

## **Manufacturing Related Services Action Plan (MSAP)-Interim Review (Final draft - Proposed by Japan)**

### **1. Introduction**

It is well recognized that strong, open and competitive service sectors are important drivers of economic growth and job creation. The services represent approximately two-thirds (68%) of the total APEC GDP. In addition, due to closer integration of services in manufacturing, services have become an important determinant of competitiveness of manufacturing sectors, regardless of firm size.<sup>1</sup>

Against this backdrop, at APEC Economic Leaders Meeting (AELM) in November 2014, the leaders in their declaration “welcome[d] the initiative on manufacturing related services in supply chains/value chains as a next generation trade and investment issue, and instruct officials to develop a plan of action in 2015.” Responding to this instruction, APEC Policy Support Unit (PSU) produced a study on “Services in Global Value Chains: Manufacturing Related Service”.<sup>2</sup> (Hereafter referred to as “The PSU study”.)

In 2015, APEC ministers welcomed the endorsement of the Manufacturing Related Services Action Plan (MSAP), and MSAP identified the key action agenda such as examining trade-related measures affecting manufacturing-related services with a view to reducing or eliminating trade and investment barriers and/or improving trade and investment environment, described the necessity of considering cooperation/capacity building programs, and established mechanism of implementation and review of itself.

To review its implementation, the Implementation Plan for Interim Review of MSAP (2017/SOM3/CTI/021) describes the work and timeline toward interim review in 2018. Under the implementation plan, the key work of the interim review is to collect and analyze the information on the current state of the regulatory regimes and policy environment and develop an indicative menu of cooperation/capacity building under MSAP. Chile, Indonesia, Malaysia, Peru, Philippines, Mexico, Singapore, Korea, Chinese Taipei, Hong Kong, China, Thailand, Viet Nam and China reported their achievement and positive progress on the key action agendas.

In a broader context, MSAP contributes to a number of key APEC initiatives, including the shared commitment to achieve free and open trade and investment in the Asia-Pacific no later than the year

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<sup>1</sup> APEC. Manila, Philippines, 17 November, 2015, “Manufacturing Related Service Action Plan (MSAP)”. [2015/AMM/015app03].

<sup>2</sup> APEC Policy Support Unit. Singapore, November, 2015, *Services in Global Value Chains: Manufacturing-Related Services*.  
<https://www.apec.org/Publications/2015/11/Services-in-Global-Value-Chains-Manufacturing-Related-Services>

2020 (the Bogor Goals). In addition, MSAP is identified as one of APEC-wide action in APEC Services Competitiveness Roadmap (ASCR) in 2016.

From the perspective of Free Trade Area of the Asia-Pacific (FTAAP), leaders have continuously reaffirmed APEC plays a critical role in defining, shaping and addressing the ‘next generation’ trade and investment issues that an FTAAP should contain under the “Pathways to FTAAP” 2010, heading as a part of APEC’s contribution as an incubator of the FTAAP. In the Collective Strategic Study (CSS) on Issues Related to the Realization of the FTAAP in 2016, “Manufacturing related services in supply chains/value chains” is mentioned as APEC-Endorsed NGeTI. In this context, implementing MSAP also contributes eventual realization of FTAAP.

## 2. Current State of the Regulatory Regimes and Policy Environment

To understand a comprehensive picture of the current state, this section analyzes policy implications from a PSU study on services in global value chains related to manufacturing-related services and the information collected from 13 economies. The policy implications and the information from APEC economies can be classified into the following 6 categories

### 1) Investment policy

#### (a) Policy implications from the PSU study (2015)

Foreign direct investment (FDI) restrictions among service sectors prevent firms from operating the most efficient business model.<sup>3</sup> In addition, sudden changes in investment policy freeze expansion plans and increase costs.<sup>4</sup> Meanwhile, many governments provide incentives and subsidies to attract FDI, however, protectionist policies force FDI to locate and increase operations domestically through the imposition of local content requirements add operational costs especially when local suppliers are not the most efficient service providers.<sup>5</sup>

#### (b) Positive progress/achievement among APEC economies

Regarding investment policy, APEC economies reported that;

- Allowed foreign companies to have more ratio of equities (e.g. equity policy for foreign investors could hold 100% of the equity in all investments in new projects, as well as investments in expansion/diversification projects by existing companies, irrespective of the level of exports and without excluding any product or activity, etc.).
- Released a catalog of advantageous foreign-funded industries in some areas and expanded the scope of the foreign-invested industries.
- Establishment of several pilot free trade zones.

<sup>3</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.17.

<sup>4</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.18.

<sup>5</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.25.

