UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

UNCTAD

Multi-year Expert Meeting on

TRADE, SERVICES AND DEVELOPMENT

Geneva, 15-17 April 2014

SESSION 1:

TRENDS IN INFRASTRUCTURE SERVICES SECTORS

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PROSPERITY FOR ALL

Trade in services:
European and global issues

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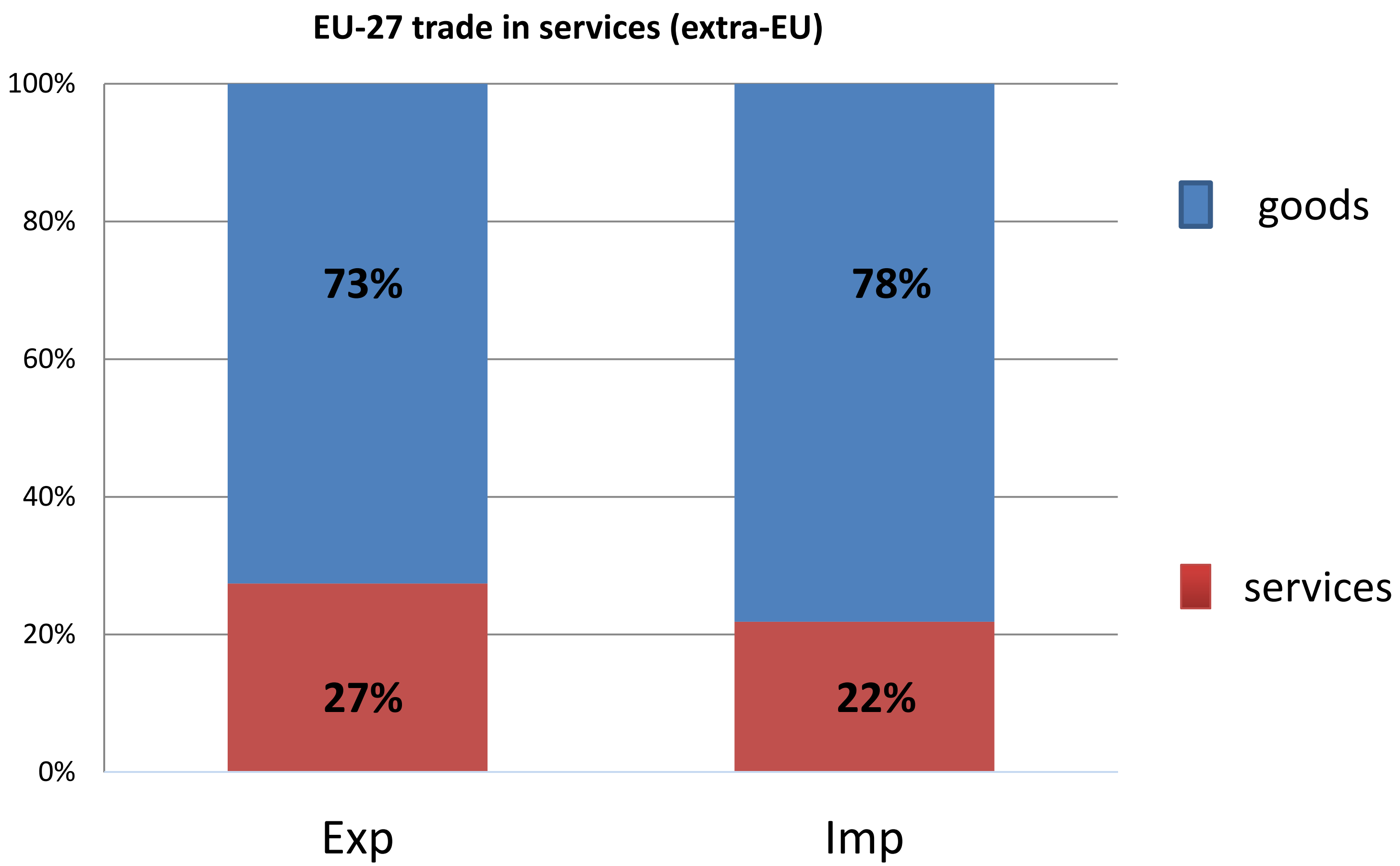
Key points

