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Economic Cooperation**

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Economy Wide Implications of Services Policies

Submitted by: Developing Trade Consultants



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Economy Wide Implications of Services Policies

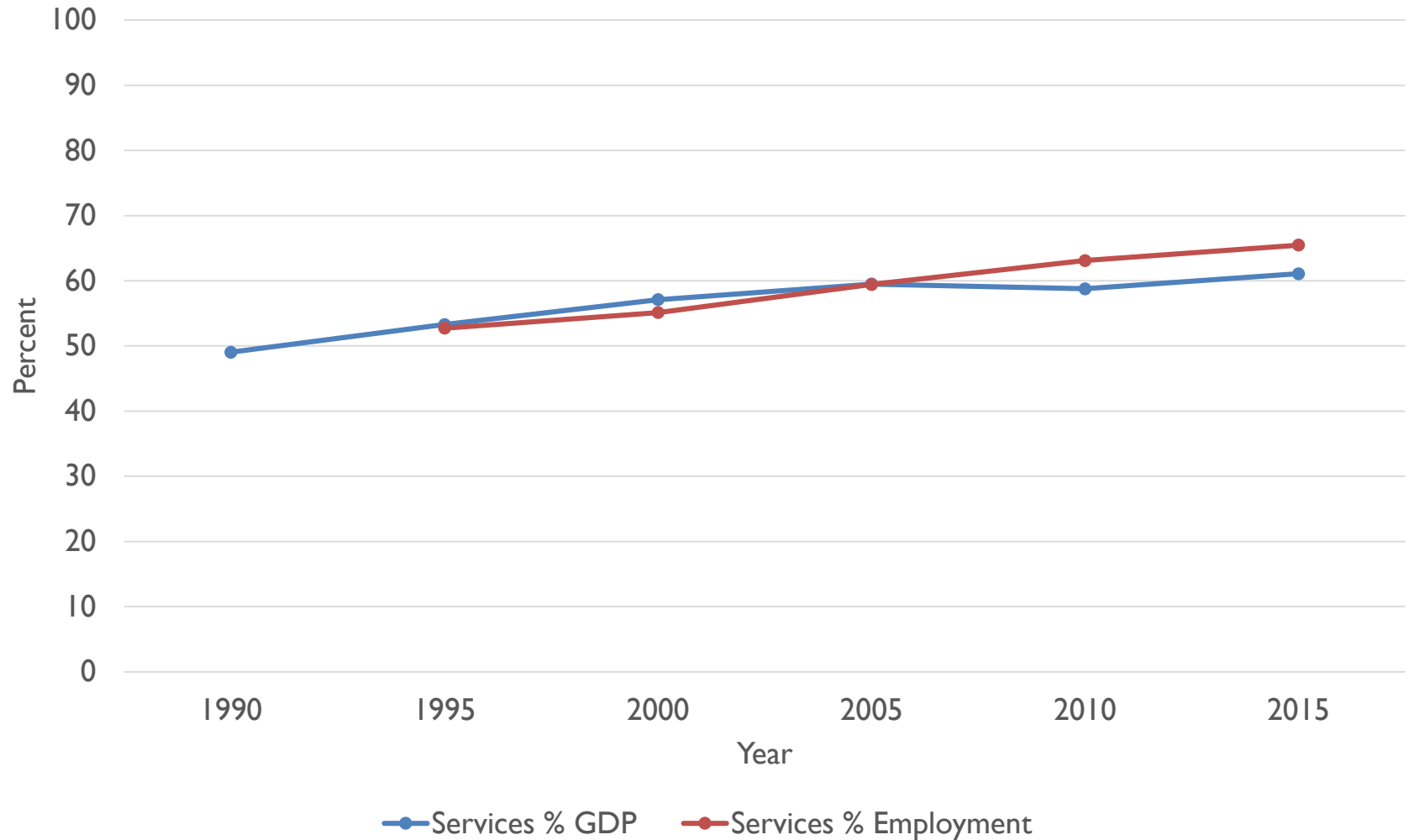
Ben Shepherd, Principal.

May 30th, 2018.

