Session 1. **Services trade, economic diversification and resilience to economic shocks**

**Advancing digital services trade in Asia and the Pacific**

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*The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.*
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

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**Trade in Services in Asia and the Pacific, by Sector**

(in billion USD)

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

Scope: digitally deliverable services

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>

Digitally deliverable > Digitally delivered ≈ Mode 1 supplied

Main Sources
- WTO-UNCTAD trade in services
- WTO-OECD Balanced Trade in Services (BaTiS) BPM6
- Trade in Services data by Mode of Supply (TISMOS)

Recent trend: Digital services trade accelerating in Asia with its global share increasing

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?

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

**Expected Years of Schooling**

**International Bandwidth per Internet User (bit/s)**

**Mobile Broadband Subscriptions**

Note: Values are for reporters.
Source: ADB calculations based on BATIS and UNDP (accessed July 2021)
Simulation Exercise on Policies

• 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
Results: Spillover impact through GVC linkages

Percentage of Gross Exports by Sector, Intra-Asia (% change over baseline)

Backward GVC participation

Forward GVC participation

Scenario 1

Scenario 2

DDS sectors
Policy: 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></td>
<td>Overall  DL  LS  CF</td>
</tr>
<tr>
<td>Digital</td>
<td></td>
</tr>
<tr>
<td>World</td>
<td>-14%</td>
</tr>
<tr>
<td>Non-Asia</td>
<td>-9%  -0.6% a  -24%  -8%</td>
</tr>
<tr>
<td>Asia</td>
<td>-70%  -94%  -29%  -45%</td>
</tr>
</tbody>
</table>

a = statistically insignificant; DS = Telecom, Computer, Information, Insurance, Financial.
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