

Structural Reform and Services

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Overview

1. Reforming services markets for growth
2. Services and global value chains (GVCs)
3. Incorporating services into structural reform packages

1. Reforming services markets for growth

- ▶ Services represent a significant share of value added in APEC economies, as high as two thirds or three quarters in some cases.
- ▶ Regulation is a key determinant of service sector performance.
 - ▶ Regulation can create entry barriers, which support rents.
 - ▶ Alternatively, it can increase the costs of doing business, which is a real resource costs.
- ▶ Reform of both types of barriers can bring real gains.

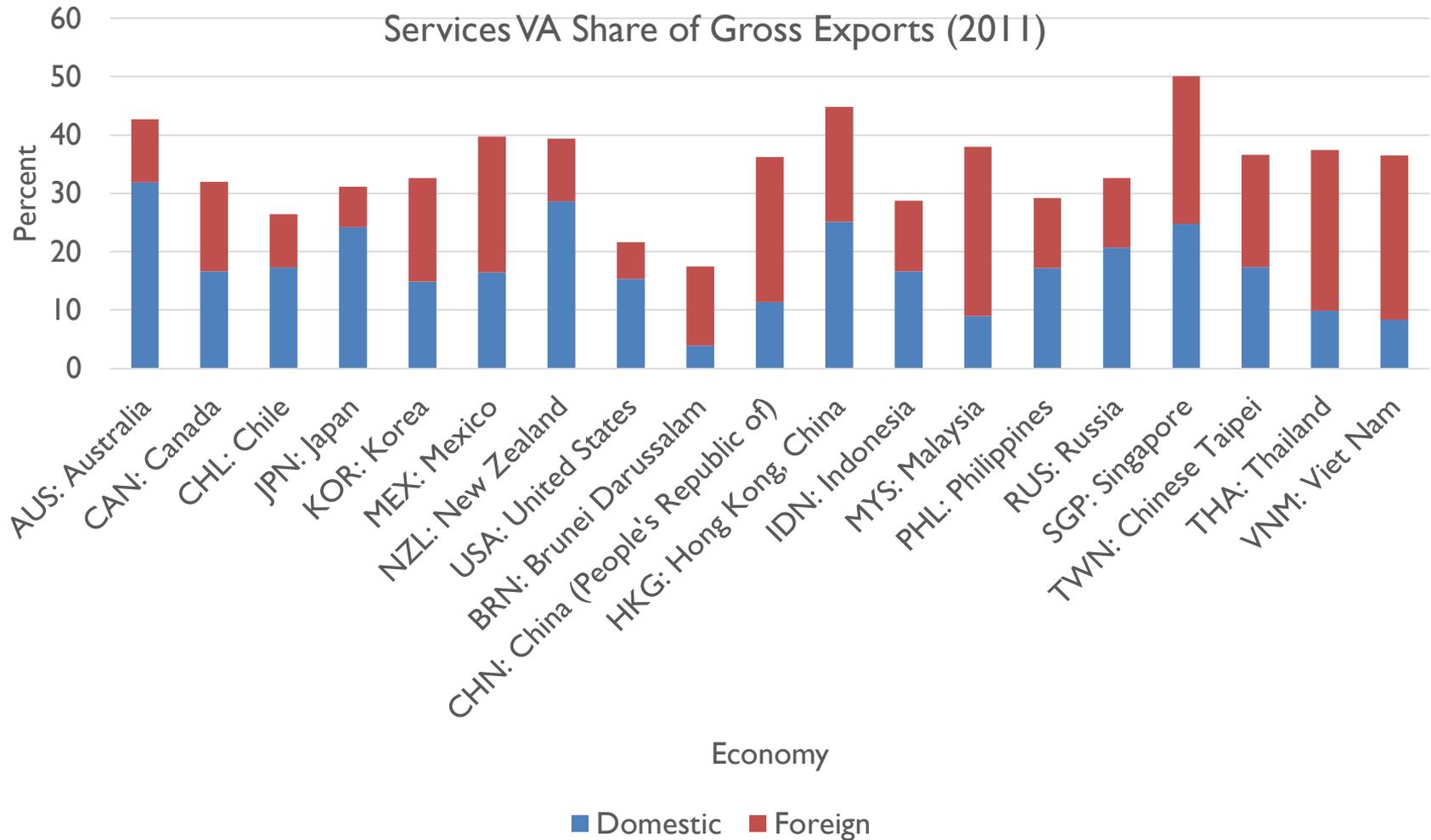
1. Reforming services markets for growth

- ▶ Reforms in key backbone sectors have particular potential to boost GDP.
- ▶ Reducing real resource losses from inefficient regulations is like a technological improvement for producers who use those inputs, i.e. it boosts competitiveness.
- ▶ PSU's 2015 report estimates that ambitious but realistic structural reforms in transport, energy, and telecommunications could:
 - ▶ Boost APEC real GDP by \$175bn annually.
 - ▶ Increase productivity by 2%-14%. Impacts above 10% in Indonesia, Malaysia, Mexico, the Philippines, Chinese Taipei, and Viet Nam.

