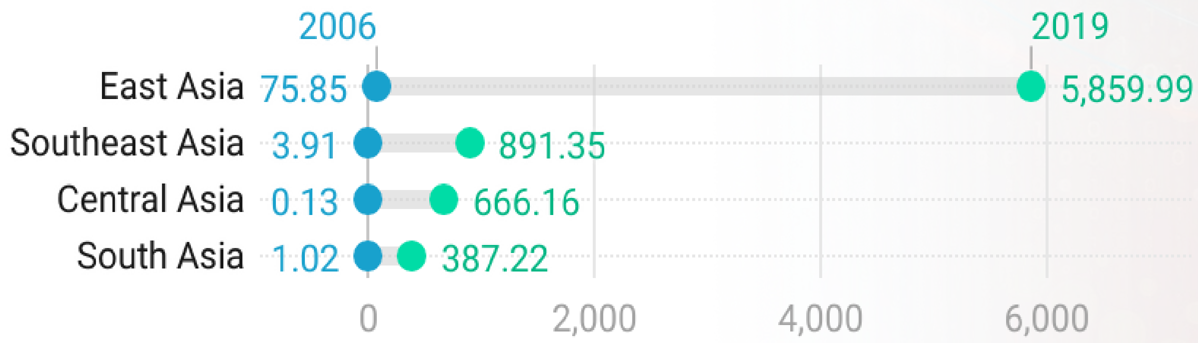


Note: Values refer to the average internet bandwidth among economies belonging to the same subregion.
Source: ADB calculations using data from Telegeography. Global Internet Geography.

Data restrictions and digital services trade

- 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

		Digital services imports			
		Overall	DL	LS	CF
Sectors/Region		Reference: Non-Digital			
Digital	World	-14%			
Digital	Non-Asia	-9%	**-0.6%**[a]	**-24%**	-8%
Digital	Asia	-70%	**-94%**	**-29%**	-45%

a = statistically insignificant; DS = Telecom, Computer, Information, Insurance, Financial.

