



MULTI-YEAR EXPERT MEETING ON

Trade, Services and Development

9th session

4–6 July 2022, Hybrid (online and Palais des Nations, Room XVII), 2.30–4.30 p.m. CEST

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

Advancing digital services trade in Asia and the Pacific

Mr. Jong Woo Kang

Principal Economist, Asian Development Bank

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



The ADB logo consists of the letters 'ADB' in a white, serif font, centered within a dark blue square. The background of the entire slide is a vibrant blue with a complex digital theme. It features a central globe with a network of white nodes and lines connecting them, representing digital connectivity. Surrounding the globe are various white icons: a satellite, a location pin, a laptop, a gear, a shield, a magnifying glass, a document, and a person. The background is also filled with faint binary code (0s and 1s) and glowing light effects, creating a sense of dynamic digital activity.

ADVANCING DIGITAL SERVICES TRADE IN ASIA AND THE PACIFIC

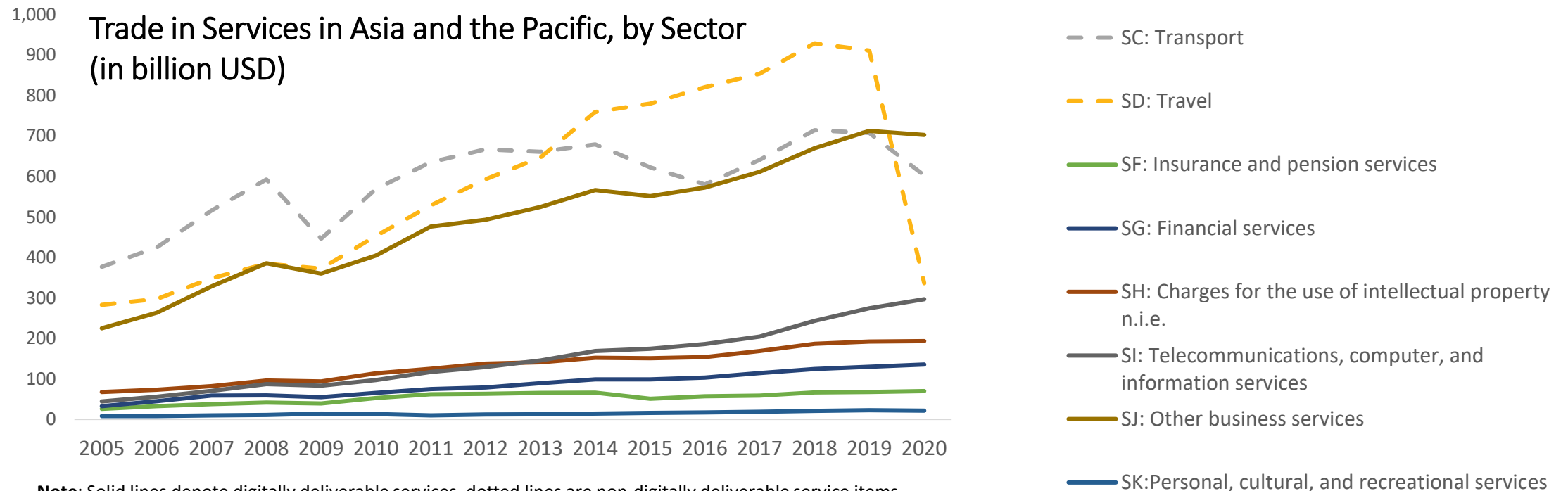
Jong Woo Kang
Principal Economist

Regional Cooperation and Integration Division
Economic Research and Regional Cooperation Department
Asian Development Bank

4 July 2022

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



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

Source: Source: ADB calculations using WTO-UNCTAD (accessed 21 July 2021).

Scope: digitally deliverable services

Digitally Deliverable Services (DDS)

Code	Service description
SF	Insurance and pension services
SG	Financial services
SH	Charges for the use of intellectual property n.i.e.
SI1	Telecommunications services
SI2	Computer services
SI3	Information services
SJ1	Research and development services
SJ2	Professional and management consulting services
SJ3	Technical, trade-related and other business services
SK1	Audio-visual and related services
SK2	Other personal, cultural and recreational services



