



ADVANCING THE POTENTIAL OF CROSS-BORDER DIGITAL SERVICES TRADE

Rolando Avendano
Asian Development Bank

Pramila Crivelli
Asian Development Bank

Webinar Series Accelerating Cross-border Paperless Trade
16:00-17:30, February 23, 2022 | GMT+8 Manila Time



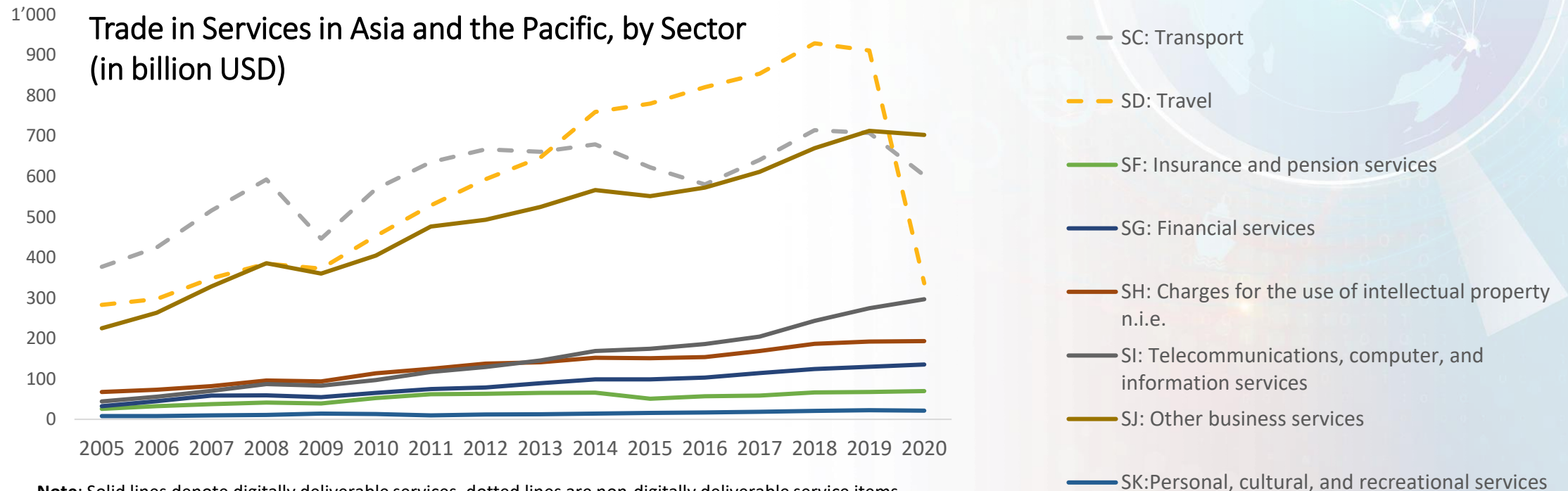
Video: [Advancing Digital Services in Asia and the Pacific](#)



<https://www.youtube.com/watch?v=hCBR2n8wuhs>

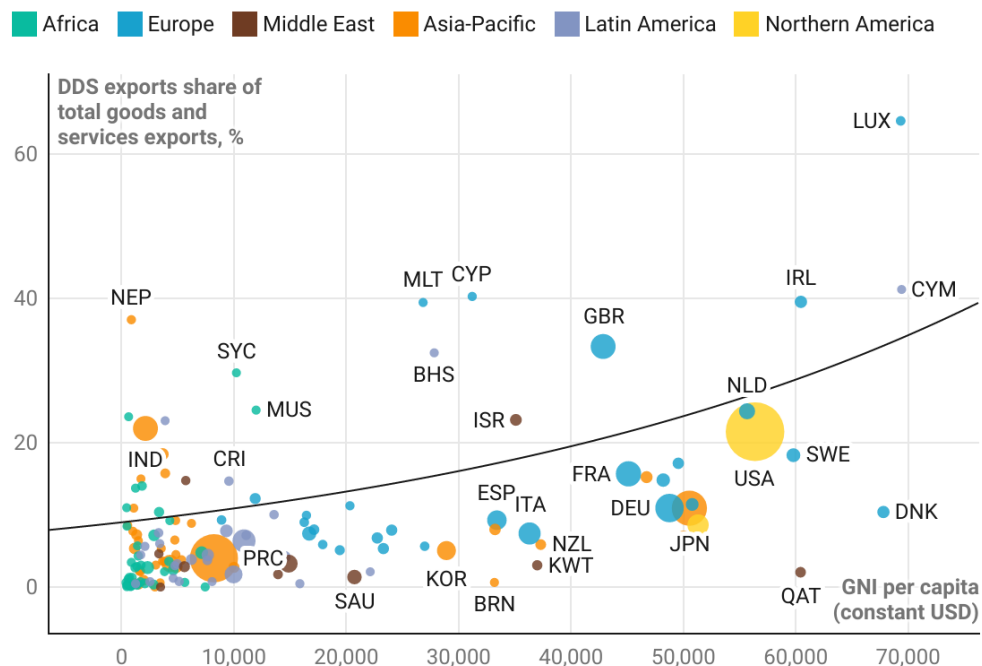
Background and motivation

- Third unbundling and servicification: international division of labor
- COVID-19 pandemic: trade in digital services has been more resilient to the COVID-19 shock



Motivation: Can digital services exports drive economic development?

