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*Enhancing Connectivity across the Commonwealth:
Identifying appropriate 21st century trade support measures
for the shift to a global knowledge economy*

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seek LIGHT

1: Understanding the big 21st century shifts in international “trade”

- The complementarity of trade and investment
 - The rise of B2B trade in intermediates in global and regional value chains
 - The rise of China
 - The rise of services – “servicification” of the economy – rapid growth in services outsourcing - the “services revolution”.
 - Innovation and the rapid evolution of the services economy – the transformation to digitisation (the “4th industrial revolution”) and to digital trade – the role of data flows - the impact of disruptive technologies
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Consequences

- Increased business risk for firms
 - Increased uncertainty by governments with respect to trade support measures?
 - Increased uncertainty for domestic regulatory best practice, especially in the digital context?
 - Increased urgency of international trade and investment rule making (including in e-commerce)?
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Quick aside; What is “Data”

A digital unit ie a unit of DATA is a “service”

IT technology allows the knowledge-intensive service to be captured, stored, “commoditised” into a “unit” and sold as a “product” but its still really a “service” eg a financial derivative or a medical diagnosis.

We are familiar with “services” being given a physical manifestation and becoming a “good”.

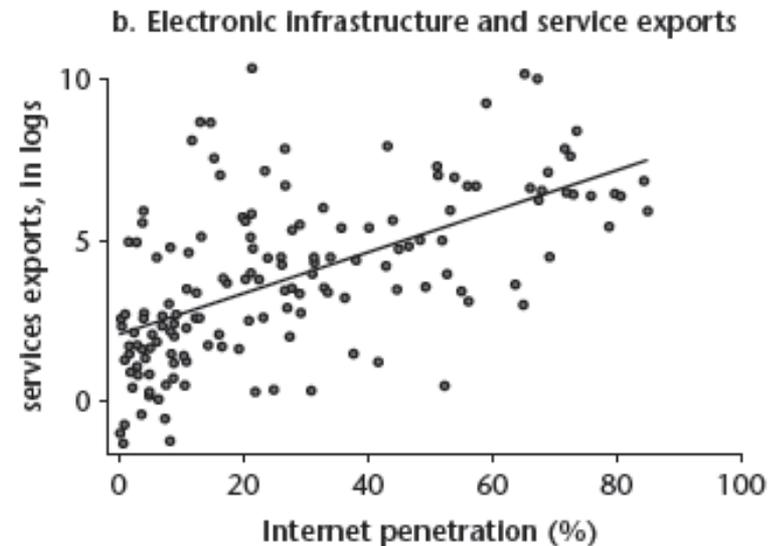
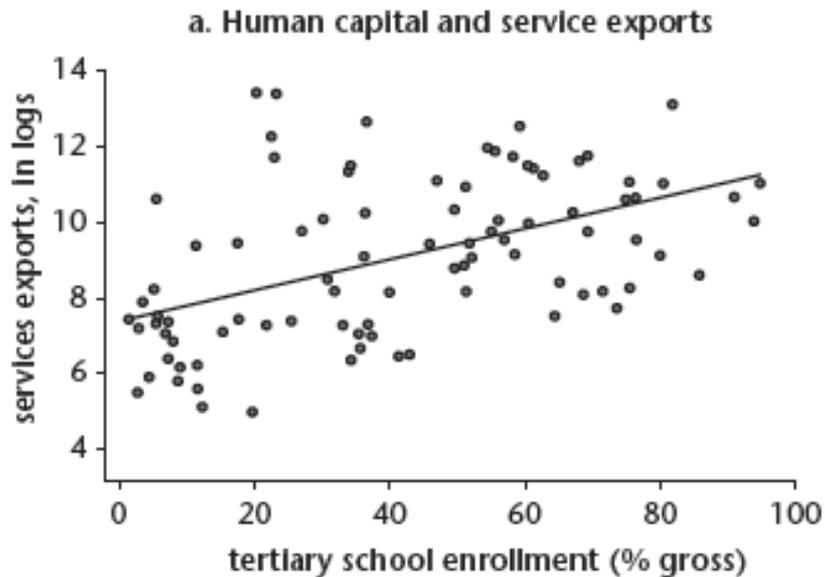
But what happens when a “good” becomes a “service” (eg a CAD file)?

This will be the NEXT big 21st century question in trade rule-making.