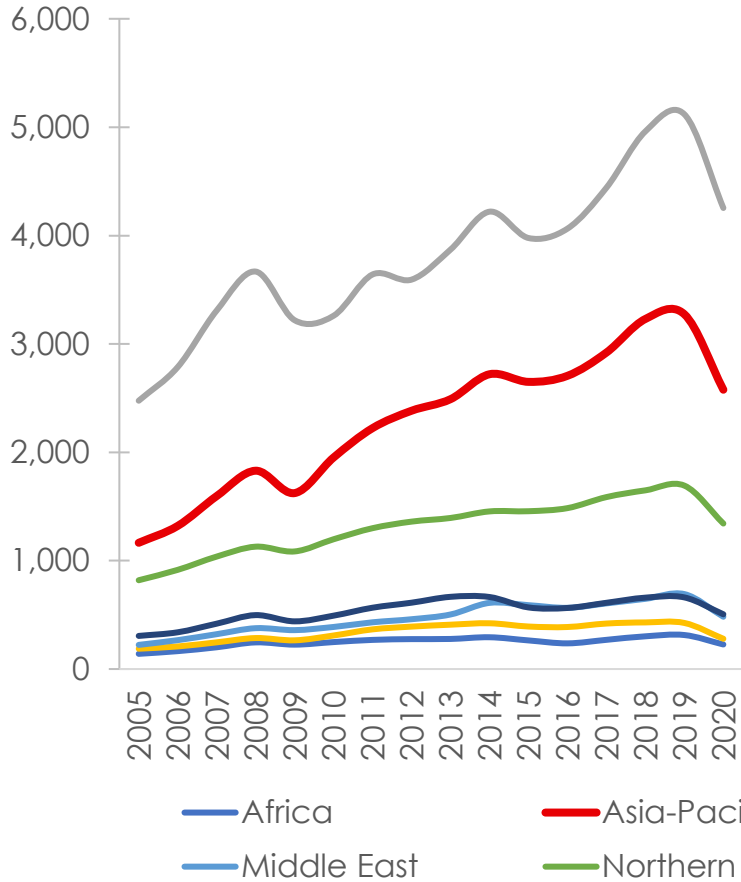
Main Sources

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

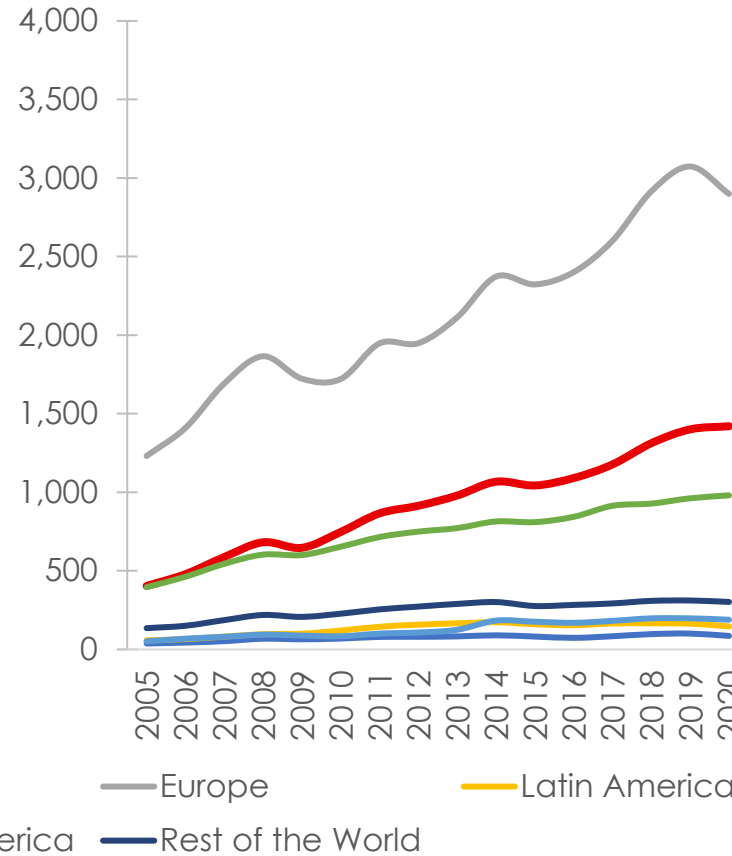
Source: ADB, based on OECD-WTO-IMF Handbook on Measuring Digital Trade, IMF Balance of Payments and Manual on Statistics of International Trade in Services (MSITS 2010)

