

APSC-ABAC Public-Private Dialogue on Services

“Impact of New Technologies; Implementing the APEC Services Competitiveness Roadmap in the Digital Era”

Ayana MidPlaza Hotel
Jakarta, Indonesia
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Outcomes Report¹

In the opening session, Mr. Chris Kanter, Chairman of Indonesia Services Dialogue, and Dr. Rizal Affandi Lukman, Deputy Minister for International Economic Cooperation, highlighted the critical role the services sector plays in Indonesia and the global economy. Services not only promote growth and competitiveness but also facilitate high quality jobs and innovation. The rise of servicification demonstrates the importance of services to other sectors such as manufacturing and agriculture. The proliferation of digital technologies has disrupted traditional industries and created new services- e-commerce, social media, ride-sharing and tele-surgery are just some examples. Services also offer many new opportunities for developing economies to take part in global value chains, particularly for SMEs. There are also several challenges to be addressed including increased automation, changes to marketplace and need for appropriate regulation.

There were a total of 8 panel sessions that covered various aspects of services and technology.

Session 1: Services in the Digital Era: Impact of New Technologies on Services Competitiveness and Cross-Border Trade

This session discussed the importance of trade in digitally-enabled services and the profound impact new technologies have on raising competitiveness of digital trade as well as other sectors in the economy. Participants heard from a start-up using artificial intelligence to deliver high-quality online news content and from one running a blockchain based digital asset exchange platform. These presentations provided practical demonstrations of the use of new technologies to enhance productivity and improve the delivery of services. The session also delved into progress made in narrowing the digital divide globally as well as developing digital standards. **Key policy recommendations emerging from the session include the need for a balanced approach to privacy, security and consumer protection to facilitate cross-border data flows and create an enabling environment to attract investment in services; education system reform to help eliminate the digital divide; and stronger focus on developing appropriate standards for services.**

¹ This Outcomes Report benefitted substantially from the Rapporteur’s Summary prepared by Justine Lan

Session 2: Towards an E-Commerce Framework: Promoting Regional Trade in Digitally Enabled Services

This session explored the key challenges facing e-commerce regionally and globally and discussed business priorities and perspectives on this front. Recent international policy developments were noted including the commencement of the WTO negotiations on e-commerce and the formation of the APEC Digital Economy Steering Group. Participants discussed the development of a digital economy framework in Indonesia focusing on infrastructure, transformation, and literacy.

The session also examined the interface between privacy and data flows and various options for a privacy framework. The G20 approach based on developing digital trust was noted along with B20 recommendations on this topic. **A key issue identified was the need for an appropriate regulatory balance to ensure that privacy concerns are met while also enabling business innovation and meeting customer needs. There were calls for a more agile regulatory approach by governments.**

Finally, it discussed several issues framed under the plurilateral initiative, including customs duties on an electronic transaction, liberalization of services sectors, settling e-commerce disputes, developing digital id, and the free flow of information among others. **The need to revitalize the WTO to handle new issues was also mentioned. The session concludes by highlighting the importance of stepping up international collaboration in G20 and APEC.**

Session 3: The Future of E-Payments Systems: Best Practice Regulatory Responses to Structural Disruption

The session discussed emerging technologies that are transforming financial payments systems; the benefits consumers receive; and the role of regulation in keeping pace with technology. It noted the rapid rise of non-cash payments, the proliferation of new Fin-tech players and the importance of e-payments for e-commerce. In spite of this rapid growth, cash remains dominant, accounting for 80% of all consumer payments globally.

E-payments offer several benefits to consumers including on cost, convenience and equity by enhancing financial inclusion. However there remain many challenges in spreading the benefits more widely including – internet access, cyber security, consumer protection and the need to enable a transition for older consumers. **As such, efforts should focus on strengthening education, re-training labour, and raising awareness on the benefits of e-payment.**

Creating an appropriate regulatory environment was also identified as a key issue. Current regulations often only refer to points in the system leaving the larger regulatory framework incomplete. National payment gateways can potentially integrate all domestic payment channels, however there is a need for the three main institutions that govern standards, switching and settlement to remain independent. There is an ongoing tension between unstructured fintech groups and the need for regulators to ensure that the payment system still has a structure.