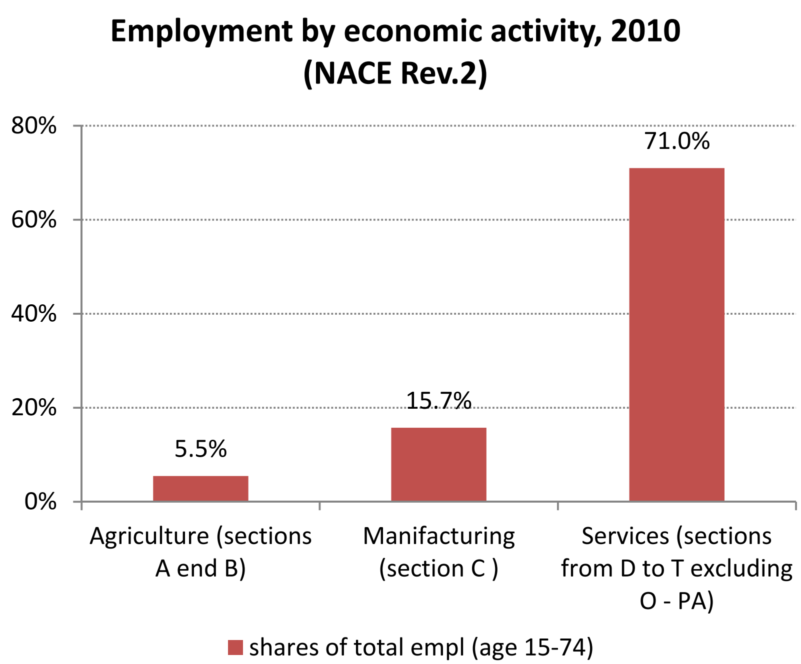
- The role of services in competitiveness
  - Value added, job creation and productivity
- Beyond GATS modes of supply:
  - Mode 5 "services in boxes" exports
- Comparative advantages
  - The role of education
- Barriers to services trade
  - Some policy priorities