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

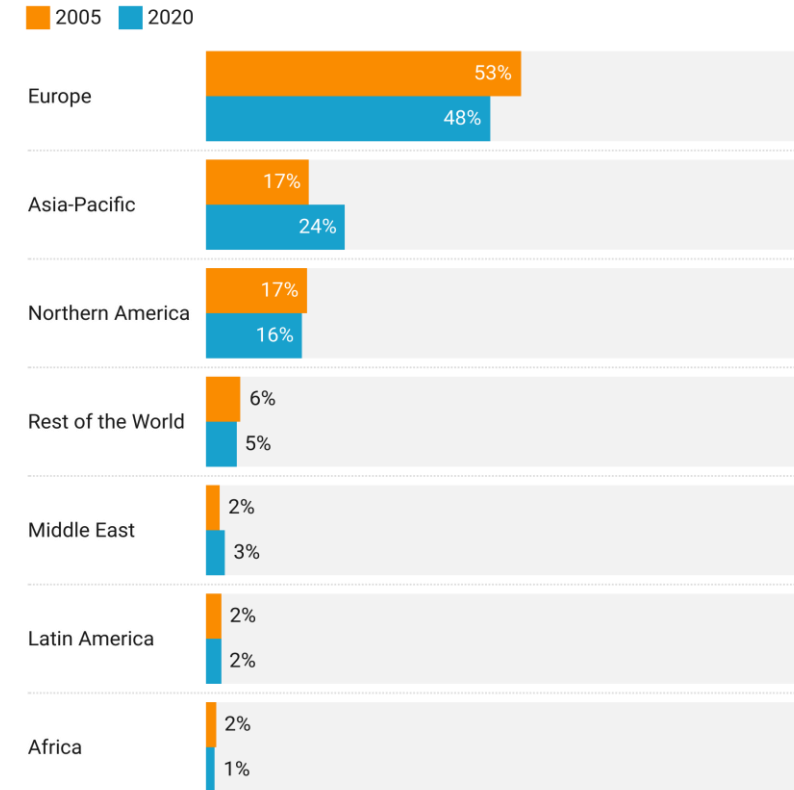
Total services



Digitally Deliverable services

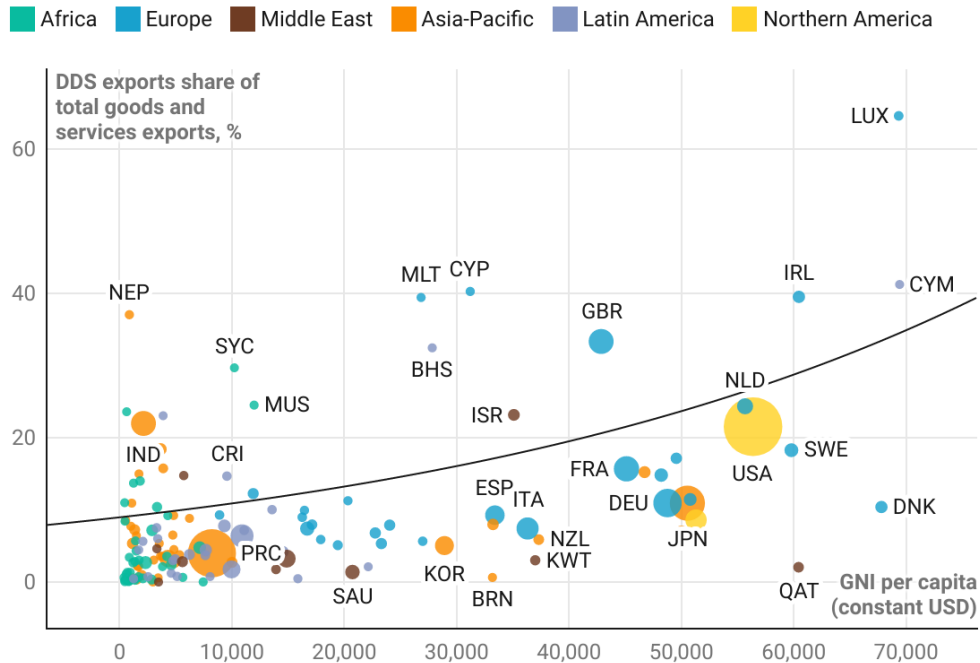


Global share in digitally delivered services trade



Can digital services exports drive economic development?

Share of DDS exports in total exports and GNI per capita



Source: ADB calculations using BATIS and World Bank (accessed August 2021).

- 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.

