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Department of Foreign Affairs and Trade

APEC Dialogue with the OECD

Services SMEs in the digital economy: opportunities and policy constraints

28 August 2015 – Cebu, the Philippines

SUMMARY RECORD

The Organisation for Economic Co-operation and Development (OECD) and the 2015 Philippines Asia-Pacific Economic Cooperation (APEC) Host Committee co-organized a Dialogue on the margins of the Third Senior Officials Meetings (SOM3) to explore the trade and trade-related policies that affect the participation of services SMEs in the global economy. In particular, the Dialogue focused on the role that services policies play in shaping the emergence of micro-multinationals and in providing new opportunities for small business service providers. The Dialogue was organised around two main panel discussions (see agenda for the full list of moderators and speakers), and was attended by 80 APEC delegates.

Session 1: International services SMEs in regulated sectors

Panel speakers in the first session discussed the challenges that MSMEs face when seeking to engage in international trade in regulated services sectors, and ways in which regulations can be made less burdensome for small business. Hildegunn Nordås from the OECD opened the session with the story of a small business owner whose ‘virtual barbershop’ experienced what many SMEs face when seeking to comply with [overly-burdensome] regulations – a shift in resources from innovation to compliance to ultimately downsizing product scope. She noted that SMEs rely on efficient telecoms infrastructure, postal and courier services, and customs brokers, for example, to get products quickly delivered across borders. However, the OECD Services Trade Restrictiveness Index (STRI) reveals that postal and courier services are often more restrictive than other transport sectors, and that much remains to be done to reduce barriers to movement of people. The STRI also shows that more open and competitive telecoms markets leads to higher broadband penetration, which is critical for SMEs seeking to enter the digital economy.

Jane Drake-Brockman spoke to the regulatory environment as deeply relevant at all levels of services competitiveness. Enabling factors for services competitiveness include human capital, digital infrastructure, efficiency of domestic regulations, and international connectivity, to name a few. Governments generally intervene much more heavily in services sectors than goods, and regulations impose a compliance cost on firms. Looking at trade in services, the government regulator decides whether a foreign provider is “like” the domestic provider, and what requirements apply to meet the quality standard. As Director of the Philippines Board of Surgery, Dr. Cueto provided an overview of the approach in the Philippines to regulating professional services, and raised the question about what will be the impact of regional integration on regulated professions. ASEAN MRAs, for example, are designed to reduce entry costs in each other’s markets. He noted that even with licensing registration costs, it is still a benefit to professionals who can prove they are qualified.

During the discussion, several important issues were raised by the moderator and participants. The general sentiment from speakers was that any barrier to market entry will affect SMEs more than



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larger firms, and that it often takes scale to enter international markets. Regulators could make better use of modern technology to convey information about licensing requirements. It was noted that APEC economies should push for implementing the Trade Facilitation Agreement, which offers a huge opportunity to reduce border costs for traders (see *OECD Trade Facilitation Indicators*). Several participants also noted the importance of data flow as the life blood of small businesses, especially knowledge-intensive firms. If SMEs cannot access or send data across borders, they cannot internationalize in today's digital environment. It was recognized that this is a crucial but complicated issue, where governments must find a balance between privacy laws and cross-border data flows. Finally, some APEC economies may face pressure from vested interests when looking to remove market constraints that protect local industry; speakers noted that unless governments get their domestic regulatory house in order, firms will not be able to compete globally – and the global market is much bigger than the domestic market (example of Australian legal services market).

Session 2: Micro multinationals and services SMEs in the digital economy

Panel speakers in the second session addressed some of the opportunities and challenges facing young entrepreneurs, micro-multinationals and services SMEs in today's digital economy, and discussed main policy concerns and possible solutions. Flitto CEO Simon Lee provided an overview of his company, an SME that offers a digital platform to connect translators with clients needing immediate and affordable translation services. Jenny Wong of Time Warner provided insight on the evolution of trade in digital products, including how technologies like 3D printing may fundamentally change how small businesses can provide design services across borders. In looking at barriers to trade in digital goods and services, while products may be easy to distribute, they are often costly to produce (R&D, production costs, intellectual property protection, etc.). Francis Lopez of the Pan-Asian eCommerce Alliance raised the issue that SMEs face in ensuring that trade documents acceptable in one country are recognized in another. He provided an overview of the Pan Asia Exchange platform, and noted that the Philippines is working this year on an *APEC SME Buyer-Seller Matching Portal*. Likewise, an APEC Pathfinder Project on electronic certificates of origin may be useful to SMEs for customs clearance.

During the discussion, participants engaged panel speakers on a number of questions related to the changing environment for entrepreneurs and SMEs doing business across borders in the digital economy. When speakers were asked if clients and suppliers still need to meet in person in today's digital economy, some thought social media channels offer an effective tool to reach clients, while others noted the importance of face-to-face meetings for high-risk industries, or where there is a high value or volume. It was also noted that many clients today trust in the platform (like Amazon), not necessarily the individual seller. Speakers also noted that in the 'shared economy' sectors where we see companies like Uber or Flitto, traditional players can still take advantage of new platforms. The major policy constraints panelists hope to see addressed in this area include reducing red tape for SMEs to participate in global value chains, harmonizing payment systems in different countries, moving towards open and transparent environment for digital products, and lowering regulations in the hiring process, where it still often takes 3 to 4 months to hire foreign officials.