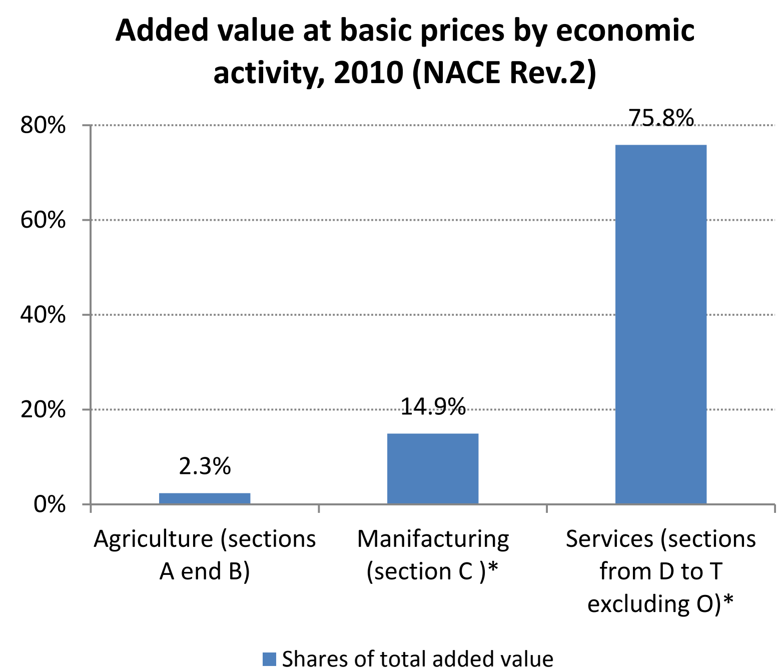
The role of services in competitiveness

EU trade in services: stats at first sight



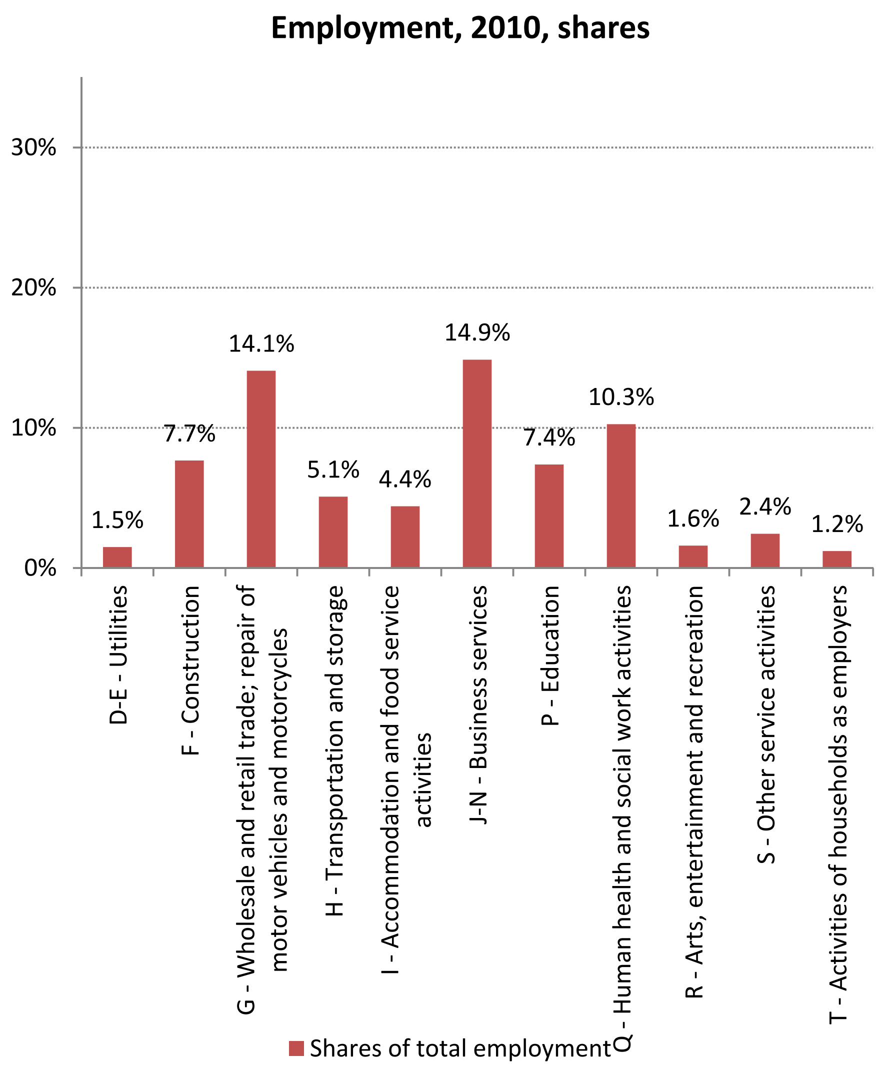
The EU Single Market : the relevance of services