Drivers of digital services trade

■ Human Capital:

educational attainment, technical skills to make full use of digital technologies

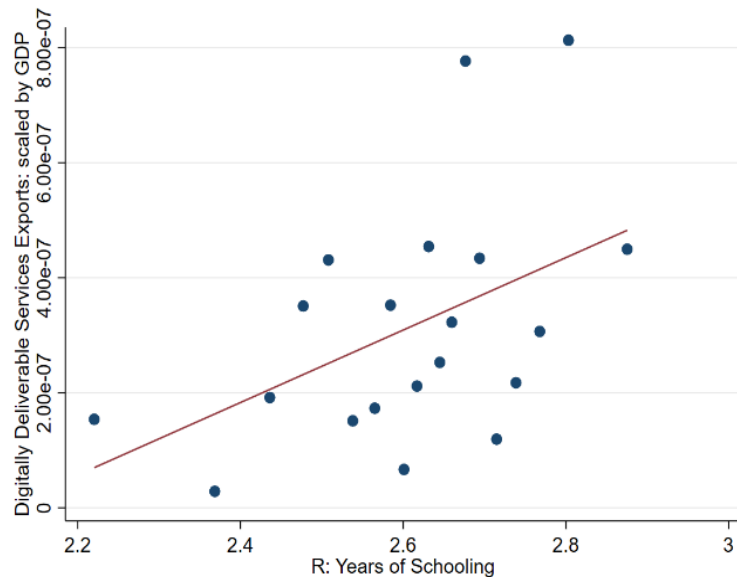
■ Digital connectivity:

availability, quality, cost and divide

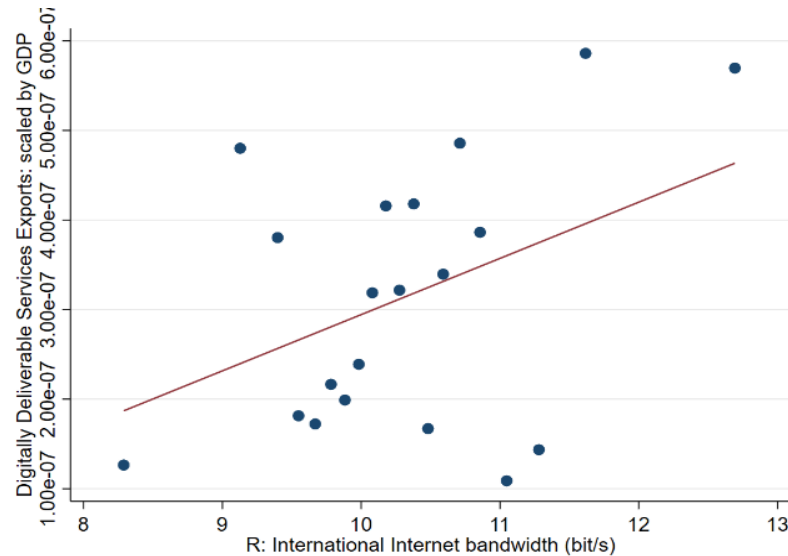
■ Investments:

telecommunication and digital solutions

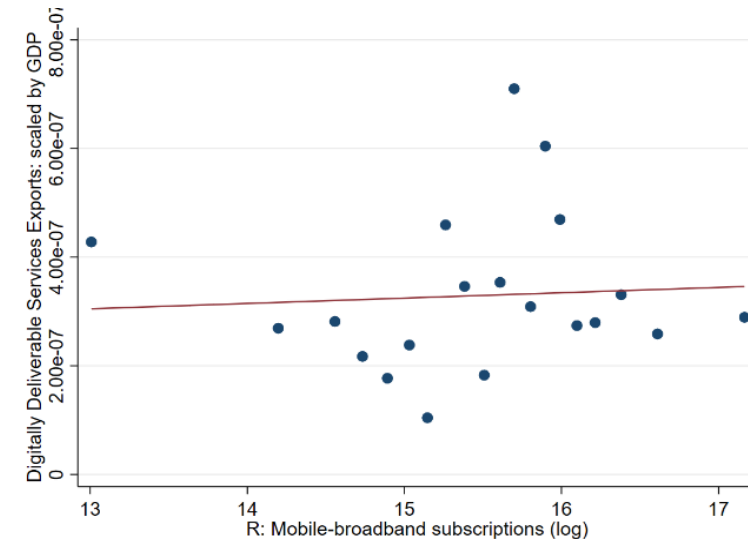
Expected Years of Schooling



International Bandwidth per Internet User (bit/s)