Overview

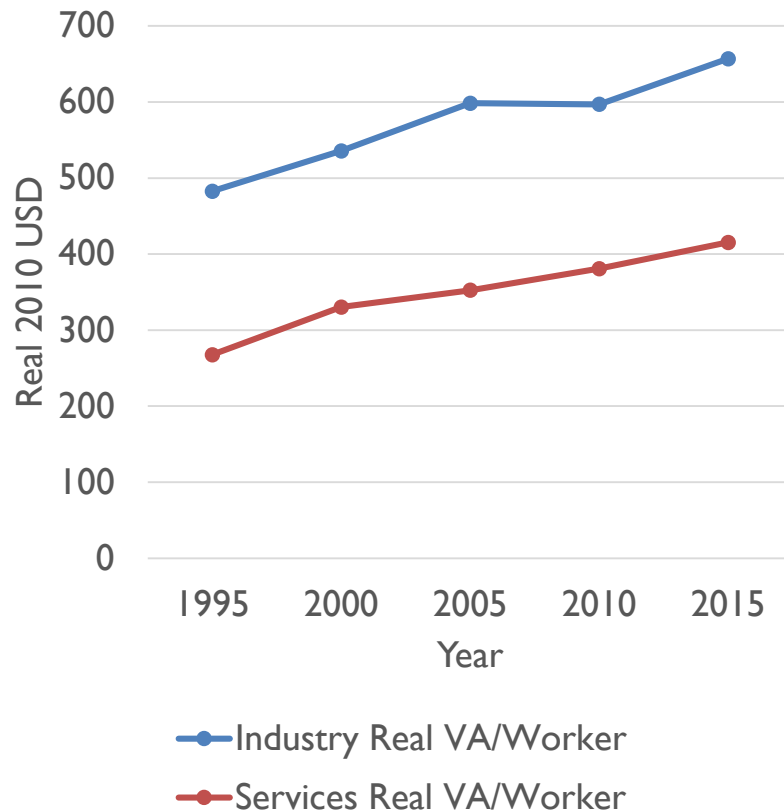
- ▶ Basic facts on services in APEC.
- ▶ Reforming services markets for growth
- ▶ Key messages