- Stopped requiring application for foreign business permission in several service sectors (e.g. (1) financial institution business and businesses incidental to or necessary for the operation of a financial institution business, (2) representative and regional office of foreign juristic person in international trade service, etc.).
- Relaxing foreign equity restriction (e.g. lifting or easing existing restrictions on foreign participation in selected investment areas to raise the economy's level of competitiveness, and to foster higher economic growth in ASEAN and beyond through joint endeavors and partnerships with other economies).
- Investment promotion policy for the companies that obtains investment promotion certificate from a relevant authority in some service sector (e.g. creative product design and development center, electronics and engineering design, high value-added software, container yards or inland container depots, research and development).
- No market access restrictions in some service sectors (e.g. computer and related services, engineering services, real estate services, services related to agriculture, hunting, and forestry, maintenance and repair of equipment (not including vessels, aircraft, or other transport equipment), packing services and printing).
- Released and upgraded the negative list to ensure transparency in foreign investment restrictions (e.g. allowed more business fields to have more than 60% foreign equity participation with a clearer arrangement by the revised negative list).

## 2) Labor-related policy

### (a) Policy implications from the PSU study (2015)

Although providing best service needs flow of people, various restrictions are illustrated in the PSU study such as labor quotas, economic needs test, complex entry requirements and discretionary decision-making procedures on recognition of qualifications.<sup>6</sup> Furthermore, restrictions and a lack of mutual recognition of qualifications hamper companies' ability to provide the best service.<sup>7</sup>

### (b) Positive progress/achievement among APEC economies

Regarding labor-related policy, APEC economies reported that;

- Enhancing the rights of foreign business persons (e.g. extending justifiable reasons for workplace change).
- Reviewing the list of occupations which do not allow to hire foreigners to decrease obstacles for hiring foreign workforce and employment regulations.
- Providing privileges such as getting permission to bring in skilled personnel and experts into the economy to the companies that obtains investment promotion certificate from a relevant authority.

<sup>6</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.18-19.

<sup>7</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p 23.

- Streamlining the process of obtaining work visa such as enabling applicants to submit documents (e.g. through the one-time online single window application at the one-stop service center).
- More engagements in international/regional mutual recognition agreements (e.g. APEC Engineers, APEC Business Travel Card (ABTC), etc.).
- According privileges which are given to ABTC holders such as exemption from visa requirement.

### 3) Custom-related procedure

#### (a) Policy implications from the PSU study (2015)

The PSU study illustrated additional business costs occurring in customs procedures. For instance, customs issues on valuation such as a lack of effective implementation of single-window project still persist. Complex procedures along with the discretionary aspects of some customs decisions and necessity the employment of customs brokers cause costs. The PSU study also pointed out costs of human intervention in customs transactions still persist.<sup>8</sup> In addition, the PSU study mentioned that absence of agreement on the definition of re-manufactured goods limits opportunity to conduct re-manufacturing business worldwide because trade in re-manufactured goods is banned in some economies.<sup>9</sup>

#### (b) Positive progress/achievement among APEC economies

Regarding custom-related procedure, APEC economies reported that;

- Streamlining customs through expansion of authorized economic operator mutual recognition agreement (AEO MRA).
- Enhancing single window system.
- Implementation of WTO Trade Facilitation Agreement (TFA).
- Extending paperless export clearance system, no requirement of mandatory use of specified customs brokers and so on.

### 4) Standards and conformance

#### (a) Policy implications from the PSU study (2015)

The PSU study indicates that a lack of clarity in standards requirement imposes additional unnecessary costs. Although it does not actually yield additional meaningful information or public policy advantage, duplicative testing and accreditation in various jurisdictions are often required, which multiply costs both in terms of time and money.<sup>10</sup> Because of that, SME participation in GVC is often stymied by the difficulty of obtaining relevant standards/certifications due to their costs and complicated requirements.<sup>11</sup> Another example from IT industry is introduced in the study that as numerous

<sup>8</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.30.

<sup>9</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.30.

<sup>10</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.26.

<sup>11</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.15.

standards especially for IT industry are different in economies, the companies need to allocate substantial resources to follow the requirement.<sup>12</sup>

(b) Positive progress/achievement among APEC economies

Regarding standards and conformance, APEC economies reported that;

- Streamlining the procedure by expanding network of mutual recognition system (MRA) so that the signing parties do not need to conduct further test if the products were tested and certified by an approved test lab in another signing party. (e.g. expanding a footprint of "checked once, accepted everywhere").
- Reviewing domestic process of obtaining standards to avoid redundancy through various measures such as overviewing and coordination between relevant ministries conducted by a competent authority in order to avoid unnecessary duplication in standardization process.