Mobile Broadband Subscriptions

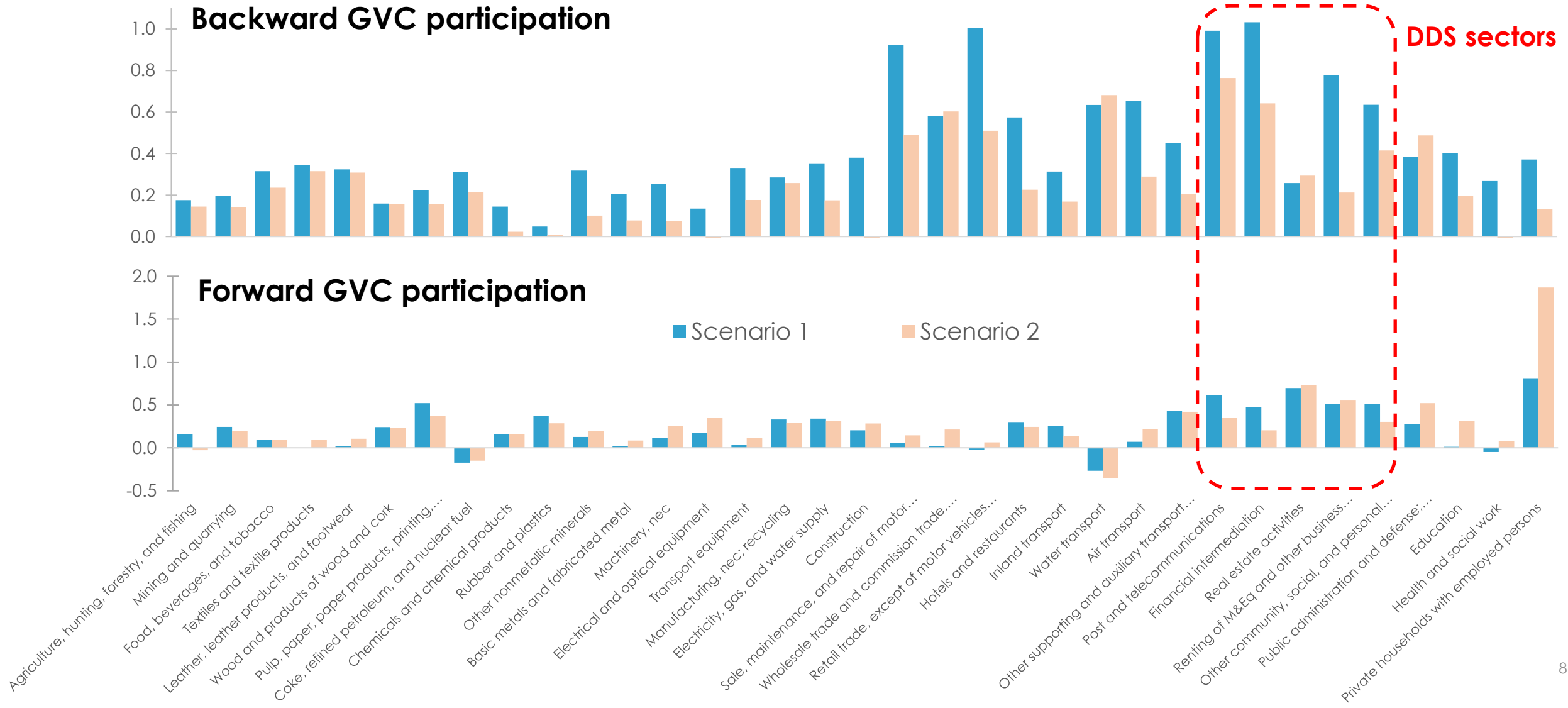


Simulation Exercise on Policies

- 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)



Policy: Impact of data restrictions

- Trade in digital services is reliant on the transmission of data across economies
- Categories of data-related policies
 - Data localization policies (DL)
 - Local storage requirements (LS)
 - 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

		Digital services imports			
		Overall	DL	LS	CF
Sectors/Region		Reference: Non-Digital			
Digital	World	-14%			
	Non-Asia	-9%	-0.6% ^a	-24%	-8%
	Asia	-70%	-94%	-29%	-45%

^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

https://aric.adb.org/pdf/aeir/AEIR2022_7_theme-chapter-advancing-digital-services-trade-in-asia-and-the-pacific.pdf