Services is a growing source of value added and employment in APEC

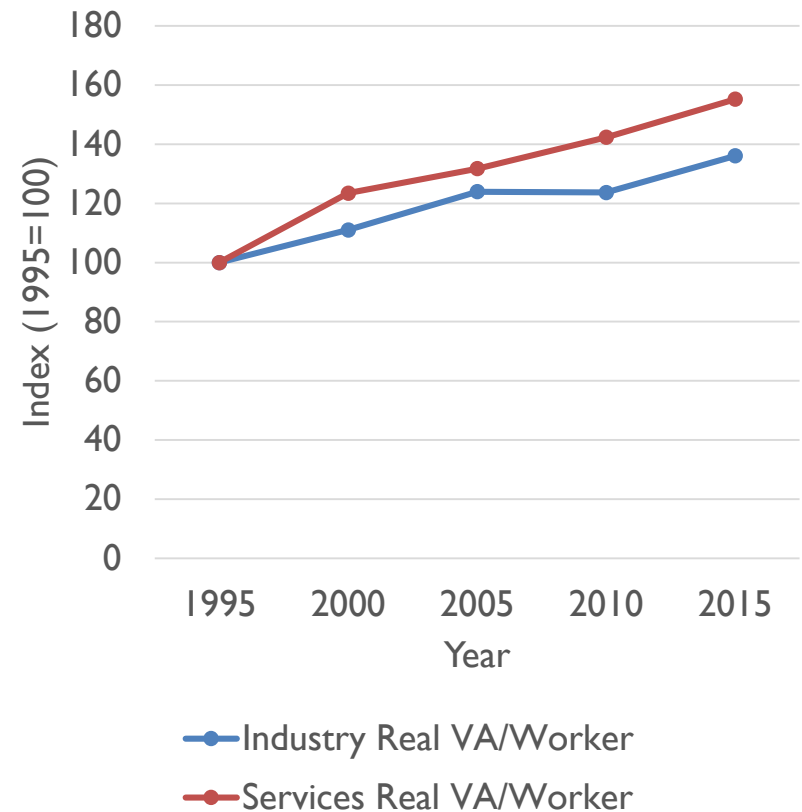


The services sector is also an important source of productivity growth

Labor Productivity

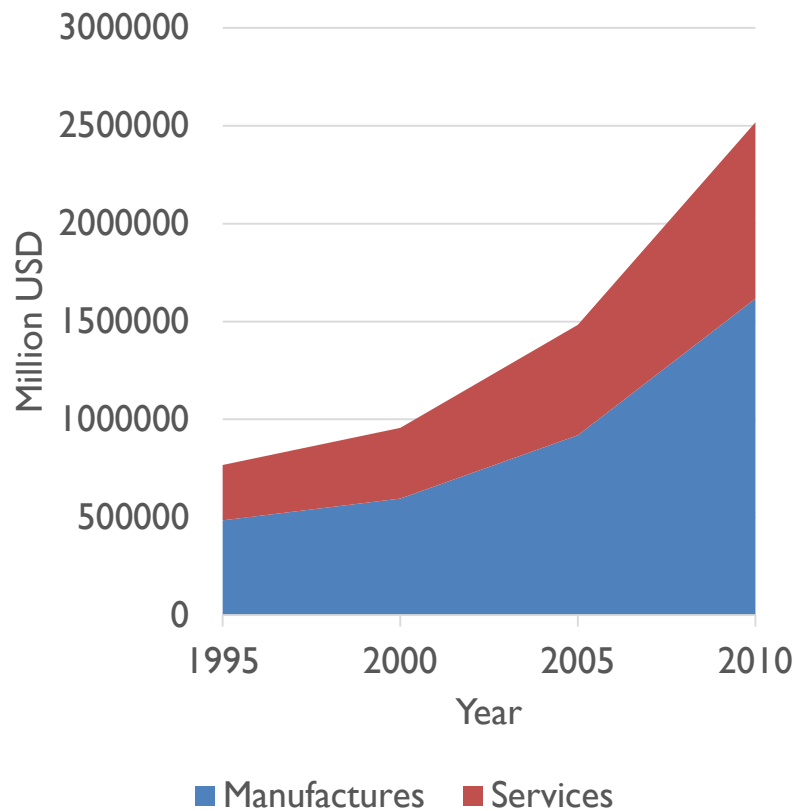


Labor Productivity Growth

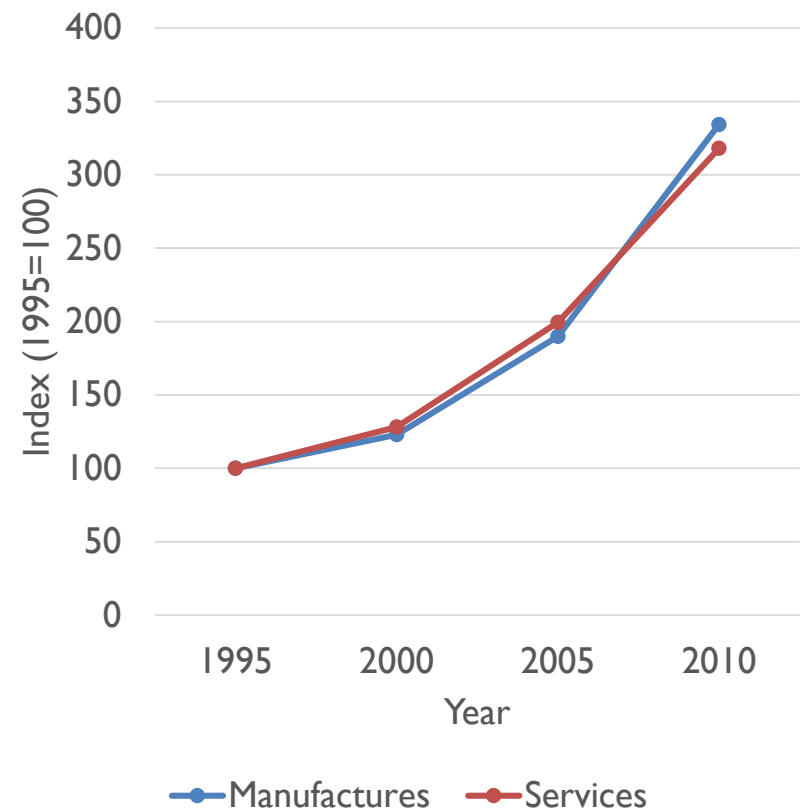


Services are vital to APEC's trade relations

Total Exports

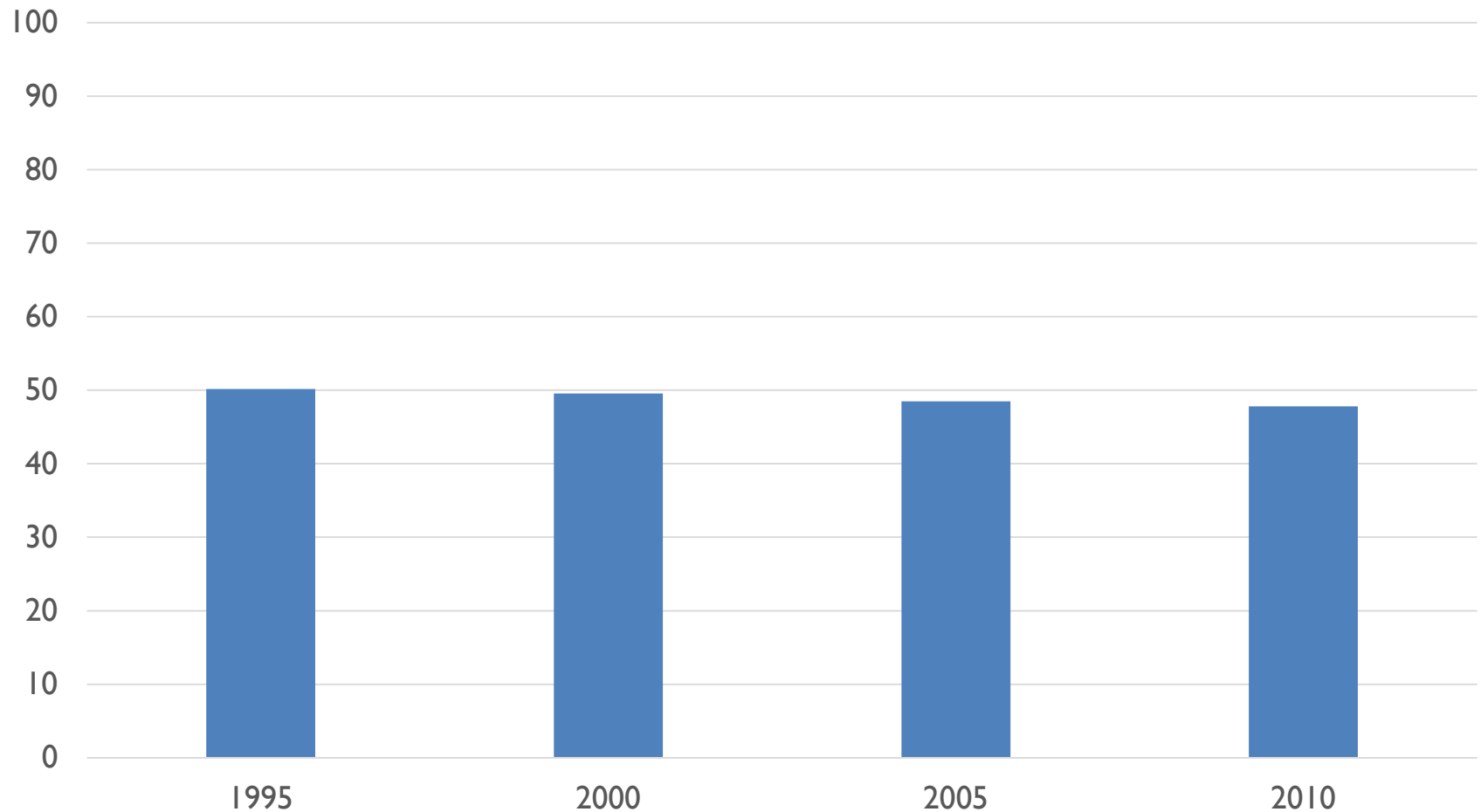


Export Growth



Servicification makes these conclusions even more salient

Services VA % Total Exports



Reforming services markets for growth

