

## Appendix 3

### Manufacturing Related Services Action Plan (MSAP)

#### **1. Background**

##### *a. Services in APEC economies*

It is well recognized that strong, open and competitive service sectors are important drivers of economic growth and job creation.<sup>1</sup> The services represent approximately two-thirds (68%) of the total APEC GDP, providing the majority of job opportunities in many APEC economies. OECD-WTO Trade in Value Added (TiVA) indicators, which calculate value added of exports by country and sector of origin, show that, in terms of value added, the share of the service sector in total exports is 39%, much higher than the service sector's share in terms of conventional trade measurement (16.7%).<sup>2</sup>

Moreover, due to closer integration of services in manufacturing, services have become an important determinant of competitiveness of manufacturing sectors, regardless of firm size. Pre-manufacturing services (such as research, consulting and design) or post-manufacturing services (such as advertising, marketing and repair) of supply chains/value chains significantly contribute to creating value added to manufacturing sectors. Bundling of services, such as repair or maintenance services packaged as part of final goods sales, is a prevalent practice today.<sup>3</sup>

##### *b. “Manufacturing-related services” initiative as “next generation trade and investment issue”*

At 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.”<sup>4</sup> APEC plays “a critical role in defining, shaping and addressing the ‘next generation’ trade and investment issues that an FTAAP should contain” (“Pathways to FTAAP”, 2010), as a part of APEC’s contribution

<sup>1</sup> Joint Ministerial Statement, APEC Ministers Meeting, October 2013 (para. 18).

<sup>2</sup> PSU (2014a), APEC, Services and Supply Chains, Policy Brief No. 9 (29 January 2014).

<sup>3</sup> See id.; see also PSU (2014b), Services and Manufacturing: Patterns of Linkages, Policy Brief No.10 (31 July 2014); PSU (2015), Services, Manufacturing and Productivity, Issue Paper No.9 (January 2015).

<sup>4</sup> See also Joint Ministerial Statement, APEC Ministers Meeting, November 2014 (para. 26).

as an incubator of the FTAAP. As a contribution to responding to this instruction, PSU has conducted a series of case studies through interviews with manufacturing companies in APEC region to collect and analyze first-hand information on the roles of services in manufacturing businesses, and what policy actions could be taken to foster such services. The progress of the case studies was presented at Public Private Dialogue on Services (III) in May 2015. APEC Ministers Responsible for Trade in May 2015, recognizing “the role of manufacturing-related services in upgrading value creation in our economies”, stated they “welcome[d] progress towards the Action Plan on Manufacturing-Related Services and the case studies undertaken by the APEC Policy Support Unit which contains important policy implications on which APEC can build its future work.” The case studies highlight the pervasiveness of services in manufacturing activities and the strong potential for business and employment opportunities from foreign investments for outsourced services. They also identify various policy constraints that the case study firms face including foreign equity restrictions in services sectors, difficulties imposed by visa requirements, intellectual property protection, lack of flexibility in the labor markets, security-related issues, as well as infrastructure bottlenecks.

In a broader context, this Action Plan 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 2020 (the Bogor Goals). It can also complement the objective of the Boracay Action Agenda to Globalize MSMEs to promote the internationalization of MSMEs and integrate them into global value chains (GVCs), due to the pervasiveness of MSMEs in GVCs.

## **2. Key Action Agenda**

APEC economies agree on the following key action agenda, with a view to increasing availability and accessibility of services through progressive liberalization and facilitation of manufacturing-related services, and further deepen economic integration in the region.

- Examining trade-related measures affecting manufacturing-related services, in reference to, among others, those highlighted in the PSU case studies, in economies' domestic policy initiatives, FTA/RTA negotiations as well as initiatives in relevant APEC fora and sub-fora, with a view to reducing or eliminating trade and investment barriers and/or improving trade and

investment environment. Some of the highlighted areas are contained in the Attachment.