Share of DDS exports in total exports and GNI per capita



Source: ADB calculations using BATIS and World Bank (accessed August 2021).

- High income economies tend to have higher shares in digitally deliverable services (DDS) exports
- **Can DDS exports cause growth?**
A Frankel-Romer approach: positive and significant impact on DDS trade/GDP on GNI per capita
- **Potential for Asian economies** to expand DDS exports as development strategy
- **Persistent challenges for Asia:** low productivity and competitiveness and high regulatory barriers.

- How to unlock the potential of DDS trade in Asia?
- What are DDS main drivers?

Digitally deliverable services: scope

Digitally Deliverable Services (DDS)

Code	Service description
SF	Insurance and pension services
SG	Financial services
SH	Charges for the use of intellectual property n.i.e.
SI1	Telecommunications services
SI2	Computer services
SI3	Information services
SJ1	Research and development services
SJ2	Professional and management consulting services
SJ3	Technical, trade-related and other business services
SK1	Audio-visual and related services
SK2	Other personal, cultural and recreational services

Source: ADB, based on OECD-WTO-IMF Handbook on Measuring Digital Trade, IMF Balance of Payments and Manual on Statistics of International Trade in Services (MSITS 2010)



Main Sources

- WTO-UNCTAD trade in services
- WTO-OECD Balanced Trade in Services (BaTiS) BPM6
- Trade in Services data by Mode of Supply (TISMOS)

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, IP licenses (PRC)
- Franchises fees



Other business services

- Professional services (legal, accounting, advertising) (India)
- 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, data storage (India)
- ITC support (Tata, Infosys, Wipro)