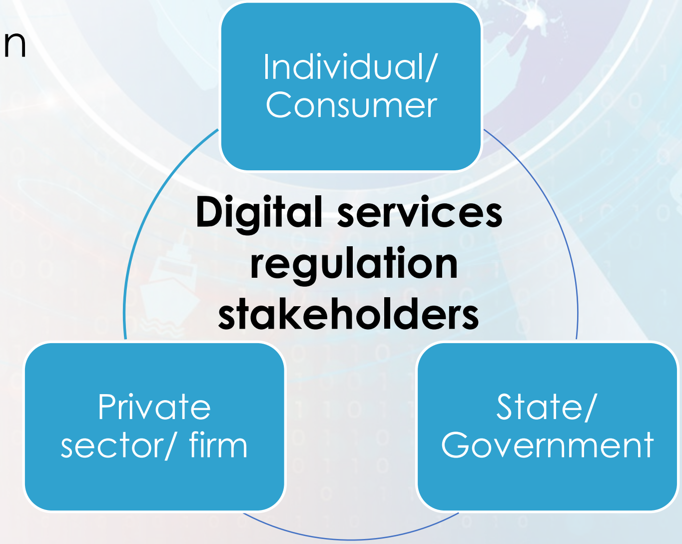
International Regulations

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



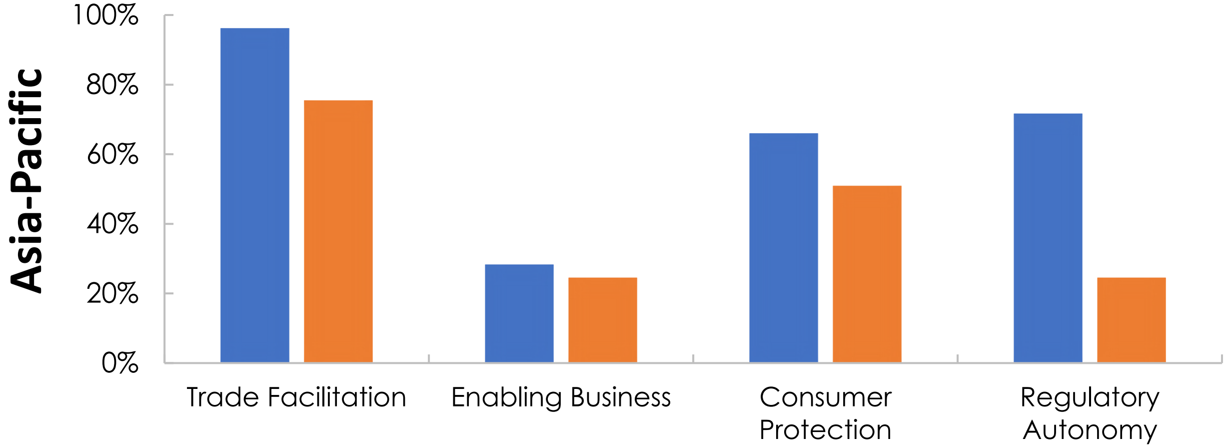
Regional Trade Agreements

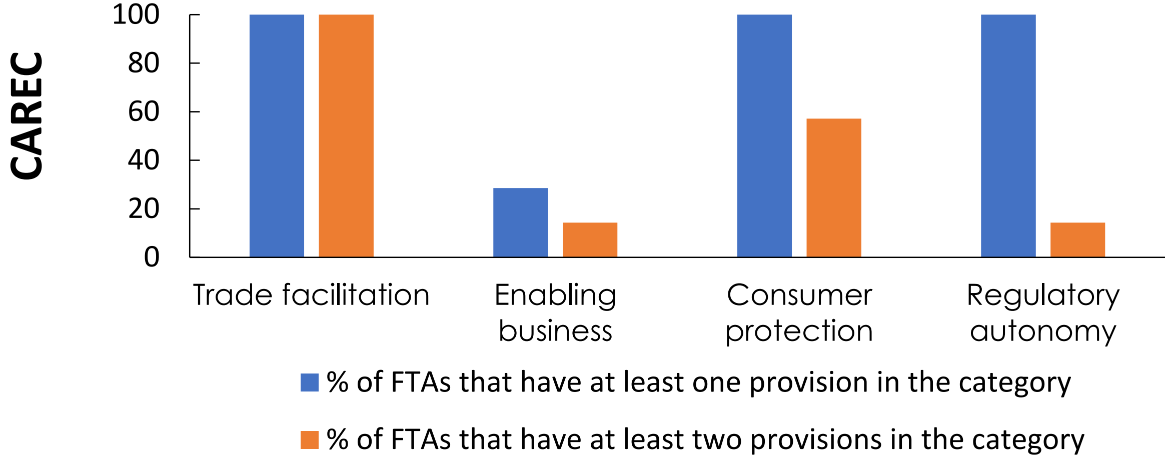
- Three main sovereign approaches (United States, the PRC, European Union) reflected in trade agreements
- Balancing the interests of stakeholders with different priorities.