The issue of the resilience of payment systems also emerged given its importance for e-commerce and trade. **Participants identified cyber resilience, cyber protection of critical infrastructure and disaster resilience as key issues of concern.**

Session 4: Data Localisation and Cross-border data flows: How Free Flow of Data Optimises Trade in Services in the Digital Era

In this session, participants discussed the importance of cross-border data flows to the digital economy; the impact of data localisation on businesses operating in the region; and the need for greater international collaboration on privacy rules.

Cross-border data flows are important for the digital economy to enable it to have a transformational impact on development. Data localisation can have a negative impact on GDP, particularly affecting MSMEs. It can also disrupt GVCs as services and digital trade are bound together.

Data localisation is often misconceived as being required for privacy, law enforcement, national security and economic protectionism. Importantly businesses report that artificially distributing IT or splitting data, compromises their ability to offer secure services. Banks and financial services companies report difficulty dealing with data classification standards which vary by jurisdiction.

Finally, the session highlighted the need for creating a more responsive regulation by engaging the private sector and establishing an interoperable privacy system/ promote the APEC cross-border privacy system.

Session 5: Applying Insights from the STRI to Enhance Competitiveness of the Services Sector

The last session on day 1 provided updates on the implementation of the APEC Services Competitiveness Roadmap (ASCR). **It noted recent successes such as the APEC Non-binding principles for domestic regulation of services as well as ongoing work on developing an APEC STRI and reviving the STAR database.**

It discussed features and latest development of the OECD STRI which can be used to benchmark domestic reforms and identify regulatory bottlenecks in 45 economies, of which 12 are from APEC with Thailand soon to join. Newly introduced features allow users to track restrictions to digital trade.

The OECD study on Australia attempts to shed light on the performance of Australia's services exports, which is relatively low compared to the high share of services in GDP. The study draws on the latest OECD analytical tools such as the Trade in Value Added (TiVA) dataset and the OECD STRI. It finds that Australia's domestic regulatory regime is more liberal than average and there is no underlying problem with services productivity, but there is scope for improvement in terms of domestic reforms which could be usefully pursued in the context of a national strategy for services. **It was noted that the report was developed using a whole-of-government approach including business surveys and other input from the business community.**

The session also discussed the role of state owned enterprises (SOE's) in a developing country where it is difficult to separate public and commercial interests. An APEC STRI must find a way to be less biased with regard to the role of SOE's.

Special Session: "The Globotics Revolution"

Professor Richard Baldwin, delivered a lecture via video link, on the potentially disruptive impact of new technologies like tele-migration and automation. These technologies affect not only blue-collar

manufacturing jobs but also white-collar workers as artificial intelligence and machine learning tools are able to automate routine tasks while ICT technologies allow even more tasks to be outsourced. This is likely to cause an upheaval in advanced countries as the rate of job displacement outpaces job creation in the short term. **The jobs that do remain will be the ones requiring the most human abilities (empathy, managing people, dealing with unknown situations). In the long run, however, it is predicted that the number of jobs created will eventually outnumber the number of jobs lost.**

Session 6: Facilitating Investment in Services in the Digital Era: Regional Best Practices

This session discussed the importance of investment for the digital economy and the policy framework that would best facilitate investment in services. It began with a discussion of Indonesia's economic growth and investment climate, highlighting the need for quality investment and improving human resources. Incentives to boost industry growth and measures facilitating investment in Indonesia are underway. These include incentives through industrial zones and business expansion support as well as investment assistance through an online app.

The session also showcased the new OECD Digital STRI which provides insights into the nature and extent of barriers affecting services traded over the digital network, showing variation in score across the APEC region. The findings show that rules on electronic contracts vary that over time there has been a tightening of restrictions on infrastructure and connectivity.

