OPPORTUNITIES FOR DIGITAL SERVICES TRADE IN CENTRAL ASIA AND CAREC

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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)

**CAREC**

- SC: Transport
- SG: Financial services
- SJ: Other business services

**CAREC excl. PRC**

- SD: Travel
- SH: Charge for the use of intellectual property n.i.e
- SK: Personal, cultural, and recreational services

**Central Asia**

- SF: Insurance and pension services
- SI: Telecommunications, computer and information services

**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?

- **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**.

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

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

Trade in digital services has evolved similarly across subregional initiatives.

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

Exports

Imports

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

Digital services exports in Asia remain highly concentrated

### Top Asian Exporters in Asia, CAREC and Central Asia, 2020

($ million)

<table>
<thead>
<tr>
<th>Top Exporters Asia ($ bn)</th>
<th>CAREC (ex. PRC)</th>
<th>Central Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Pakistan</td>
<td>Kazakhstan</td>
</tr>
<tr>
<td>PRC</td>
<td>Kazakhstan</td>
<td>Azerbaijan</td>
</tr>
<tr>
<td>Singapore</td>
<td>Turkmenistan</td>
<td>Armenia</td>
</tr>
<tr>
<td>Japan</td>
<td>Afghanistan</td>
<td>Turkmenistan</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>Uzbekistan</td>
<td>Uzbekistan</td>
</tr>
<tr>
<td>Hong Kong, China</td>
<td>Georgia</td>
<td>Georgia</td>
</tr>
<tr>
<td>Philippines</td>
<td>Mongolia</td>
<td>Kyrgyz Republic</td>
</tr>
<tr>
<td>Taiwan, China</td>
<td>Kyrgyz Republic</td>
<td>Tajikistan</td>
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<tr>
<td>Australia</td>
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<tr>
<td>Thailand</td>
<td></td>
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</tr>
</tbody>
</table>

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

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)

<table>
<thead>
<tr>
<th>Subregion</th>
<th>2006</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>45.28</td>
<td>4,454.64</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>1.84</td>
<td>2,373.38</td>
</tr>
<tr>
<td>South Asia</td>
<td>1.07</td>
<td>1,061.95</td>
</tr>
<tr>
<td>Central Asia</td>
<td>0.05</td>
<td>59.51</td>
</tr>
</tbody>
</table>

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.

Average Extraregional Internet Bandwidth, by subregion (Gbps)

<table>
<thead>
<tr>
<th>Subregion</th>
<th>2006</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>75.85</td>
<td>5,859.99</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>3.91</td>
<td>891.35</td>
</tr>
<tr>
<td>Central Asia</td>
<td>0.13</td>
<td>666.16</td>
</tr>
<tr>
<td>South Asia</td>
<td>1.02</td>
<td>387.22</td>
</tr>
</tbody>
</table>

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.
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>Digital services imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Overall</td>
<td>DL</td>
</tr>
<tr>
<td>World</td>
<td>-14%</td>
<td></td>
</tr>
<tr>
<td>Non-Asia</td>
<td>-9%</td>
<td>-0.6%a</td>
</tr>
<tr>
<td>Asia</td>
<td>-70%</td>
<td>-94%</td>
</tr>
</tbody>
</table>

α = 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, 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

<table>
<thead>
<tr>
<th>Legislation</th>
<th>Afghanistan</th>
<th>Azerbaijan</th>
<th>People’s Republic of China</th>
<th>Georgia</th>
<th>Kazakhstan</th>
<th>Kyrgyz Republic</th>
<th>Mongolia</th>
<th>Pakistan</th>
<th>Tajikistan</th>
<th>Turkmenistan</th>
<th>Uzbekistan</th>
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<tbody>
<tr>
<td>E-transactions</td>
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<tr>
<td>E-documents</td>
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<tr>
<td>E-signatures</td>
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<td>International certificates and foreign signatures</td>
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<td>Cybercrime</td>
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<td>Consumer Protection</td>
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</tbody>
</table>

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

0 = 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 medi-a 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
Main exports by economy
Both, the number of agreements and of digital provisions have been increasing over the last decades.

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

!!![](chart)

**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
Digital services were resilient during COVID-19