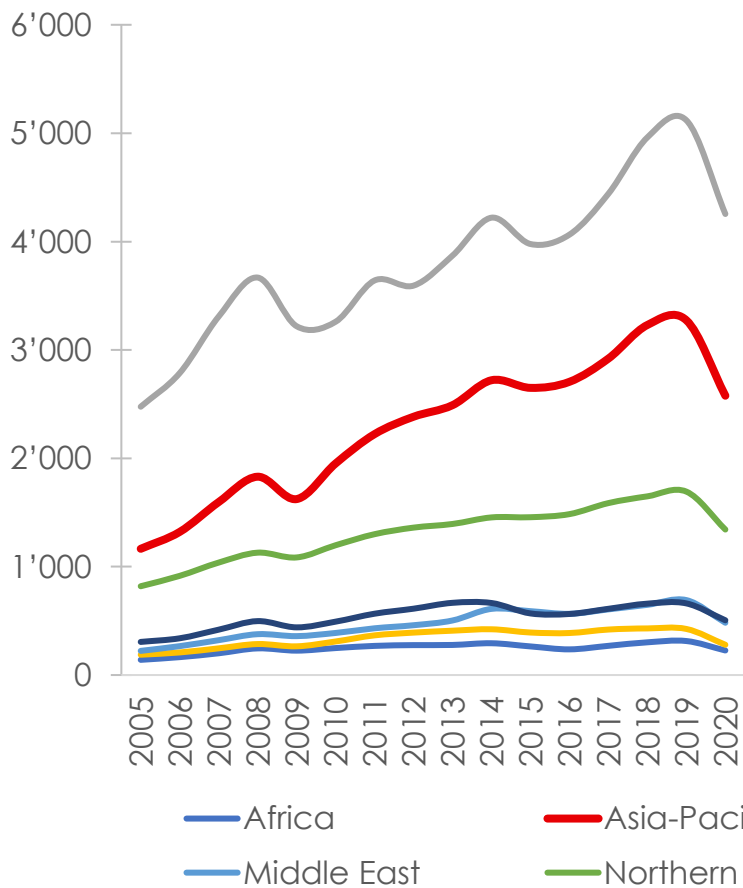


Personal, cultural, recreational

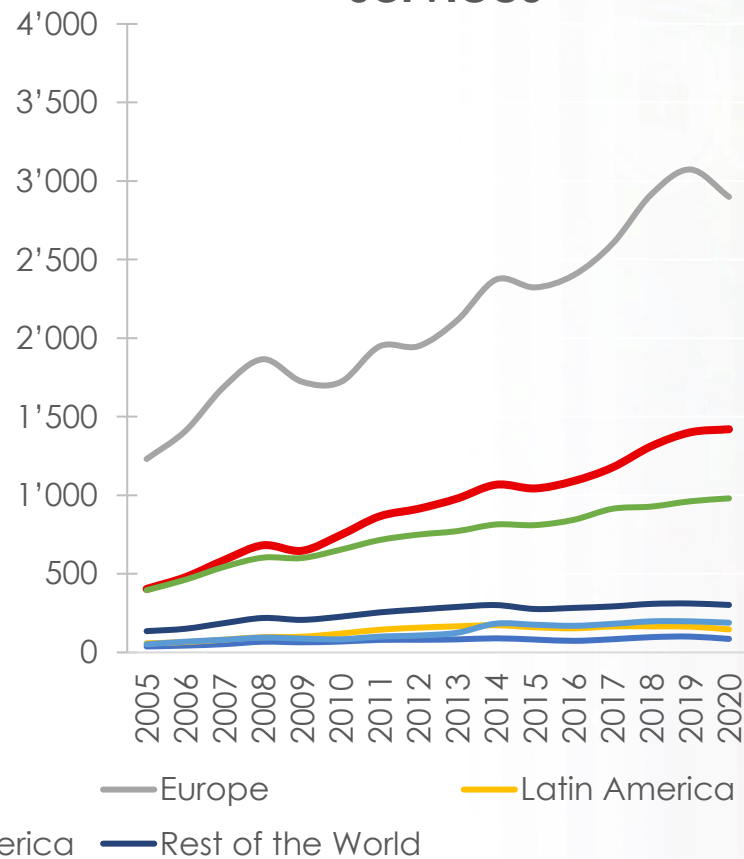
- Audio visual services
- Health services (PRC, Indonesia)
- Education services (Singapore)
- Heritage and recreational services

Digital services trade accelerating in Asia and the Pacific while its global share increasing