2. Services and GVCs

- ▶ Recent work by PSU has shown that services are important inputs into manufacturing GVCs:
 - ▶ Transport and logistics
 - ▶ Business and professional services
 - ▶ Communications
 - ▶ Finance
- ▶ Reforming services markets can therefore promote GVC entry and development.
- ▶ In addition to manufacturing GVCs, services GVCs are also developing.

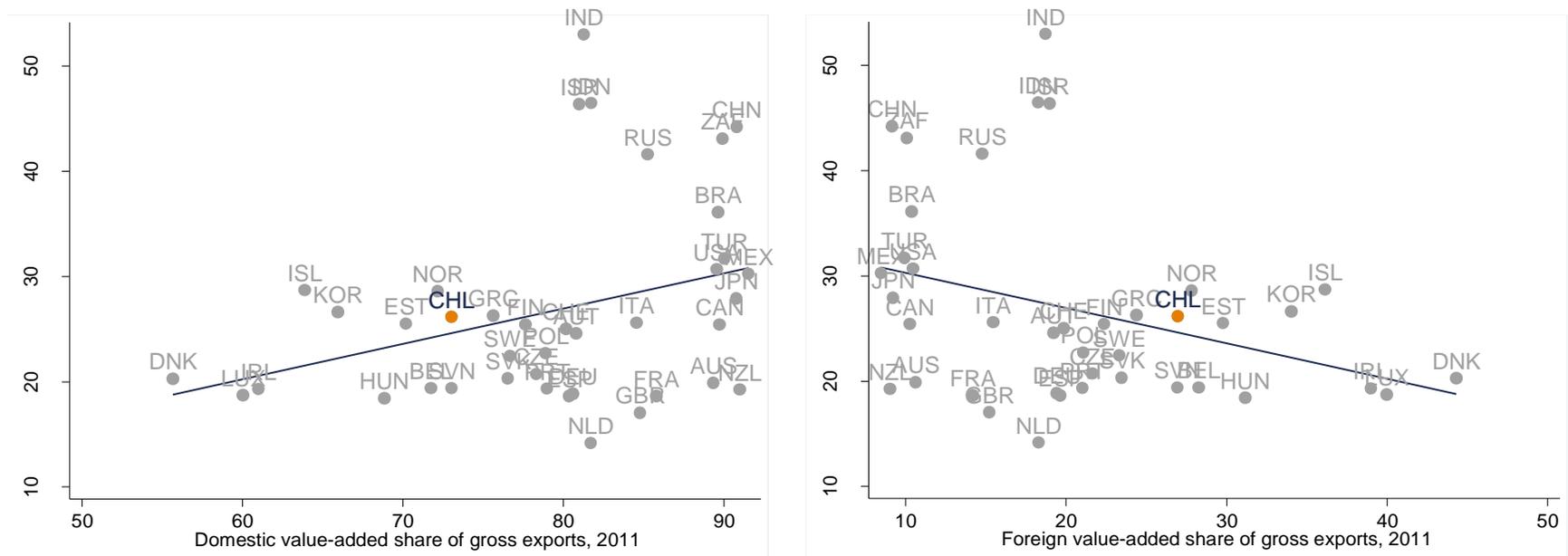
2. Services and GVCs



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- ▶ Policy is an important determinant of firms' ability to source services inputs from the most competitive supplier.
 - ▶ Market entry restrictions
 - ▶ Measures affecting ongoing operations
- ▶ A more restrictive policy environment for services trade shifts demand towards domestic suppliers that might be higher cost or lower quality.
- ▶ Liberalization can decrease prices, increase variety and quality, and support productivity gains.

2. Services and GVCs



3. Incorporating services into structural reform packages

- ▶ Services can be included directly in structural reform packages by emphasizing sectoral reforms:
 - ▶ Transport
 - ▶ Finance
 - ▶ Telecommunications
 - ▶ Energy

- ▶ Other aspects of structural reform also have significant implications for services:
 - ▶ Competition policy
 - ▶ Regulatory reform and regulatory impact assessment

3. Incorporating services into structural reform packages

- ▶ Reform of services sectors is well suited to inclusion in structural reform agendas in the APEC context.
- ▶ Economies can pursue reform through concerted unilateralism:
 - ▶ Many regulations and measures affecting services trade are de facto MFN, even in the presence of preferential agreement...
 - ▶ So reform affects all trading partners the same way.
- ▶ Efficient and effective regulation of services sectors can help promote social objectives:
 - ▶ Health
 - ▶ Education
 - ▶ Financial inclusion
 - ▶ Social protection (e.g., through insurance)

3. Incorporating services into structural reform packages

- ▶ Services reward ambitious reformers.
- ▶ Most gains accrue to the reforming economy, with bigger relative payoffs when more restricted sectors are liberalized.
- ▶ Knock on effects to the manufacturing economy are strongest when there are input-output linkages, which can be modeled ex ante using CGE techniques.
- ▶ Emerging data for some APEC economies on policy settings provides a basis for performance tracking:
 - ▶ World Bank
 - ▶ OECD