- Reaffirm “APEC Principles for Cross-Border Trade in Services” endorsed by the Leaders in 2009.

### **3. Cooperation/ Capacity Building**

- Consider and conduct cooperative actions and capacity building programs including sharing experiences and good practices in liberalizing and facilitating trade in manufacturing-related service, including:
  - Enhancing transparency of measures related to trade in manufacturing-related services in cooperation with APEC’s STAR database as well as by actively participating in developing indices measuring trade restrictiveness in services;
  - Conduct further studies and holding workshops and dialogues to share economies’ experiences and good practices in liberalizing and facilitating trade in manufacturing-related services, in particular as they relate to the key action agenda; and
  - I-TIP services database of the WTO and the World Bank may be a reference tool to enhance transparency as it provides information on WTO members’ commitments in GATS, RTAs and measures related to services and services statistics.

### **4. Mechanism of implementation and review**

In order to assist economies to take concrete actions under the key action agenda, following steps will be taken in CTI.

- Collect and analyze the information on the current state of the regulatory regimes and policy environment in member economies with regard to key action agenda.
- Based on the analysis as well as cooperation activities undertaken by member economies, develop an indicative menu of cooperation/capacity building under this Action Plan.
- Conduct interim review in 2018 and final review in 2020 with regard to

implementation of this Action Plan.

- Consider future steps according to the final review, as appropriate.

## Attachment

### **a) Specific regulatory or policy measures**

- i) Restrictions on foreign equity share and other market entry conditions
  - e.g., limitations on foreign equity ownership, screening or approval of foreign investments, divergent ownership restrictions between manufacturing and services
- ii) Examining mobility of foreign service suppliers
  - e.g., work permits, visa application procedure, local language test requirement, discriminatory professional qualifications requirements
- iii) Other measures with implications on manufacturing-related services
  - Customs-related procedures (e.g., use of specified customs brokers, licensing restricted by nationality)
  - Standards and conformity procedures (e.g., lack of unilateral or mutual recognition pathways, burdensome assessment requirement)
  - Intellectual property protections (e.g., inadequate protection of IP, compulsory transfer IP)
  - Enforcement of health, safety and environmental regulations (e.g., inconsistent enforcement, limited availability of licensed companies)

### **b) Regulatory and policy environment**

- i) Transparency in laws, regulations and policies
  - e.g., publication including updates, prior public consultation and advance notice of changes before entry into force, establishment of enquiry points
- ii) Predictability and consistency in application of laws, regulations and policies
  - e.g., consistency between local and central government or between governmental agencies, use of discretionary authority at the level of implementation
- iii) Building and maintaining constructive stakeholder relationships.

**\*Reference: Types of Manufacturing Related Services**

The following types of services are identified in the PSU study as examples of services supporting manufacturing sectors, referenced for this Action Plan.<sup>5</sup> Taking into account different levels of development, each economy will have a leeway to specifically define the scope of manufacturing related services in their domestic context.

*a. Pre-manufacturing stage including sourcing and importation of raw materials*

Product research and development  
Product design services  
Engineering services  
Procurement services  
Customs clearance services and logistics of raw materials  
Technical testing  
Freight insurance of raw materials  
Storage and warehousing services of raw materials  
Training services for staffs  
Installation services of equipment

*b. Manufacturing stage*

Production administration – Production management  
Manufacturing services provided in-house and by suppliers of activities such as basic machining  
Engineering services during manufacturing  
Warehousing services for intermediate goods  
Quality control and assurance as well as compliance with ISO

*c. Post-manufacturing stage*

Certification and commissioning services of equipment  
Packaging services  
Warehousing services for products  
Freight insurance of products  
Telephone-based technical support services

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<sup>5</sup> This reference is not intended to establish any formal definition of manufacturing related services as a new service classification.

Warranty, maintenance, repair and overhaul services

Travel services for engineers and other staffs pertaining to after-sales services