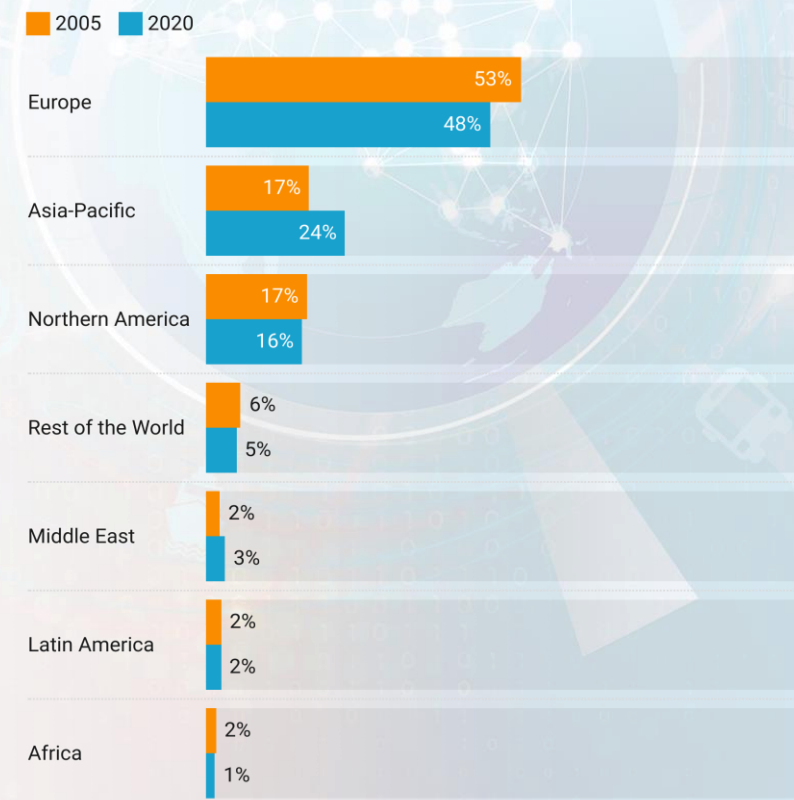
Total services



Digitally Deliverable services



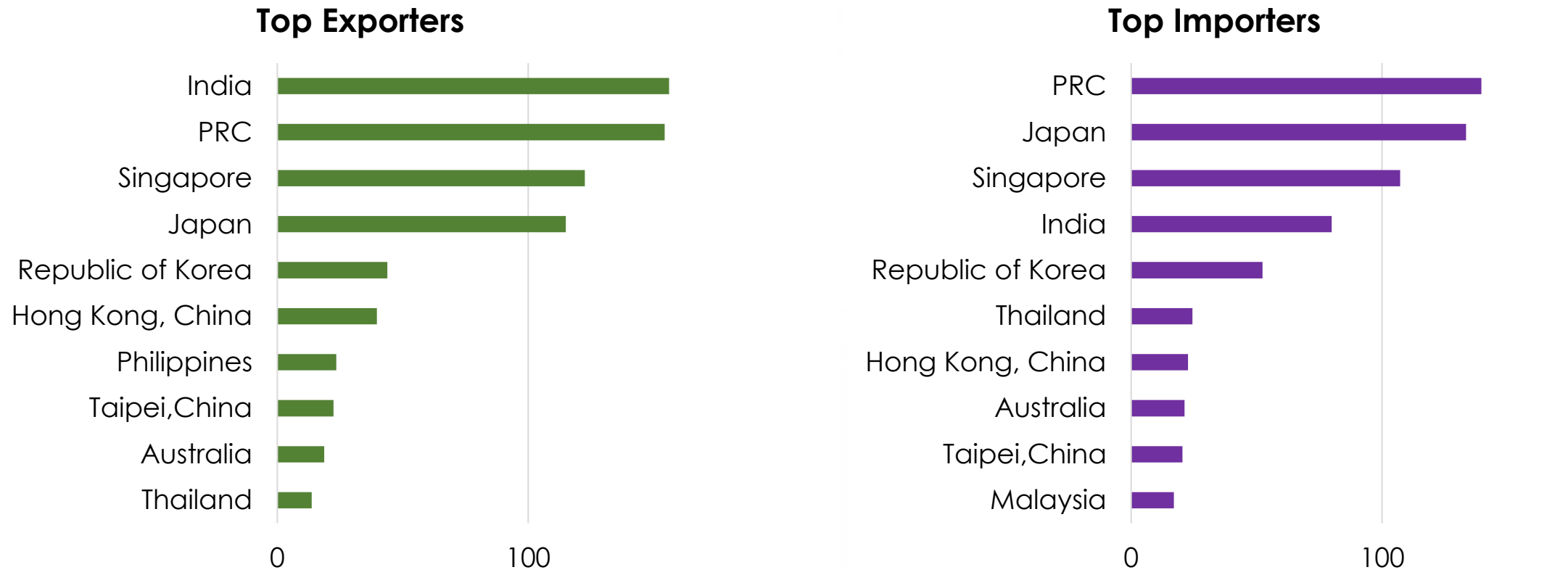
Global share in digitally delivered services trade



Source: ADB estimates, based on WTO-UNCTAD (accessed 21 July 2021).

Digital services trade in Asia remains highly concentrated in few economies

Top Asian Exporters and Importers of Digitally Deliverable Services, 2020 (\$ billion)



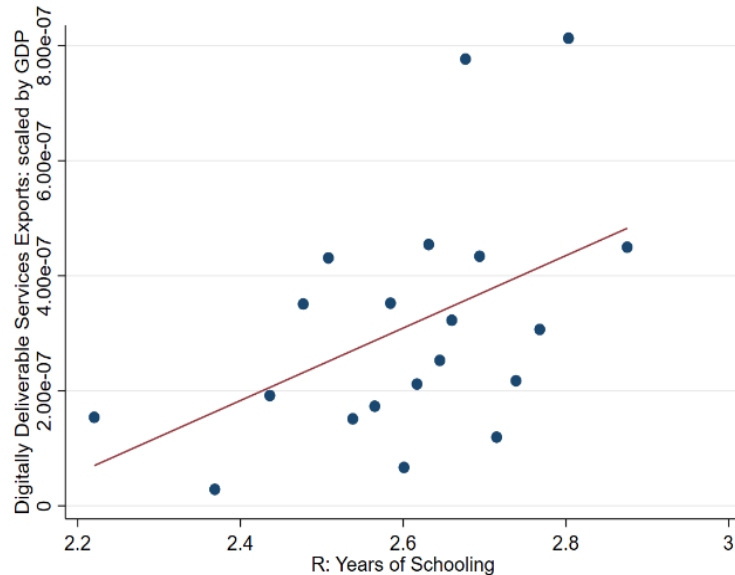
Source: ADB calculations using WTO-UNCTAD (accessed 21 July 2021).

Drivers of digital services trade

■ Human Capital:

educational attainment, technical skills to make full use of digital technologies

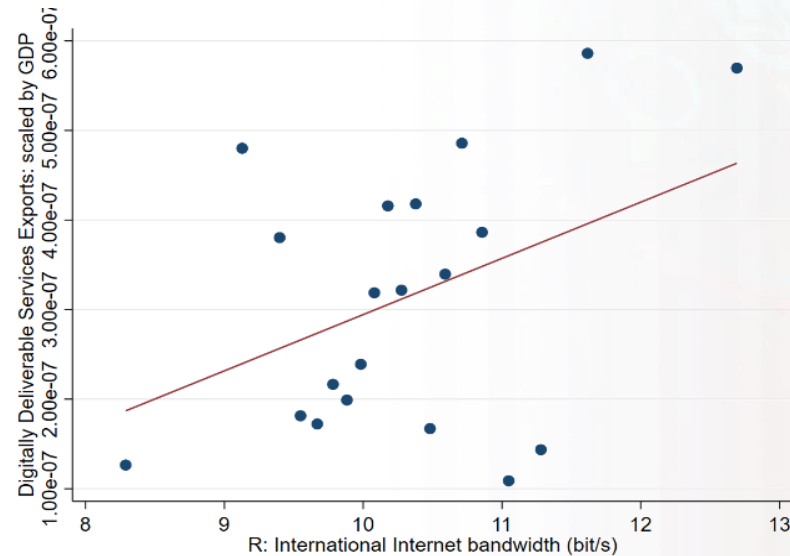
Expected Years of Schooling



■ Digital connectivity:

