Lowering APEC trade costs through services domestic regulation reform

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- APEC economies’ regulatory environment has become more trade facilitating in recent years, including on measures related to regulatory transparency. Nonetheless, there is scope to further improve services domestic regulations across key sectors such as computer services, some professional services, telecoms and financial services.

- Further streamlining domestic services regulations, including through outcomes in the WTO Joint Initiative on Services Domestic Regulation, could further help reduce trade costs for APEC businesses by an average of 7% across sectors and economies in the medium term (after 3-5 years).

- Most benefits from lower trade costs would impact highly regulated sectors where licensing, registration processes and recognition of qualifications are prominent, such as commercial banking, telecommunications and insurance services.

- APEC SMEs would be the first to benefit from more efficient domestic regulations for services through lower trade costs and fewer regulatory hurdles.

Global trade in services has been growing faster than trade in goods in recent years, including through the development of new technologies that increasingly facilitate cross-border supply of services. This is particularly visible in the Asia-Pacific region, where growth strategies across economies have placed services at the forefront of the policy agenda. Indeed, services now contribute nearly two-thirds of the region’s GDP (Figure 1). APEC has developed forward-looking principles and policy instruments aimed at facilitating the flow

Figure 1. Services are key economic drivers across the APEC region

<table>
<thead>
<tr>
<th>Services value added as percentage of GDP, 2019</th>
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<tbody>
<tr>
<td>Australia</td>
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<tr>
<td>0</td>
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Average STRI for regulatory transparency over time in APEC and OECD economies, 2014-2020

Note: Lower values on the index indicate a more open regulatory environment. APEC average is based on data for 14 APEC economies currently covered in the OECD STRI.


Figure 2. Regulatory transparency has improved in the APEC region in recent years

Streamlining domestic regulations for services could substantially lower trade costs for APEC businesses

A group of nearly 60 WTO Members launched the Joint Statement Initiative (JSI) on Services Domestic Regulation in December 2017, with the shared objective of improving the existing trade rulebook related to qualification requirements and procedures, technical standards, licensing requirements and procedures for services providers. To date, 13 APEC economies are taking part in the JSI discussions. While negotiations are well advanced on the draft text, greater understanding of the potential benefits of more efficient domestic regulations could help expand interest in participation by other economies.

The OECD STRI collects information on the applied regulations affecting several disciplines included in the JSI discussions, such as transparency in the rule-making process, administrative and procedural hurdles related to registering companies, as well as licensing and authorization requirements across different sectors, including some professional services such as legal, accounting, architecture and engineering services.

While the regulatory environment of APEC economies has become more trade facilitating in recent years, particularly in relation to measures affecting regulatory transparency, there is scope to further capitalize on services domestic regulation reforms to boost trade. If the current disciplines considered under the JSI were to

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be fully implemented in APEC economies, impediments to trade (as measured by the STRI) could be lowered by up to 21% (Figure 3). The most significant progress would be seen in the lifting of regulatory impediments in sectors such as computer services, some professional services, sound recording, telecoms and financial services.

Streamlining of services domestic regulations could potentially reduce trade costs in the APEC region by an average of -7% across sectors and economies in the medium term (after 3-5 years) (Figure 4). Lower trade costs would have the greatest impact on highly regulated sectors which are critical backbones to the economy, where licensing, registration processes and recognition of qualifications are prominent. The highest impact would be in commercial banking (-22%), telecommunications (-14), insurance (-11%), and computer services (-7%). Among professional services, engineering (-6%) and architecture services (-6%) would benefit most.

### Figure 3. APEC economies can further ease regulatory hurdles on services

Average percentage of decrease in STRI values in case of lifting existing impediments on domestic regulations

![Graph showing percentage decrease in STRI values across different sectors](image)

*Note: Calculations based on the 14 APEC economies currently covered in the OECD STRI.*

*Source: OECD STRI, 2020.*

### Figure 4. Potential trade costs reductions could be greatest in some critical backbone services

Trade costs reductions related to certain services domestic regulations by sector, percentage of export values

![Graph showing trade cost effects across different sectors](image)

*Note: Calculations based on the 14 APEC economies currently covered in the OECD STRI.*

*Source: Calculations are based on the methodology in Benz & Jaax (2020).*
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APEC SMEs will be the first to benefit from more efficient domestic regulations for services

The costs of navigating complex regulatory regimes across economies, dealing with time-consuming procedural hurdles and documenting compliance in every new market fall more heavily on small and medium-sized enterprises (SMEs) than larger multinational firms with more resources. SMEs often export lower services values, while issues such as licensing, authorization and compliance often represent a fixed cost. Indeed, overcoming such challenges may turn out to be insurmountable obstacles for small players with prohibitive consequences for their efforts to expand to new customers in new markets. As barriers to services trade are eased and regulatory cooperation makes tangible progress, SMEs are the first to gain.

On average, trade cost reductions for SMEs could be between two and three percentage points higher compared to large companies. SMEs see an average trade cost effect of up to -9%, compared to -7% in the average across all firms. The benefits for SMEs would be even larger in sectors experiencing more profound reductions of services trade costs. Improving services domestic regulation and reducing the costs of market entry would help improve the inclusiveness of services trade, allowing more SMEs to take up global opportunities.

Further reading