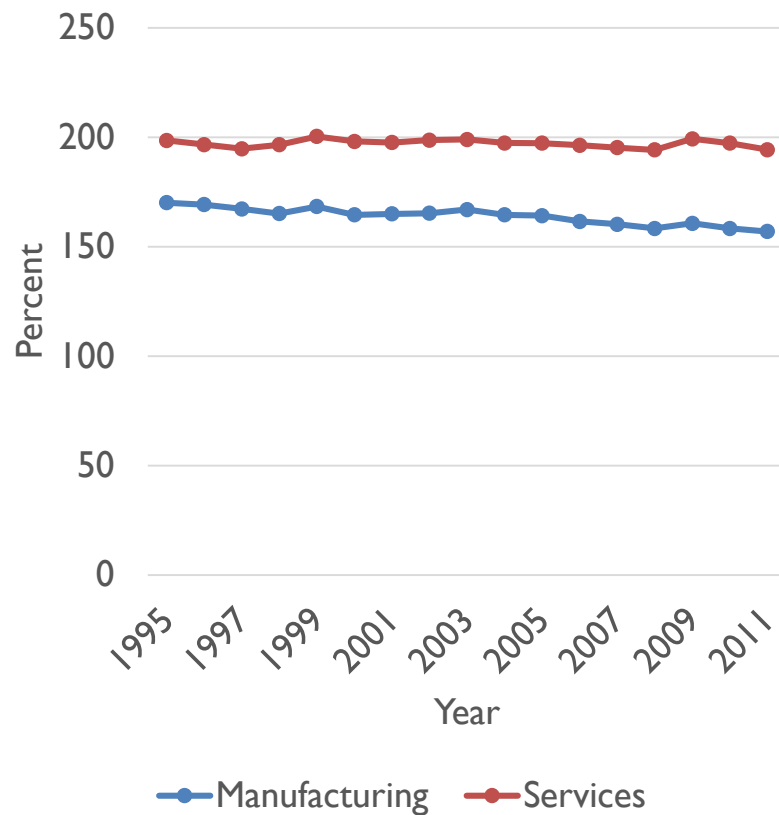
- ▶ Regulation is a key determinant of service sector performance.
 - ▶ Regulation can create entry barriers, which support rents.
 - ▶ Alternatively, it can increase the costs of doing business, which is a real resource costs.
- ▶ Reform of both types of barriers can bring real gains.
- ▶ Economic gains are not only to the services sector itself, but are spread economy wide because services are used so extensively as inputs in other sectors.
 - ▶ Gains from reform are particularly large in “backbone” services sectors.