Agreements and of digital provisions have been increasing over the last decades

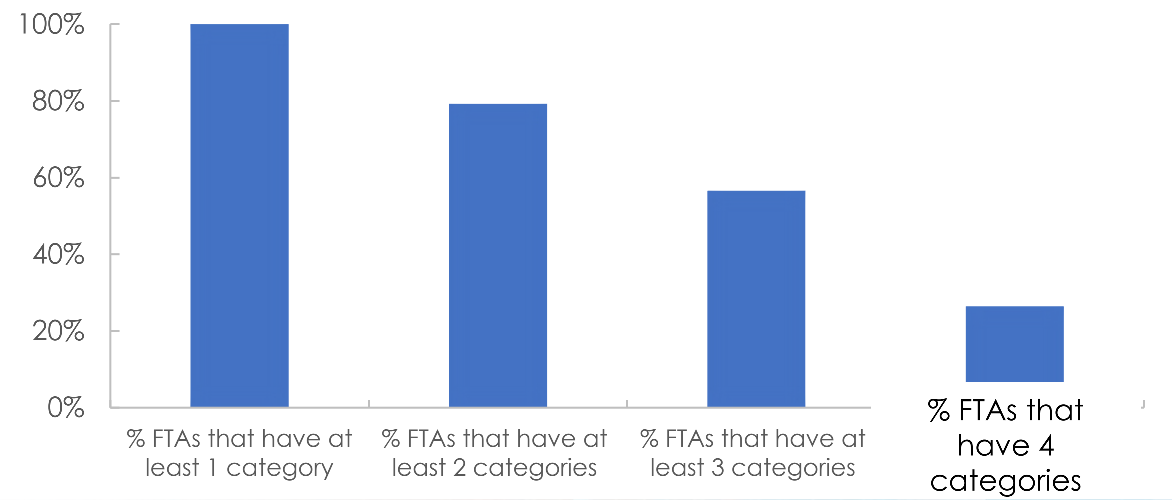
Percentage of FTAs with…

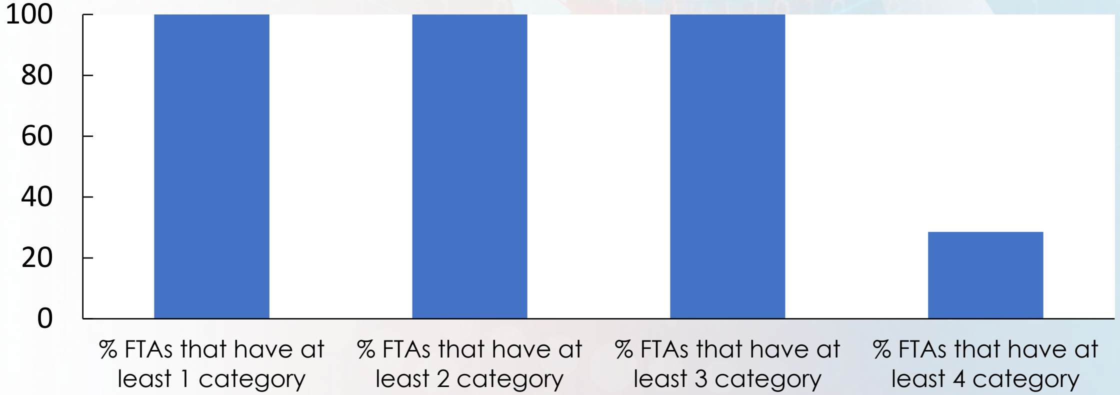
… at least one provision in each category





… provisions in at least one to all categories





Note: The computation includes 7 FTAs, namely: Australia-China, China-Korea, Agreement between Japan and Mongolia for An Economic Partnership, Vietnam-Eurasian Economic Union, China-Chile, 2006 (Upgrade Protocol), Singapore-China,2009 (Upgrade Protocol), RCEP.

Domestic Regulations

Services regulations

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

Cybersecurity

- Safety of digital services trade transactions
- Confidentiality, integrity, and availability of information
- Legitimate policy objectives vs. Protectionism?
- Lack of adequate regulatory framework and limited capacity

International Cooperation in Domestic Regulations

- Mutual recognition agreements
- Formal (e.g., WTO plurilateral negotiations) or informal cooperation arrangements (e.g., MoU)

E-commerce related legislation in CAREC economies

Legislation	Afghanistan	Azerbaijan	People's Republic of China	Georgia	Kazakhstan	Kyrgyz Republic	Mongolia	Pakistan	Tajikistan	Turkmenistan	Uzbekistan
E-transactions	*	•	•	•	•	•	•	•	•	•	•
E-documents	*	•	•	•	•	•	•	•	•	•	•
E-signatures	*	•	•	•	•	•	•	•	•	•	•
International certificates and foreign signatures	*	•	•	•	•	•	•	•	•	•	•
Privacy	*	•	•	•	•	•	*	*	•	•	•
Cybercrime	•	•	•	•	o	o	o	•	o	o	o
Consumer Protection	•	•	•	o	•	o	•	*	*	•	o

• = specific legislation or modern statutes are available that are generally compliant with international instruments (with minimum provisions applicable to e-commerce transactions).

o = there is no specific legislation but there is general legislation (such as civil or criminal codes) that is applicable to all kinds of transactions and is considered media-neutral legislation or statutes.

