ADVANCING THE POTENTIAL OF CROSS-BORDER DIGITAL SERVICES TRADE

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Webinar Series Accelerating Cross-border Paperless Trade
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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

**Note**: Solid lines denote digitally deliverable services, dotted lines are non-digitally deliverable service items.

Motivation: Can digital services exports drive economic development?

Share of DDS exports in total exports and GNI per capita

- 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)**

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

**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

**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)

**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)

**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

Digital services trade in Asia remains highly concentrated in few economies

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

Top Exporters
- India
- PRC
- Singapore
- Japan
- Republic of Korea
- Hong Kong, China
- Philippines
- Taipei, China
- Australia
- Thailand

Top Importers
- PRC
- Japan
- Singapore
- India
- Republic of Korea
- Thailand
- Hong Kong, China
- Australia
- Taipei, China
- Malaysia

Drivers of digital services trade

- **Human Capital:**
educational attainment, technical skills to make full use of digital technologies

- **Digital connectivity:**
availability, quality, cost and divide

- **Investments:**
telecommunication and digital solutions

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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 cooperation (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

Source: ADB estimates

-0.5
0.0
0.5
1.0
2.0

0.0
0.2
0.4
0.6
0.8
1.0

0.0
0.2
0.4
0.6
0.8
1.0

Agriculture, hunting, forestry, and fishing
Mineral fuels and related material
Food, beverages, and tobacco
Tobacco products
Textiles and textile products, and footwear
Wood and products of wood and cork
Pulp, paper, paperboard products, printing... Chemicals and chemical products
Basic metals and fabricated metal
RUBBER AND PLASTICS
Electric machinery and apparatus
Machinery and equipment
Transport equipment
Manufacturing nec: recycling
Electricity, gas, and water supply
Construction
Sale, maintenance, and repair of motor vehicles, ships, and aircraft
Wholesale trade, except of motor vehicles, ships, and aircraft
Hotels and restaurants
Travel agents
Banking
Insurance
Real estate activities
Financial intermediation
Public administration and defense
Education
Health and social work
Private households with employed persons

Scenarios 1 and 2

Scenario 1
Scenario 2

DDS sectors
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

<table>
<thead>
<tr>
<th>Sectors/Region</th>
<th>Reference: Non-Digital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital</td>
<td>Overall</td>
</tr>
<tr>
<td>Non-Asia</td>
<td>-9%</td>
</tr>
<tr>
<td>Asia</td>
<td>-70%</td>
</tr>
</tbody>
</table>

\(\text{a} = \text{statistically insignificant; DS = Telecom, Computer, Information, Insurance, Financial.}\)
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.

### Average number of categories covered in new agreements

- **Average number of categories**
- **Number of new agreements**

### Percentage of FTAs with...

- **... at least one provision in each category**
- **... provisions in at least one to all categories**

**Trade Facilitation**

- % of FTAs that have at least one provision in the category
- % of FTAs that have at least two provisions in the category

**Enabling Business**

- % of FTAs that have at least one provision in the category
- % of FTAs that have at least two provisions in the category

**Consumer Protection**

- % of FTAs that have at least one provision in the category
- % of FTAs that have at least two provisions in the category

**Regulatory Autonomy**

- % of FTAs that have at least one provision in the category
- % of FTAs that have at least two provisions in the category
Domestic Regulations

Services regulations
- Transparency
- Deregulation
- Qualification requirements and procedures
- Technical standards
- Licensing requirements

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

International Cooperation in Domestic Regulations
- Mutual recognition agreements
- 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

**Compliance**
- Domestic and international law amendments required
- Administrability of tax admin., firm-data collection
- Coordination to enter into force in 2023

**Competition / FDI**
- 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