The session also stressed the importance of labour mobility and the need to improve mutual recognition and the ease of doing business. Restrictions on technical experts, programmers and engineers can reduce the competitiveness of local businesses.

There has been a noticeable shift from making regulation predictable to making regulation flexible and dynamic. Some of the issues identified going forward include the need for increased commitment to liberalization of trade in services, re-training of the labour force, removing red tape, and updating regulations including for the digital era.

Session 7: The Human Factor: How Digitalization and Innovation is changing the nature of work in the services sector

The next session focused on the human factor, specifically how digitalization and innovation is changing the nature of work in the services sector. It started off with a presentation about GOJEK and the impact it has on Indonesia's informal sector by enabling trust and promoting financial inclusion. Gojek has also taken a lead in protecting women workers through education campaigns on sexual harassment, strict enforcement and socialising the acceptability of women drivers in Indonesia.

The session then considered the rise of new technologies like 5G, AI, big data, IOT, blockchain, facial recognition etc and considered their applications in supermarkets, police stations, hospitals, banks and educational institutions. Participants acknowledged the increased anxiety workers may face with the future of work being uncertain, but they pointed out that as productivity increases there will be more time for leisure.

An analysis of offshoring in the accounting profession showed that while there may be advantages to moving offshore there also costs incurred from dealing with cultural differences, loyalty of staff and dissatisfaction of consumers. There is a tension between communication technologies which

promote offshoring and automation which promotes onshoring. The end result may witness a finer splintering/more complex distribution of tasks.

There was a strong call for universities and the private sector to work together in delivering adequate skills training and preparing students for the future of work. The use of innovative methods such as online delivery and micro-credentials were encouraged.

Session 8: Access to Talent: Facilitating Cross-Border Movement of Professional Services Providers

The last session discussed the importance of labour mobility to fill shortages and the many challenges associated with moving professionals across borders. **From a business perspective the key challenges identified were onerous documentation requirements, quotas, skills recognition, local experience requirements and opaque or incomprehensible FTA provisions amongst others.** Businesses need to build robust mobility programs that include talent management and pre-departure courses in order to maximise business growth and talent retention. **Internationally it is important to improve regulatory frameworks including through mutual recognition agreements, enhance transparency on skill shortages and establish an oversight committee for migrant workers.**

Participants learnt that Malaysia has created a new professional body to cover technology-based professionals from a myriad of background or disciplines. They have also developed a TVET qualification framework which introduces flexibility in obtaining skills and knowledge, forming a solid educational foundation for the future. The session also showcased the APEC engineering, an initiative which facilitates mobility of professional engineers among the APEC Economies and outlined the future plan of building an engineer databank to reduce search costs and time for engineers.

Conclusion and Next Steps

The 2-day public-private dialogue was very well organised by ISD and well attended by both APSC and ABAC members.

It allowed fruitful engagement and discussion across various topics, ranging from the impact on trade of new technologies, the need for regulatory cooperation in developing an e-commerce framework, the importance of facilitating e-transactions and e-payments, the need to focus on the human factor and development of talent, and the importance of attracting investment including in digital infrastructure and connectivity.

This has helped both businesses and APEC officials to understand and exchange views on the new cross-border services business opportunities available in the region, including for SMEs and MSMEs, to identify challenges and to discuss some policy recommendations and regulatory approaches that might enable the private sector to achieve its growth potential in the digital age.

Stakeholder interests and concerns expressed over the 2-day PPD suggest some possible recommended directions for APEC activity which would have good prospects of delivering effective outcomes for member economies.