* = there is incomplete legislation, outdated provisions, or a law has yet to be enacted.

Key messages

- Central Asia’s trade in digital services has grown but remains modest whereas CAREC’s DDS trade has thrived driven by PRC.
- The ability to unlock its potential hinges on investment in human and physical capital, digital connectivity, and policy environment (e.g., freer access to internet and data flows)
- Liberalization and deregulation of digitally deliverable services can raise real income and help strengthen GVC participation across the board
- The need for safeguarding cybersecurity, data protection and privacy should be weighed against supporting freer data flows
- Economy-level regulatory reforms should be complemented by bilateral and regional cooperation

Policy Recommendations

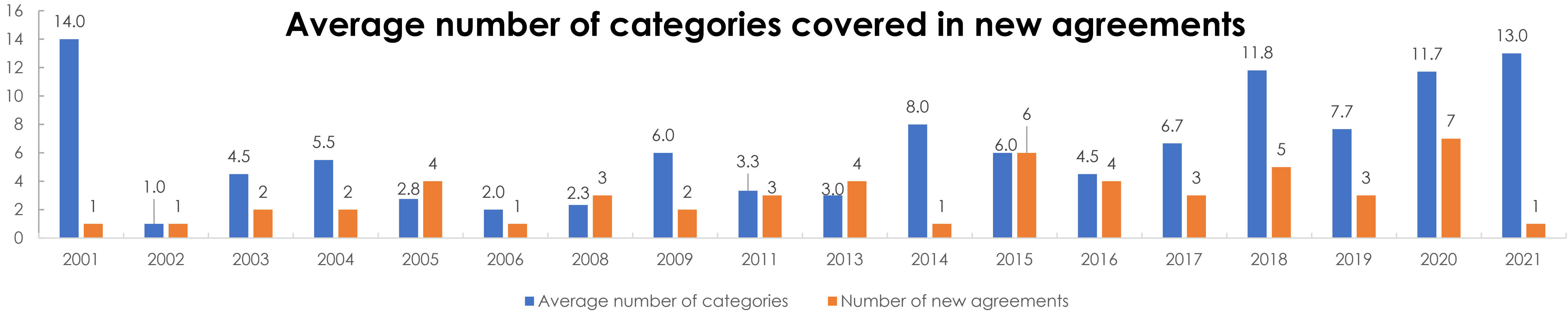
- Investments in human capital (digital capacity), ICT infrastructure and connectivity → CAREC Strategy to accelerate digital trade
- Services sector deregulation and trade liberalization
- Balancing between data protection/privacy and data flows
- International cooperation for transparent, fair and harmonized regulations, taxation of digital services, and liberalization through RTA and DEPA → Harmonization of legal frameworks
- Possible differential impacts and trade-offs, for example for skilled vs. unskilled workers, or in urban vs. rural areas → competitiveness vs. distributional impact

Thank you!

Asian Economic Integration Report 2022 - Theme Chapter
https://aric.adb.org/pdf/aeir/AEIR2022_7_theme-chapter-advancing-digital-services-trade-in-asia-and-the-pacific.pdf

Main exports by economy

Both, the number of agreements and of digital provisions have been increasing over the last decades