Reforming services markets for growth

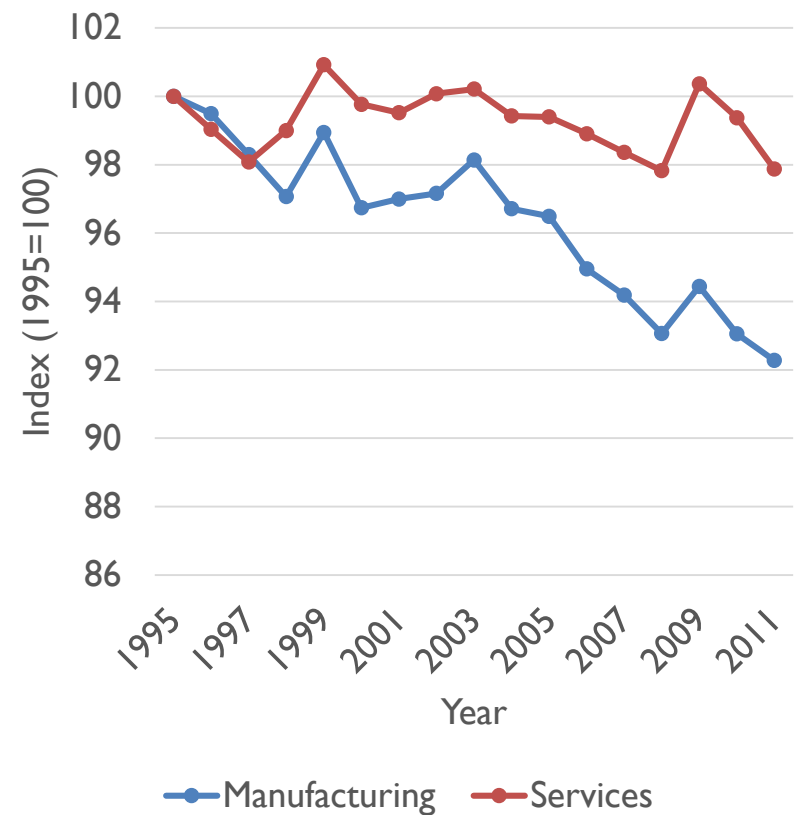
- ▶ Reforms in key backbone sectors have particular potential to boost GDP.
- ▶ Reducing real resource losses from inefficient regulations is like a technological improvement for producers who use those inputs, i.e. it boosts competitiveness.
- ▶ PSU's 2015 report estimates that ambitious but realistic structural reforms in transport, energy, and telecommunications (all services) could:
 - ▶ Boost APEC real GDP by \$175bn annually.
 - ▶ Increase productivity by 2%-14%. Impacts above 10% in Indonesia, Malaysia, Mexico, the Philippines, Chinese Taipei, and Viet Nam.

Reforming services markets for growth

Trade Costs



Change in Trade Costs



Reforming services markets for growth

- ▶ Against the background of research like this, we know that:
 - ▶ Services policies are key determinants of sectoral competitiveness
 - ▶ Competitiveness in services is a key determinant of the competitiveness of other sectors, especially manufacturing.
 - ▶ Trade costs are higher in services than in goods...
 - ▶ So the payoffs from reform are likely higher (efficiency gain is proportional to the square of the price wedge)
 - ▶ Services reforms also have dynamic, pro-competitive effects that are more difficult to quantify.

Key messages

- ▶ Boosting services competitiveness is therefore vital for medium to long-term economic performance.
- ▶ As economic activity shifts towards services, the sector will only become more important as a source of growth.
- ▶ Growth potential of services sectors varies widely, so sectoral policies need to ensure that high potential sectors can access the resources they need to grow.
- ▶ In addition to input linkages, sectors like education are directly growth promoting by deepening human capital and supporting R&D that drives technological progress.