5) Intellectual property

(a) Policy implications from the PSU study (2015)

Transfer of advanced technology could be influenced by policies related to intellectual property rights (IPR) in host economies. Some type of policies have barred the host economies from obtaining advanced technology.<sup>13</sup> For example, according to the actual case described in the PSU study, requirement for submitting source code information made a firm not to sell its most modern product models in the economy concerned.<sup>14</sup>

The PSU study indicated that having reliable and qualified local partner and effective regulatory framework and government enforcement of IPRs are important to protect most advanced IPRs.<sup>15</sup> In addition, enforcement capability of IPRs in host economies is key to prevent counterfeit products, trade mark infringement and etc.<sup>16</sup>

(b) Positive progress/achievement among APEC economies

Regarding intellectual property, APEC economies reported that;

- Enhancing protection of IPRs through governing penalties, providing consultations to companies operating in foreign economies on IPR protection and capacity building for host economies to enforce effective protection against counterfeit goods.
- Enhancing protection of trade secrets through strengthening penalties and expanding the scope of trade secrets.
- Participating international agreement to enhance implementation of IPRs protection.

<sup>12</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.30.

<sup>13</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.27.

<sup>14</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.28.

<sup>15</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.28.

<sup>16</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.28.

- Initiatives to lower the costs of filing a patent and trademark.

#### 6) Regulatory and policy environment

##### (a) Policy implications from the PSU study (2015)

The PSU study claims that non-transparent, inefficient and frequent change of government regulations/policies increase business costs and require unwanted change of business plans. In particular, inefficiency and delays in government services disrupt company plans and targets, and impose significant costs. Even though the laws and regulations are transparent, frequent changes in them is challenging for foreign firms.<sup>17</sup>

##### (b) Positive progress/achievement among APEC economies

Regarding regulatory and policy environment, APEC economies reported that;

- Increasing online information disclosure and public relations activities, identifying procedures to introduce regulations.
- Gathering public comments for new regulations among others have seemed common policy approach toward this issue.
- Initiatives on facilitating discussions between central and local government to secure consistency in application of laws, regulations and policies.

### **3. Indicative Menu of Cooperation/Capacity Building**

In order to assist economies to take concrete actions under the key action agenda, APEC needs to develop an indicative menu of cooperation/capacity building.

To formulate a list of indicative menu, we should take into consideration the following non-exhaustive list of elements.<sup>18</sup>

- Conducting further studies and holding workshops and dialogues for capacity building to share economies' experiences and good practices in liberalizing and facilitating trade in manufacturing-related services, in particular as they related to the key action agenda, by;
  - Reviewing existing laws and regulations on manufacturing related services in APEC economies.
  - Selecting the topic for capacity building on the reports from APEC economies in the section 2 for facilitating the mutual understanding of good practices reported by APEC economies.
  - Considering the capacity building needs which were reported by APEC economies during the process of interim review for taking actions.
  - Bearing in mind that rapid development in technology and its effects on liberalizing and facilitating trade in manufacturing-related services.

<sup>17</sup> APEC Policy Support Unit, *Services in Global Value Chains*, p.29-30.

<sup>18</sup> This zero draft indicate only the elements of indicative menu list. However, if more inputs are provided by CTI3, 2018, the concrete indicative menu will be indicated in this section.

- Welcoming offers and contributions from APEC economies for capacity building.
  - Providing opportunities to exchange views on the substantial impacts and actual good cases with various stakeholders such as business, research experts, and regulators.
- Enhancing transparency of measures related to trade in manufacturing-related services through cooperation with the APEC activities (such as the GOS initiative to develop an index to measure the regulatory environment of services trade in APEC region) as well as the database of other international fora and organizations. (e.g. the OECD STRI, as well as the WTO and the World bank)

The indicative menu will be included in Implementation Plan for Final Review of Manufacturing Related Services Action Plan (MSAP) which will be proposed after endorsement of this review.

#### **4. Toward the Final Review of MSAP**

As mentioned in MSAP, the final review of MSAP will be conducted in 2020. The elements of the final review will be based on the findings from the entire process of implementation of MSAP including future cooperation/capacity building activities under the section 3 of this interim review.

In addition, the final review of MSAP is expected to contribute to APEC Services Competitiveness Roadmap through further collaboration with its targets and related initiatives.

APEC economies are encouraged continuously play its leadership role toward increasing availability and accessibility of services through progressive liberalization and facilitation of manufacturing-related services, and further deepen economic integration in the region through conducting a final review of MSAP in 2020 taking into account APEC economies' circumstances.