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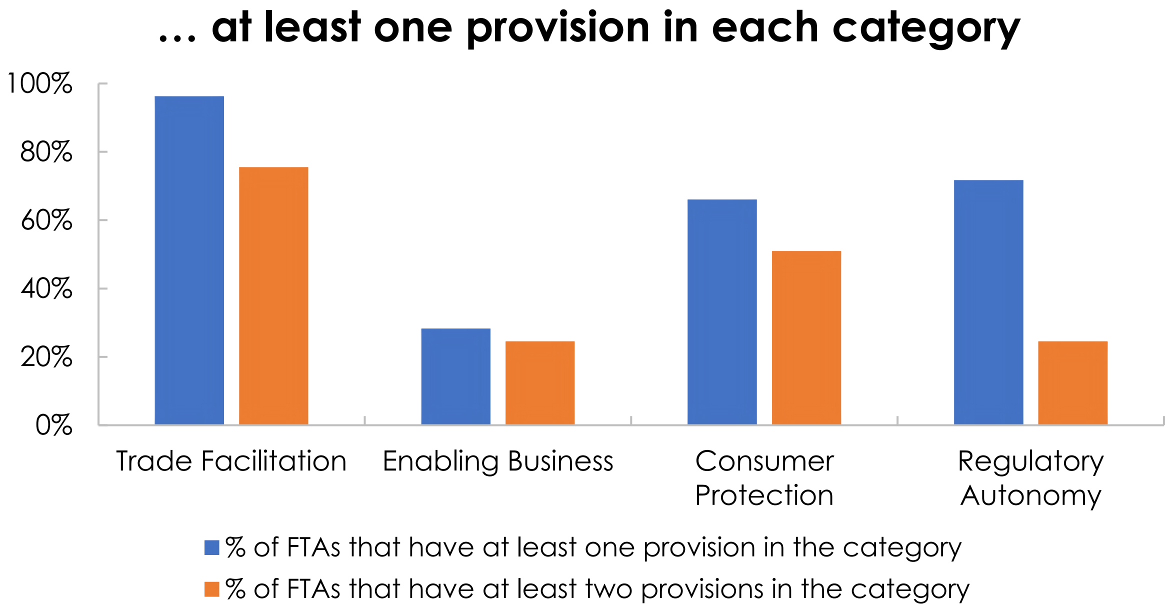
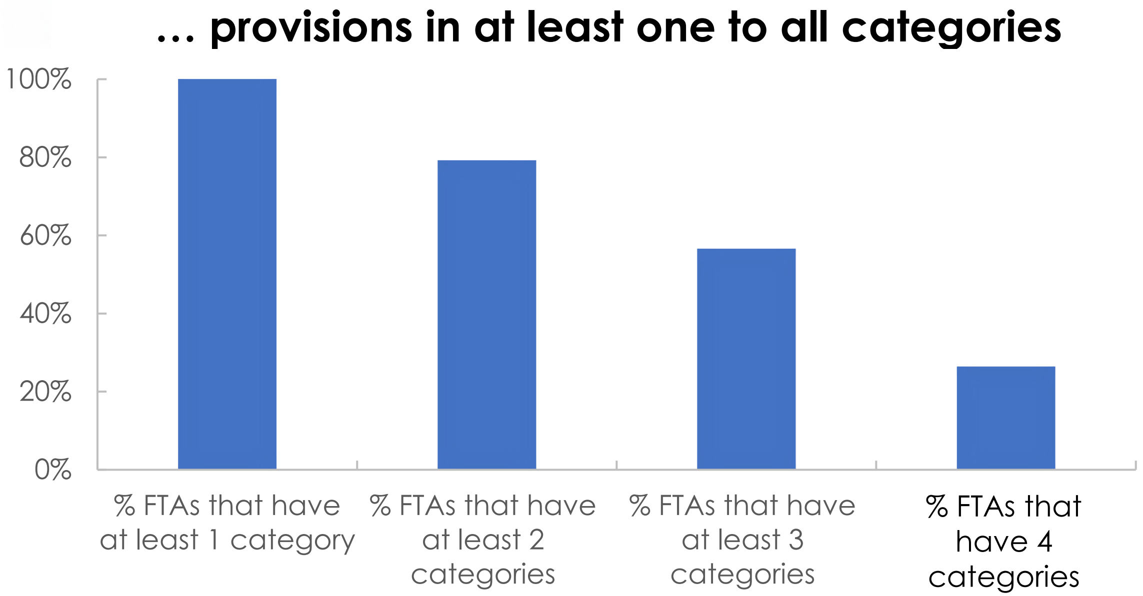




