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# Policy Report

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## Workshop on Services Trade Competitiveness

18<sup>th</sup> August

Hosted as part of the APEC Services Summit

Puerto Varas, Chile

## Summary

Australia delivered a one-day workshop in the margins of the Third Senior Officials' Meeting (SOM3) as part of the 2019 APEC Services Summit. The workshop aimed to build the capacity of APEC economies to understand domestic barriers to services trade competitiveness through the presentation of Australian case studies. The main objective of the workshop was to provide a better understanding of the factors that impact services performance in APEC economies, to inform trade and regulatory policy makers of the likely effects of unilateral or collective reforms, and to help economies prioritise policy action.

Australia shared its experience in developing an industry-led services competitiveness action plan, aimed at identifying barriers to competitiveness of Australia's services sector and to develop a program of actions that address them. Since Australia's competitiveness agenda was informed by a comprehensive study by the OECD, this study formed a core part of the discussions. Participants discussed the benefits of the study and its applicability to other APEC Economies. Several APEC economies have indicated their intention to undertake a similar in-country review.

The workshop brought together over 40 participants from across the APEC region, international organisations, domestic agencies and the private sector. Participants and speakers were able to engage on substantive issues through panel discussions and group-based activities.

### Session 1. Welcome Remarks and Keynote Address

The workshop was opened by Australia's John Donnelly, Director, Services International Engagement, Australian Department of Foreign Affairs and Trade. John welcomed experts and participants from across APEC and encouraged them to actively and fully participate in the day's activities. John announced Australia's intention, at APEC host Chile's request, to champion the unfinished work of the APEC Bogor goals on Mutual Recognition of Licensing and Qualifications. This will encompass a forward work program into 2020.

John introduced the Australian Case Study on Services Trade Competitiveness explaining that apart from the tourism and education sectors, Australia's services industry has, to date, been predominantly domestically focused. The Australian government is focused on working with industry to identify steps that can support exports in key services sectors where there is untapped potential for the Australian economy. John further encouraged participants to utilise Australia's experience in examining domestic trade barriers to assist in identifying areas of harmonisation across APEC to reduce regional barriers and boost service exports throughout the region. John explained that in response to the APEC Services Roadmap and the targets set by leaders in this roadmap, the Australian Government commissioned the OECD to conduct a study that mapped the regulatory framework, assessed domestic and regional barriers and made recommendations to boost services export potential.

Francesca Spinelli, Trade Policy Analyst at the OECD, delivered the workshop's keynote address detailing key features of Australia's services trade in the global economy. Services is an integral component of the Australian economy which accounts for 80 per cent of domestic production.

However, most Australian services are predominately oriented towards the domestic market, with only four per cent of what is produced in the economy being exported. The OECD study involved interviews across industry and found that SME's are disproportionately affected by barriers to services exporting. This can be attributed largely to the cost of export trade, regulatory variances, cross-border mobility restrictions, recruitment of talent, red-tape, cross border data restrictions and cultural differences.

An example of this is in the professional services area where a lack of interoperability with licensing requirements is a high barrier to export. The OECD identified a need for comprehensive and fully enforced mutual recognition that included recognition of qualifications to fully realise the potential of this services sector.

Despite Australia having a comparatively liberal regulatory environment there is still scope for improvement. However, for domestic reforms to be most effective, they must be coupled with reform across Australia's trading partners in order for benefits to be fully realised. International bodies such as APEC can play a strategic role in the reform process.

Francesca encouraged other economies to follow Australia's example of applying a partnership model to boost strategic discussion between government and industry work and build support for regulatory reform. Furthermore, economies need to examine the support they deliver in-country to encourage services exports with an identifiable need by industry for export assistance to navigate the complex international regulatory environment, build skills and identify target markets.

## Session 2. Australian Case Study: Government and Industry Perspectives

John Donnelly presented the Australian Government perspective on its services reform journey. Two recent studies have been commissioned by Australia, the *Barriers to Growth in Services Exports* study conducted by the Australian Productivity Commission and the *Australian Services Trade in the Global Economy Case Study* conducted by the OECD.