availability, quality, cost and divide

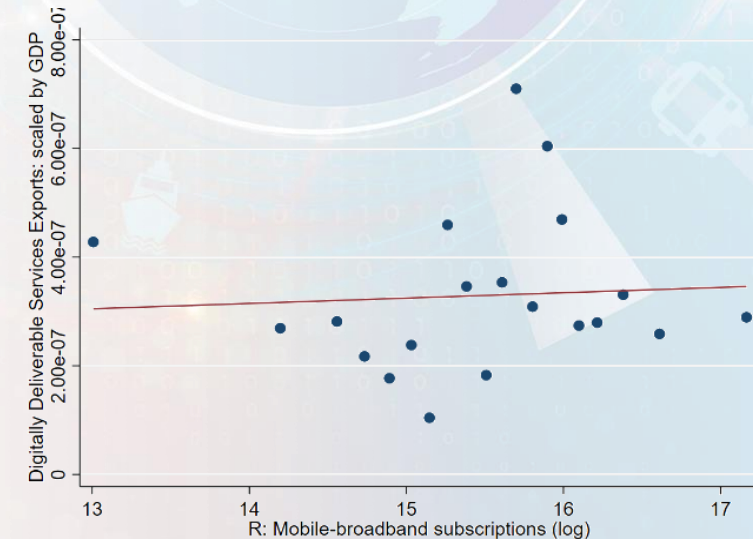
International Bandwidth per Internet User (bit/s)



■ Investments:

telecommunication and digital solutions

Mobile Broadband Subscriptions

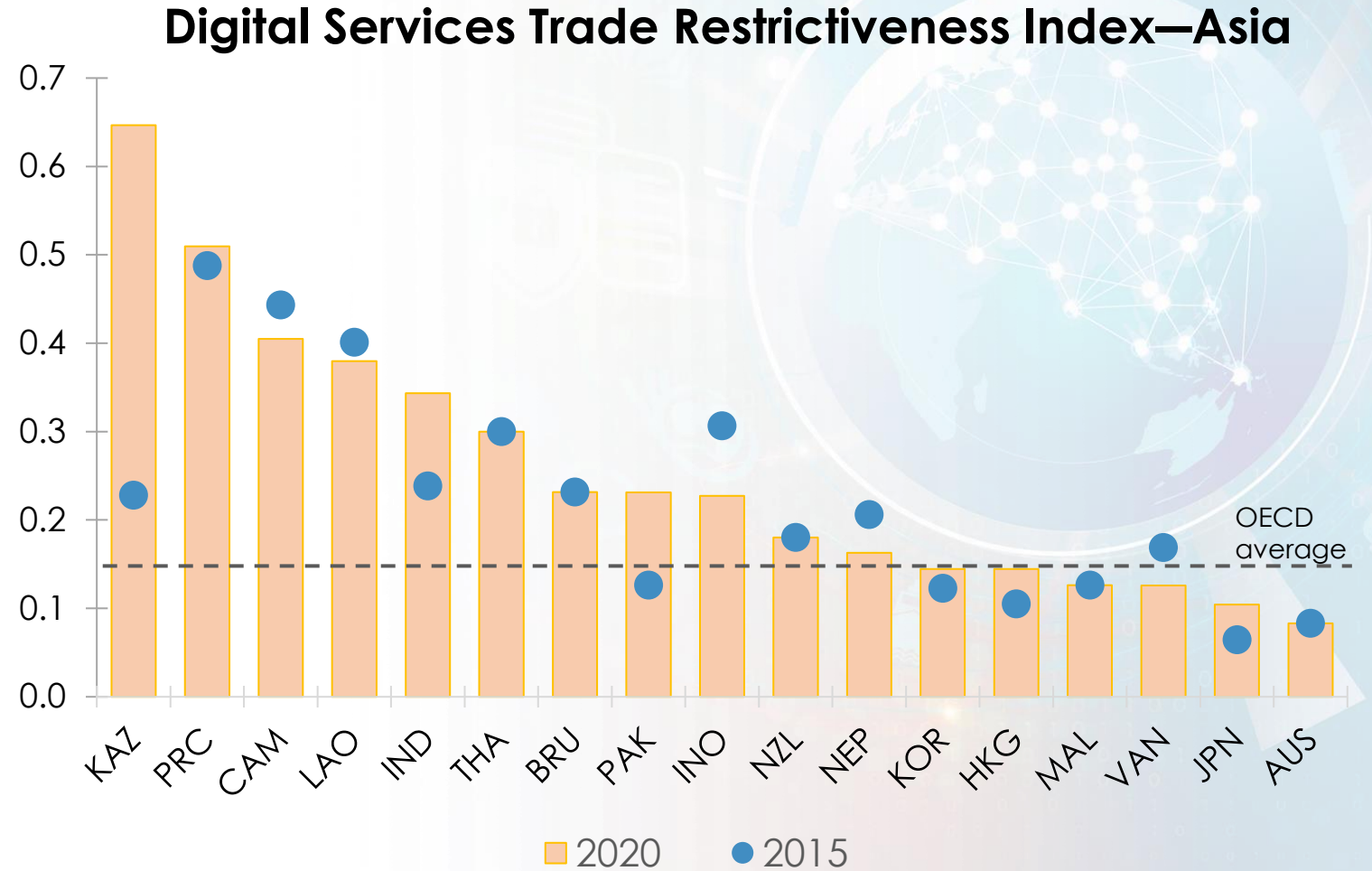


Note: Values are for reporters.