New international tax rules and digital services: Implications for Asian economies

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

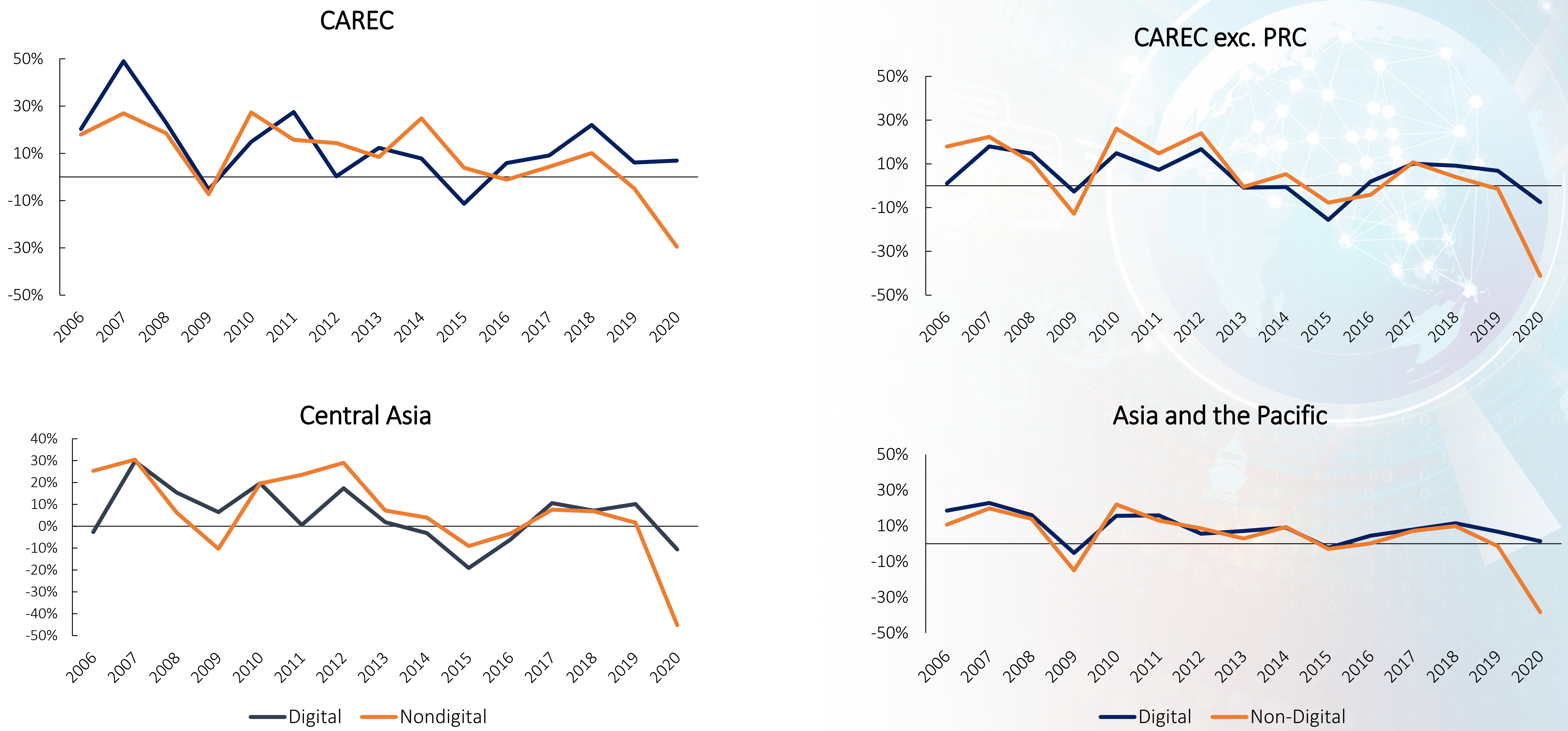
Compliance

- 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

Digital services were resilient during COVID-19



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