John began by pointing out that this is not a new focus for Australian governments, using the example of a 1990 report from the Department of Foreign Affairs and Trade, entitled *Enhancing Australia's Export of Services and the Role of the Services Sector in the International Competitiveness of Australian Industry*. The 1990 report highlighted tourism and international education as areas for opportunity and three decades later these are major export sectors for Australia. Key enablers to this growth are the long-term national competitiveness strategies coordinated across government, industry and communities. Now services account for three quarters of Australia's economy and provide more than four out of five jobs, but services remain a smaller proportion of Australia's exports.

The OECD study presented here informed Australia's Services Export Action Plan that focuses on addressing domestic regulatory complexity, making progress on barriers overseas and supporting domestically-focused services firms to internationalise. Looking forward the Australian Government will continue with further industry consultation and dedicated industry sprints to address the recommendations of the study and in developing a long-term strategy for services sectors.

Christopher Ziguras presented a view of Australia's services export landscape from the perspective of the education sector, which has been one of Australia's services success stories. Chris pointed out

that Australia has a very comprehensive regulatory environment for education exports, which has been built up over several decades, and outlined some of the features of the Australian system.

- There are high levels of engagement in policy development and reform by industry association, professional associations and consumer (student) associations, as well as a wide range of enterprises, including public and private education providers, health insurance providers, accommodation providers.
- Periodic reviews of various aspects of the regulatory frameworks are usually conducted in an open and consultative manner, allowing industry to engage.
- Coordination between regulatory agencies has improved over time, with a key development being a National Council for International Education that brings together senior representatives from key government departments and industry peak bodies.
- Government supports exporters through working closely with other governments, providing subscription-based market intelligence, and through a network of trade and education officials based in key markets.
- Government invests in data collection and publication, and industry-led research and development initiatives, which are used extensively by both industry and government.

### Session 3. Group Activities

Group activities built on a morning ice-breaker session where participants were asked to work in groups and identify barriers to Services Trade Competitiveness. The afternoon group activity selected the most common barriers to service trade competitiveness and asked participants to choose the barrier they would like to deep dive into. In groups, they then worked through these barriers to identify pathways to reform.

**Inadequate data availability** – Although the digitalisation of service industries makes data collection much easier, a persistent lack of quality statistics and data is hampering evidence-based policy-making and limiting businesses' ability to recognise market trends and to benchmark.

- ⇒ **Recommendation:** Governments need to invest in improving the quality of data on service industries by consulting with industry around priorities, adopting international classification and measurement standards to ensure comparability, and publishing.

**Interoperability** – The digitalisation of service industries and the resulting interoperability of service delivery in different economies is bringing benefits for businesses and consumers. And yet the speed of technological integration highlights the much slower process on the part of governments in harmonisation of regulatory frameworks across APEC. Participants noted that if regulatory systems were better able to 'talk to each other' in the same way that digital systems are able to interact, businesses and consumers will benefit.

- ⇒ **Recommendation:** Governments should work to enhance the interoperability of services regulatory frameworks through adopting common principles and technical standards to allow them to better communicate with other systems.

**Mutual Recognition** – Participants noted that services trade is hampered by a lack of mutual recognition of qualifications between economies (and also within some economies with federal systems). Like many of the other issues discussed, this is not a new problem, but its impact is

becoming increasingly pronounced as digitalisation of services provides more opportunities for cross-border provision. It is becoming very clear that qualifications recognition has not kept up with the growing international alignment of professional practices and standards in many fields.

- ⇒ **Recommendation:** Governments should ensure that agencies responsible for the licensing of professionals align with international standards, enter into mutual-recognition agreements and provide transparent and straightforward processes for assessing international qualifications.

**Communication** – Using plain and consistent speak to improve communication and encourage a level playing field among stakeholders. The use of modality language often leads to miscommunication and discourages industry from the ability to understand barriers.