Source: ADB calculations based on BATIS and UNDP (accessed July 2021)

Policies: Deregulation and trade liberalization

- Regulation (ex. data restrictions)
- Trade liberalization (ex. Regional trade agreements)
- International co-operation (ex. Mutual recognitions arrangement)



Source: OECD.

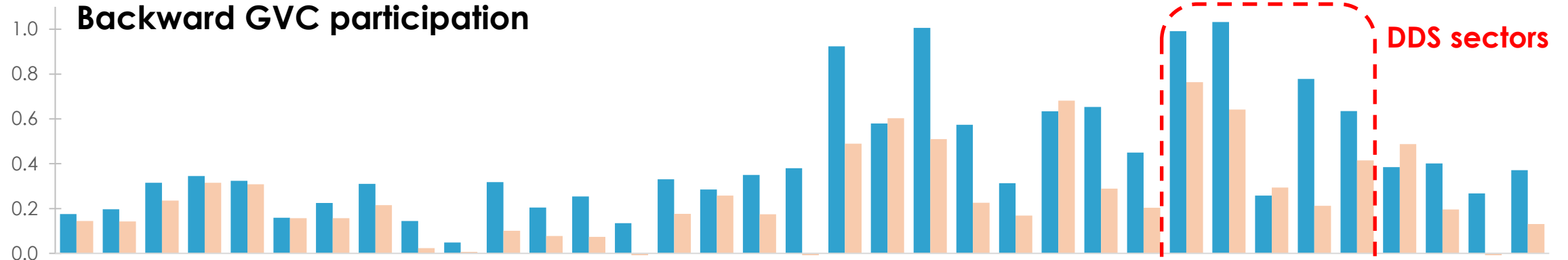
Methodology

- Quantitative general equilibrium model based on the ADB MRIOT for 2019.
- **Two counterfactual simulations:** Reduction of iceberg trade costs in digitally delivered service sectors
 - ❖ **Scenario 1 (Trade Liberalization):** International trade costs reduction by 10% (intranational costs unchanged).
 - ❖ **Scenario 2 (Deregulation):** International and intranational trade costs reduction by 10%.
- Impact on trade flows, GVC linkages and aggregate real income

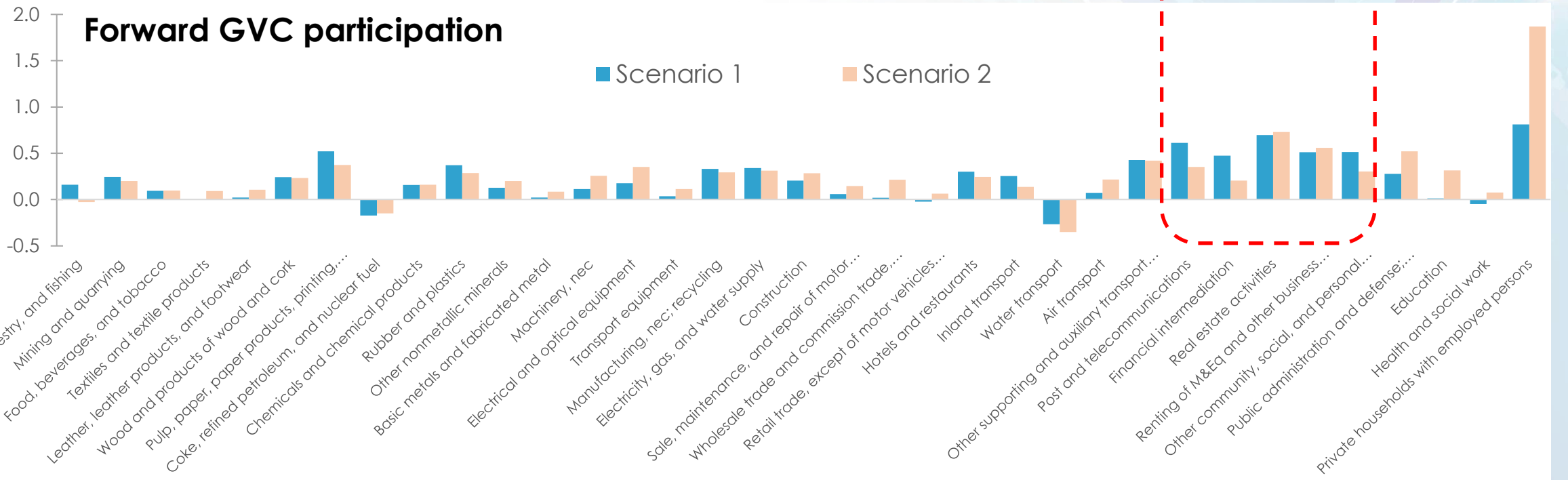
Trade liberalization and deregulation can have spillover impact through GVC linkages

Percentage of Gross Exports by Sector, Intra-Asia (% change over baseline)

Backward GVC participation



Forward GVC participation



Impact of data restrictions

- 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

		Digital services imports			
		Overall	DL	LS	CF
Sectors/Region		Reference: Non-Digital			
Digital	World	-14%			
	Non-Asia	-9%	-0.6% ^a	-24%	-8%
	Asia	-70%	-94%	-29%	-45%

^a = statistically insignificant; DS = Telecom, Computer, Information, Insurance, Financial.

