



UNLOCKING THE POTENTIAL OF DIGITAL SERVICES TRADE IN ASIA AND THE PACIFIC

Edited by Jong Woo Kang, Matthias Helble, Rolando Avendano,
Pramila Crivelli, and Mara Claire Tayag

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FOREWORD

Digital services are on a fast track to deeper relevance in daily life. Mobility restrictions during the coronavirus disease (COVID-19) pandemic accelerated their development, and the explosive expansion of internet connectivity and smartphones in recent years has transformed how services and goods are delivered, creating opportunities to find new markets across borders.

Growth in digital services trade in Asia and the Pacific has outpaced other regions for more than a decade. With the rise in global demand for digital services, it is important for economies in the region to evaluate their competitiveness and formulate strategies to develop opportunities in the digital economy.

The expert research featured in this volume reviews critical issues for expanding digital services trade within and outside of the region. It offers valuable insights into the long-term implications of easier, faster, and cheaper delivery of a range of services including financial, professional, and logistics functions that are increasingly integral for driving economic growth and welfare. Online-based services are helping to raise incomes by not only lowering trade costs by cutting out intermediary agents between buyers and sellers, but also spreading benefits to manufacturing industries and stimulating participation of businesses in global value chains.

To maximize gains, economies should equip workers with digital skills and knowledge, invest in information and communication technology infrastructure, and cultivate enabling environments through policy and regulatory reforms. The research in this volume emphasizes that freer access to the internet is the bedrock for nurturing an enabling environment for digital services trade. Indeed, deregulation of cross-border digital services is shown to boost real incomes more than trade liberalization. Allowing data to flow freely across borders and easing burdensome data localization requirements is important for realizing the development potential of digital services trade.

In the meantime, appropriate data protection and privacy measures could improve the security and usability of cross-border digital transactions. Making digital trade laws more business friendly across the plethora of trade agreements

in Asia and the Pacific is another crucial step toward freeing up the income-generating potential of the digital economy.

The power of deregulation combined with regional cooperation on regulatory standards is a common theme. Yet the research in this volume also highlights legitimate concerns about balancing freer data flows with privacy and data security concerns in the delivery of digital services. Many developing economies will need support to successfully prevent fraudulent acts, money laundering, and the financing of terrorism. International taxation of digital services to ensure fairer taxation rights across borders also is an important issue. There has been some encouraging progress in capturing cross-border digital transactions as a source of national revenue, but there is still a long way to go. Given the great complexity of taxation regimes, regional cooperation is essential.

Our hope is that this collection of studies will encourage more discussion about what Asia and the Pacific can do to maximize efficiencies and enhance the competitiveness of its digital services trade. Policy makers in the region must seize growing opportunities from embracing this evolutionary transformation or risk missing out on these opportunities and falling behind.



Albert Park

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ABBREVIATIONS

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ATM	automatic teller machine
BaTIS	Balanced Trade in Services
CPTPP	Comprehensive and Progressive Trans-Pacific Partnership
DDoS	distributed denial of service
DEA	Digital Economy Agreement
DID	difference-in-difference
DoS	denial of service
DPA	Digital Partnership Agreement
DST	digital services taxes
DSTRI	Digital Services Trade Restrictiveness Index
DVA	domestic value added
EPA	Economic Partnership Agreement
ETR	effective tax rate
FTA	free trade agreement
FVA	foreign value added
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDPR	General Data Protection Regulation
GST	goods and services tax
GVC	global value chain
ICT	information and communication technology
IIR	income inclusion rule
MFN	most favored nation
MNE	multinational enterprise
MOU	memorandum of understanding
OECD	Organisation for Economic Co-operation and Development
PDC	pure double counting

PE	permanent establishment
PIPL	Personal Information Protection Law
PPML	Poisson pseudo-maximum likelihood
PRC	People's Republic of China
PTA	preferential trade agreement
QDMTT	qualified domestic minimum top-up tax
R&D	research and development
RCA	revealed comparative advantage
RCEP	Regional Comprehensive Economic Partnership
ROK	Republic of Korea
RTA	regional trade agreement
SPS	sanitary and phytosanitary
STRI	Services Trade Restrictiveness Index
STTR	subject to tax rule
TISMOS	Trade in Services by Mode of Supply
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USMCA	United States–Mexico–Canada Agreement
UTPR	undertaxed payments rule
VAT	value-added tax
WPEC	Work Programme on Electronic Commerce
WTO	World Trade Organization

Unlocking the Potential of Digital Services Trade in Asia and the Pacific

This book explains how rapid digitalization during COVID-19 has accelerated the growth of digital services trade in Asia and the Pacific, and provides analysis on the opportunities, challenges, and associated risks. It explores evolving trends and nurturing enabling environment through domestic reforms and trade liberalization. It outlines how a greater focus on developing human capital, connectivity, investment in information and communication technology, and an appropriate regulatory environment can help digital services trade thrive. By underscoring the principal drivers and policies, it aims to build a better understanding of digital services trade to guide policy makers as they undertake a journey to unlock its great potential.

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