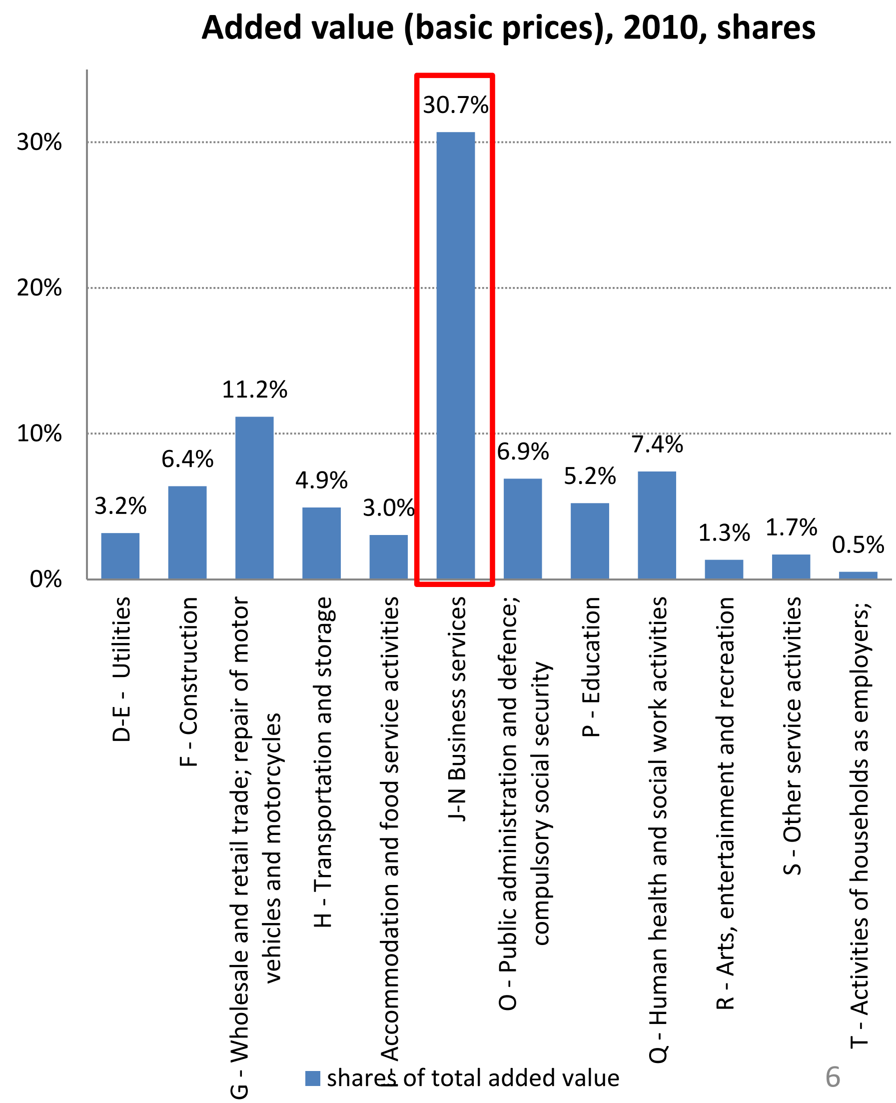




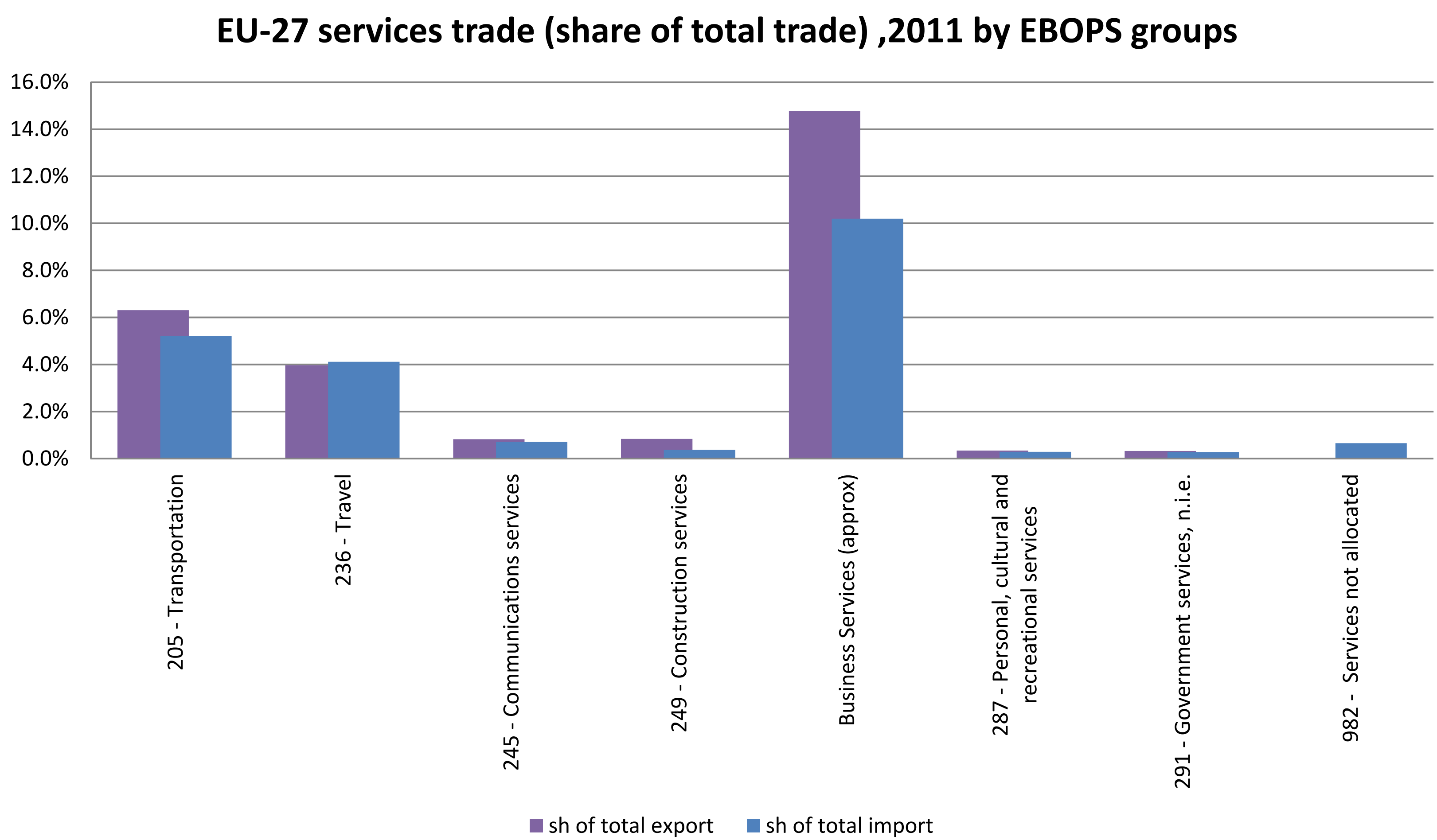
Notes: Totals also include O84 (Public Admin and defence), U99 and NRP; Source: LFS and Eurostat - National Accounts