International Regulations

World Trade Organization

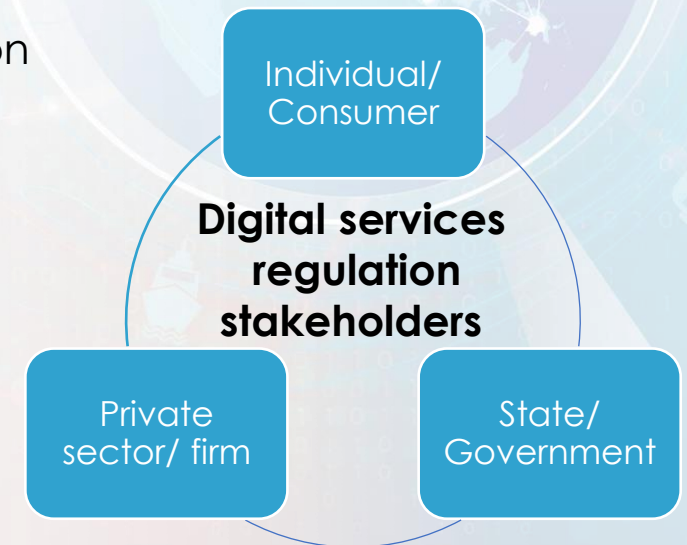
- Main obligations of the regulation of digital trade under the existing WTO legal framework can be found in the **GATS Telecom Annex**.

“service suppliers shall be accorded access to and use of public telecommunications transport networks and services on reasonable and non-discriminatory terms and conditions”

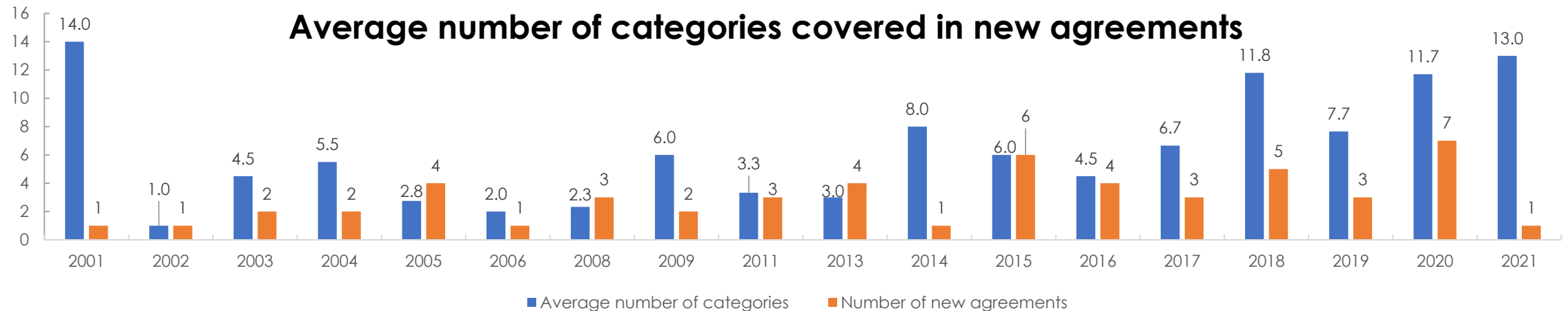
- **Three elements to consider:**
 - **Classification:** goods or services trade? Critical practical implication on border measures vs. domestic regulations
 - **Liberalization levels:** from «none» to «unbound»
 - **Exceptions:** allowing WTO Members to deviate from their trade obligations

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.