2: Developing frameworks for understanding the modern enablers of international “competitiveness”

1. **Human Capital** (talent, education, skills, ideas, customer focus)
 2. Investment in **Intangible Assets** (corporate IP e.g. copyright, business methodologies, brands) & supportive environment for collaborative **Innovation** including business process innovation
 3. **Digital** and other knowledge-economy **Infrastructure**
 4. Quality of **Institutions** (complexity, rigidity, independence)
 5. **Efficiency of Domestic Regulation** (focus on reducing compliance costs & allowing flexibility for firms to adapt to change)
 6. **Connectivity** with the regional and global market (**trade & investment openness: ability to move goods, services, people, capital, ideas and data;** standards, technical inter-operability, mutual recognition, seamlessness of regulation, new trade promotional toolkits)
 7. **Policy Focus** (services statistics, inter-agency coordination, services SME access to finance, export promotion, national services strategies and industry competitiveness roadmaps)
 8. Organised **Business Advocacy** and Public-Private **Stakeholder Consultation**
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Productivity in services depends on human capital/skills and digital infrastructure



Source: World Development Indicators (database), World Bank, Washington, DC. <http://data.worldbank.org/data-catalog/world-development-indicators>.

Consequences

- **Competitiveness in the global knowledge economy is a function of domestic policy positions and regulatory settings rather than given endowments of “factors of production”.**
 - Domestic regulatory coherence and international “regulatory cooperation” is increasingly critical to connectivity, especially in services (and hence in all sectors)
 - Quantitative restrictions are all but extinct in goods, but are pervasive in regulated services sectors. These restrictions impose costs on firms, esp small firms.
 - The work of cutting regulatory red tape should have high economic priority, given the strong international evidence of links between regulatory reform & productivity growth
 - Regulatory cooperation needs to be given greater priority in intergovernmental discussions
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Regulatory cooperation is a prerequisite for improved services trade outcomes

- (For good reasons) Governments intervene more heavily in the services sector than any other sector
- Because services are intangible, imported services can't be inspected before delivery to ensure they comply with domestic regulatory preferences
- Governments therefore tend to be risk averse and defensive and inclined to maintain barriers to imported services subject to foreign regulatory requirements
- (Because for many services sub-sectors, the domestic regulatory regimes are beyond the mandate or competency of trade ministries – and regulators have been reluctant to sit at the trade negotiating table), trade liberalisation in services has badly lagged behind goods.
- (Because of reform sequencing problems), regulatory cooperation on services seems increasingly likely to be not just an additional element – but rather a precondition for services trade and investment outcomes. The two need to go hand in hand.

Even though services sectors are different, the types of market failure and reasons for regulation are similar; ... *these similarities provide the basis for development of generic principles for services regulation*

Market failures	Services sectors	Best practice regulatory governance response based on GATS
<p>Natural Monopoly/Oligopoly</p>	<p>Network services: telecommunications; transport (terminals and infrastructure), energy services (distribution networks)</p>	<p>Transparency Non-discrimination No quantitative restrictions WTO Rules on Monopolies and Exclusive Service Suppliers, WTO Annex on Telecom, WTO Reference paper and notional rules on anti-competitive business practices</p>
<p>Universal access</p>	<p>“Public” Services Education, Health, Water, Postal</p>	<p>Right to regulate</p>
<p>Assymetry of Information Intangibility and simultaneity of producer/consumer</p>	<p>Intermediation and knowledge based services: financial and professional services.</p>	<p>Transparency Non-discrimination No quantitative restrictions WTO draft accountancy disciplines including a "necessity" test</p>
<p>Externalities</p>	<p>Transport, tourism, etc.</p>	

Drawing inspiration from the APEC Services Competitiveness Roadmap which brings the trade & structural reform policy communities together

The Commonwealth could **experiment with new ways of bringing services regulators together with trade officials**, both sector-by-sector but especially at whole-of-services level.

This would facilitate sharing of regulatory experience, raising awareness of regulatory incoherence and promoting discussions on options for improving Commonwealth-wide practices, as well as encourage greater domestic regulatory audit and benchmarking of progress.

The Commonwealth could initiate discussion, drawing on inputs not only from policymakers and regulators, but also from the knowledge community, on **principles for all-of- services regulation** including in the context of **rapid growth of cross-border e-commerce in both goods and services**)

Such work would contribute to generating global interest in developing such principles)

What regulatory regimes are relevant to cross-border e-commerce?

- **Domestic regulatory regimes impacting on the electronic retail eco-system for both goods and services**/ie the entire e-tail value chain B2C, B2B, C2C (eg consumer protection and privacy, electronic payments systems, transport, logistics, delivery services, IP protection, access to telecoms, competition policy affecting horizontal and vertical monopolies eg between between ISPs and e-commerce platforms etc, intermediary liability, internet laws including censorship etc etc)
 - **Turning specifically to services, domestic regulatory regimes impacting on e-commerce-enabling infrastructure services** (computer & related services, communication services, distribution services, financial services, transport and logistics)
 - **Domestic regulatory regimes impacting on services amenable to on-line supply** (professional services, R&D services, other business services, educational services, financial services, health services. tourism and travel related services, recreational, cultural and sporting services, transport services.
 - **Domestic regulatory regimes impacting on services whose classification is outstanding** (call centre services, cloud services, search engine services, software services including mobile apps, information services, machine-to-machine services, internet access services etc)
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