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Conclusions

Concluding remarks were offered by APEC Committee on Trade and Investment (CTI) Chair and by the Philippines' APEC SME Working Group (SMEWG) representative. Both speakers noted that APEC already has a number of initiatives planned or underway that seek to address many of the issues raised in the dialogue, including:

- APEC created the **STAR database for services** to make it easier for services providers to trade by increasing the transparency of rules and regulations affecting market access; the Philippines is working to create a similar database to cover goods. Speakers reiterated the importance of simplifying regulations while maintaining quality standards.
- APEC work on **good regulatory practices** seeks to encourage members to better assess the impact of regulations before they are adopted to reduce unintended consequences.
- CTI discussions on **localization barriers to trade** are ongoing, including through a Trade Policy Dialogue at SOM3 in Cebu. The Electronic Commerce Steering Group continues to promote the APEC Cross-Border Privacy Rules System, which aims to provide guidance to economies on an appropriate “trade facilitating” balance between privacy laws and cross-border data flows.
- While services in regulated professions are often sensitive areas in trade negotiations, and may be best addressed in free trade agreement discussions, the role of APEC is to **showcase the benefits of service sector reforms** and identify “good practice” regulatory approaches – for example, Australia is leading a self-funded APEC workshop on Good policy and regulatory Practices for facilitating trade and investment in Architecture and Engineering services in Singapore in December.
- Following a discussion on the difficulty SMEs face with divergent payment systems, it was noted that some of the payment systems are proprietary and hard for governments to address. However, APEC may be able to find ways to discuss and address interoperability issues through greater regulatory cooperation.
- The **Boracay Action Agenda to Globalize SMEs** was adopted at the 2015 Ministers Responsible for Trade (MRT) Meeting and identifies actions to better facilitate trade, including in the services sector. Some of these actions will be taken forward by the SMEWG.
- The Philippines hope to have an **MSME Marketplace** endorsed at the APEC SME Ministerial Meeting in September; and an APEC Services **Cooperation Framework** to deliver at the APEC Economic Leaders' Meeting in November.
- The APEC Policy Support Unit may be able to take on some research to support the Committees and Working Groups in these areas.
- The Ad-Hoc Steering Group on the Internet Economy continues to discuss digital economy issues; and the CTI is considering adding the digital economy to its next-generation trade issues work stream.
- Interest was expressed in the OECD-APEC Dialogue becoming institutionalized as an annual meeting going forward.



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AGENDA

09:00 - 09:30 Opening session

Welcome remarks

Ms. Trudy WITBREUK, Organisation for Economic Co-operation and Development

Mr. Jerry CLAVESILLAS, Department of Trade and Industry, the Philippines

Keynote address

Mr. Luis M. CATIBAYAN, Director, Department of Trade and Industry, the Philippines

09:30 - 10:45 Session 1: International services SMEs in regulated sectors

The session will explore examples of successful services SMEs in regulated sectors, the challenges they have encountered in international markets and how regulation can be made less daunting for SMEs.

Questions for the panel:

- What are the potential for SMEs to engage in trade through global value chains in sectors characterized by regulated professions?
- What are the main policy challenges?
- How can governments ensure that quality and safety standards can be met without erecting prohibitive entry costs for SMEs?
- Is there a need for specific policy measures encouraging the participation of SMEs in global value chains in regulated services? If so, which?

Moderator: Mr. Edward BRZYTWA, Director of Global Policy for Localization, Trade, and Multilateral Affairs, Information Technology Industry Council

Speakers

- Ms. Hildegunn Kyvik NORDÅS, Senior Trade Policy Analyst, OECD
- Ms. Jane DRAKE-BROCKMAN, Senior Advisor, International Trade Centre
- Dr. Jose CUETO Jr., Director, Philippines Board of Surgery



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11:15-12:30 Session 2: Micro multinationals and services SMEs in the digital economy

This session will focus on SMEs in the virtual world. These are particularly important markets for young entrepreneurs and could alleviate the problem of youth unemployment. The session will discuss policy challenges facing these micro enterprises, including access to finance and issues related to intellectual property rights and international data flows.

Questions for the panel:

- Describe the business model and success factors of a surviving entrepreneur in the market for apps or other digital products.
- What are the opportunities and challenges facing young entrepreneurs in developing countries in this sector?
- What are the main policy concerns, and how could they be addressed?

Moderator: Ms. Hildegunn Kyvik NORDÅS, Senior Trade Policy Analyst, OECD

Speakers:

- Mr. Simon LEE, Chief Executive Officer, Flitto, Korea
- Ms. Jenny WONG, Executive Director, Asia Pacific Time Warner Public Policy, Time Warner
- Mr. Francis Norman LOPEZ, Chairman of the Pan Asian e-Commerce Alliance (PAA) Steering Committee

12:30-13:00 Wrap-up session

- Mr. John LARKIN, Chair, Committee on Trade and Investment, Assistant Secretary APEC Branch, Department of Foreign Affairs and Trade, Australia
- Mr. Jerry CLAVESILLAS, Department of Trade and Industry, the Philippines