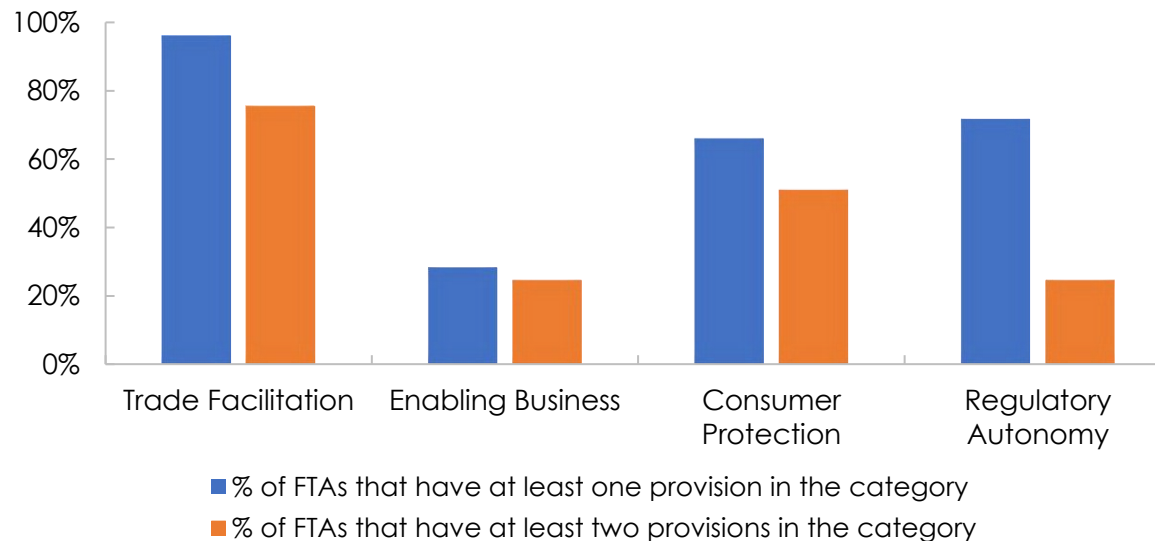


Both, the number of agreements and of digital provisions have been increasing over the last decades

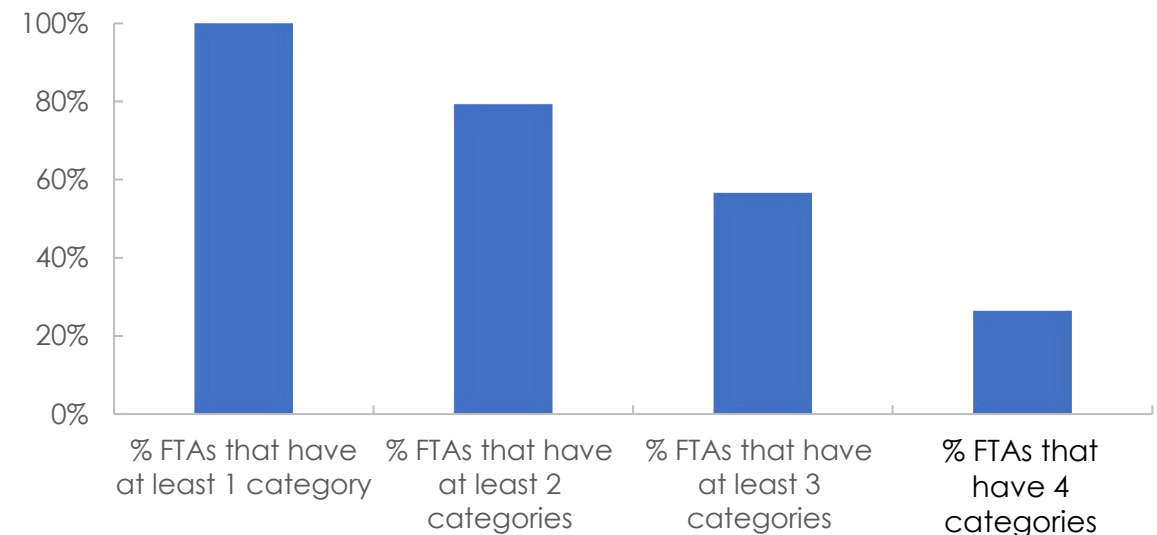


Percentage of FTAs with...

... at least one provision in each category



... provisions in at least one to all categories



Domestic Regulations

Services regulations

Transparency

Deregulation

Qualification requirements and procedures

Technical standards

Licensing requirements

International Cooperation in Domestic Regulations

Mutual recognition agreements

Cybersecurity

Safety of digital services trade transactions – cybercrime prevention

Confidentiality, integrity, and availability of information

Legitimate policy objectives vs. Protectionism?

Lack of adequate regulatory framework and limited human and financial capacity in DC and LDCs

Formal (e.g., WTO plurilateral negotiations) or informal cooperation arrangements (e.g., MoU) cooperation among like-minded economies

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



Competition / FDI

- Domestic and international law amendments required
 - Administrability of tax admin., firm-data collection
 - Coordination to enter into force in 2023
- Ensuring level playing field between foreign and domestic providers
 - Scope of preferential tax regimes may evolve following Pillar 2 implementation

Policy Recommendations

- Investments in human capital (digital capacity), ICT infrastructure and connectivity
 - Services sector deregulation and trade liberalization
 - Balancing between data protection/privacy and data flows
 - International cooperation for transparent, fair and harmonized regulations, taxations, and liberalization through RTA and DEPA
 - Possible differential impacts and trade-offs, for example for skilled vs. unskilled workers, or in urban vs. rural area
- Governments' role in fostering competitiveness of digital services across society and addressing digital divide and distributional impact

Thank you for your attention!

Asian Economic Integration Report 2022 - Theme Chapter

https://aric.adb.org/pdf/aeir/AEIR2022_7_theme-chapter-advancing-digital-services-trade-in-asia-and-the-pacific.pdf