1. APEC Public Policy Dialogues on Services are popular with both business and official stakeholders and should be incorporated as regular fixtures in the APEC calendar, on at least

an annual basis, but preferably more regularly and preferably allowing for the involvement not only of GOS but also of CTI and EC. Perhaps the 2019 SOM 3 Services Summit can incorporate some aspect of the PPD format. **APEC member economies should be encouraged to put forward proposals for PPDs on Services on a regular basis.**

2. APEC-sponsored PPD/Capacity Building Seminars, with APSC/ABAC and other business participation, are in demand on the **Regulatory Building Blocks for facilitation of regional trade in services delivered electronically**. This is recommended as a high priority APEC activity.
3. Given the level of business interest expressed at the PPD, an APEC-sponsored Workshop should be convened, with business stakeholder participation, on the **APEC Pathfinder Approach and its relevance in extending the Moratorium on Customs Duties on E Transactions**.
4. Given the high priority attached by business stakeholders to promoting creation of conducive APEC regulatory environments for e-commerce and digital trade in services, and the success APEC has already repeatedly demonstrated in regulatory cooperation relevant to facilitating services, a series of specific activities could usefully be structured around common regional regulatory issues. Events could be structured to enable familiarisation with and enhanced understanding of **regulatory approaches to Cross-Border Data Flows, Data Protection and Data Localisation**.
5. Capacity-building activities regarding the application of the **APEC Non-Binding Principles for Domestic Regulation of Services need to be broadened** beyond the professional services sectors to engage regulators in a much wider range of services industries, including for example tourism.
6. Given the **importance demonstrated throughout the PPD of new data sets coming on stream to measure trade in services**, APEC-sponsored capacity-building activities are recommended to familiarise stakeholders with;
 - a. The OECD Digital STRI
 - b. The new WTO Trade in Services by Modes of Supply (TiSMoS) data set, to be officially released in October 2019.
7. The PPD provided a timely opportunity to raise awareness of the ground-breaking pilot study released by the **OECD on competitiveness in the Australian services sector "Australia's Place in the Global Services Economy"**. Time did not permit a detailed presentation, and the audience response demonstrated evident potential for further use to be made of this work in a series of APEC-sponsored capacity-building activities.
8. **The impact of new technologies on the future of services work** has become a hot topic, as the interest in the PPD' showcasing of Professor Baldwin's most recent book "The Globotics Upheaval: Globalisation, Robotics and the Future of Work" demonstrates. What is evident is that globalisation is not slowing nor stalling – rather a new phase has begun with services at the centre of the phenomenon. There is no doubt that an increased number of APEC-sponsored dialogues with stakeholders will be needed on this topic, including to maintain and restate the case for trade.

These recommendations for collaborative activity with ABAC/PECC/APSC reflect the general views of business stakeholders and are offered informally via this report for APEC official consideration.

Media attention

The public-private dialogue was followed by a media conference which generated local media coverage in Jakarta. The APSC also issued a media release and prepared an associated letter to the SOM Chair. The APSC expressed strong support for a final push on services to achieve unfinished

business in the Bogor Goals. The APSC considered that in implementing the Services Competitiveness Roadmap objectives, it is essential to promote the creation of conducive APEC regulatory environments for e-commerce and digital trade and suggested it would be useful for the agenda for the proposed Services Summit during SOM3 to include discussion of these matters. The APSC urged APEC to put a high priority on preventing barriers to e-commerce, such as imposition of customs duties on electronic transmissions and data localization requirements and on facilitating investments in services such as e-payments, insurance and logistics. The APSC urged APEC to support adoption of the existing pathfinder supporting the continuation of the e-commerce moratorium on customs duties and to consider additional innovative APEC pathfinder approaches to develop the building blocks required for digital trade, including confidence-building regulatory exchanges and capacity-building measures.

APSC priorities include:

- deepen work on application of the non-binding principles on domestic regulation;
- take further steps to promote cross-border data flows;
- undertake further work on professional business services especially mutual recognition arrangements which facilitate the movement of people.
- undertake awareness-raising activities to focus attention on the need to integrate innovation and harness digital technology to optimize benefit to customers as well as to service providers, especially SMEs.
- provide capacity-building to help leverage new and emerging technology to build on the future of work and the workforce of the future.