- ⇒ **Recommendation:** Advisory groups, public notice mechanisms, public comment mechanisms, transparency on draft rules for reactions/comments.

#### Session 4. Case Studies of Reform and Best Practice

The final session of the workshop looked at international case studies and best practice models that promote services trade competitiveness.

The first case study was delivered by Monica Retamal, Executive Director of KODEA, who explored the key theme of digital talents and the opportunity they presented for Chile as an Economy.

Monica is an entrepreneur who has established her own SME as a digital enabler. Her company primarily works in the field of human capital and focuses on training and up-skilling for women coders. They develop courses and deliver targeted teaching and training for the IT sector with an 80% employment rate within 12 months of course completion.

Monica is working with Chilean government in 2019 to deliver boot camps for immersive training to upskill the workforce in short amount of time. STEM skills are an identified are of importance for Chile's growth into services markets and digitalisation of the workforce and associated technologies are essential for capitalising on the digital economy.

Monica believes that STEM skills will deliver empowerment in the face of disruption. Chile is dealing with a new frontier of inequality with 40% of the workforce vulnerable to workforce changes and automation.

However, Chile and Latin America are facing a unique problem with the current and immerging workforce with a lock of interest in IT and STEM. This requires systemic and structural reform in order to address an outdated education system. Monica's company encourages export to US, Canada and other LatAm economies but their biggest challenge is the attraction of talent.

The opportunities for Chile are vast, but the economy must move fast to address this mismatch between skills and employment opportunities. Not only are the opportunities great for the economy but these opportunities extend to address inclusion and diversity targets. Monica and her company are looking forward to a close partnership with Chile's government in addressing these inequality, access, employment and export opportunities.

Christopher Ziguras presented on increasing the competitiveness of APEC economies through greater international engagement in education. He pointed out that education services are a critical

determinant of social and economic development through enhancing productivity and innovation. Education currently accounts for about 7 per cent of GDP across APEC member economies. And yet in all APEC economies there is concern that education institutions are failing to keep pace with changing social and economic needs. Chris discussed how APEC leaders' calls for greater internationalisation of education systems can aid in improving quality, through enhancing both the openness and alignment of education systems.

First, the openness of education systems can be improved adopting some targeted reforms:

- Visa processes for students, researchers and educational service providers be streamlined and simplified
- Ensure that regulatory, accreditation and quality assurance frameworks support the expansion of quality programs by providing a transparent and predictable environment for innovation by existing providers and entry by new providers (both local and international)
- Remove restrictions on cross-border online provision of education, whether in the form of accredited online degrees, short courses, micro-credentials or testing service, and ensure that quality and accreditation standards are transparent and non-discriminatory

Governments can improve the alignment of education systems, institutions and programs with international educational standards, international professional and occupational standards, and industry needs through the following reforms:

- Ensure that as governments review regulation of education and training systems they take steps to foster greater harmonisation across APEC, promoting the alignment of educational standards with international practice and facilitating the flow of knowledge, skills and people across the region.
- Governments should ensure that agencies responsible for accreditation of professional education programs and the licensing of professionals align their standards with international professional practice.

Francesca Spinelli presented some insights drawn from recent OECD research. Consumers and businesses pay the cost of protective measures and inefficient regulation. For example, one OECD study of 42 economies found that restrictive regulations raise prices in key service sectors by about 20 per cent on average, including construction, maritime transport, storage and warehousing, air transport, accounting & auditing, and insurance. These extra costs reduce the competitiveness of all industries that rely on such services, with one impact being that manufacturers are less competitive, less diversified and export lower volumes when services regulation departs from best practice. Well regulated markets are also more attractive to FDI, encourage more participation from SMEs and supports new entry into export markets by less experienced firms.

Francesca introduced the interactive tools within the OECD's Services Trade Restrictiveness Index and demonstrated the ways in which policy analysts can examine regulatory frameworks in great detail, and can model the effects of specific reforms on overall restrictiveness.