Within services industries: business services stand out



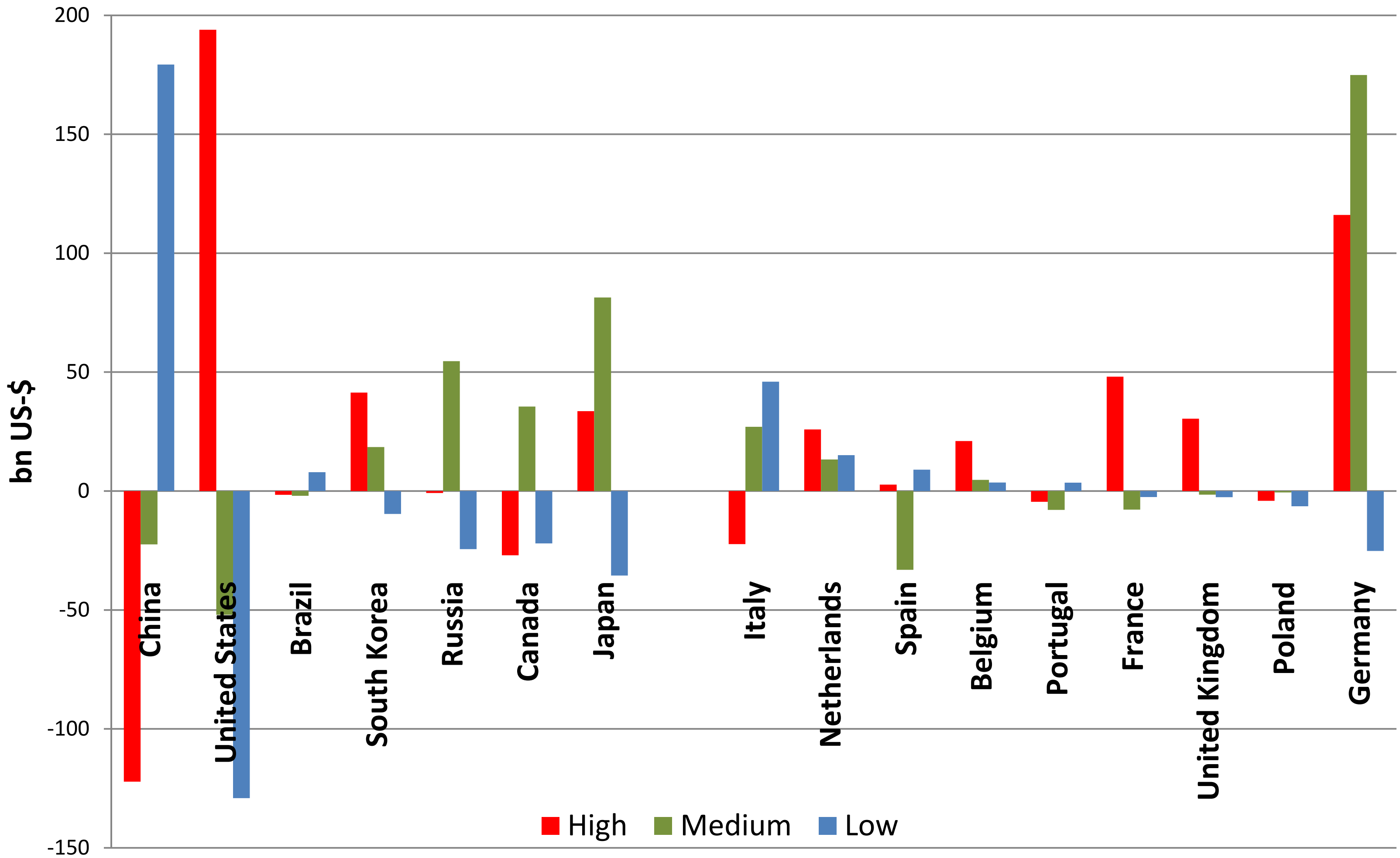


Business services is big business



Comparative advantages vary: countries need each other

Net trade in labour by educational categories, (2009)



source "Value Added and Factors in Trade: A Comprehensive Approach" Robert Stehrer, Neil Foster, Gaaitzen de Vries (2012) WIOD Working Paper no. 7

The EU Single Market: key lessons

- 1993 to 2003 – a decade of integration progress
  - Over 2.5 million extra jobs
  - nearly € 900 billion additional economic benefits
  - about € 6000 per family in the EU
- Unique integration experience among a large number of countries
  - Automatic recognition of professional qualifications
- Single Market is great but not complete!
  - E.g. roaming charges, energy, etc.

Canada: is grey matter the new commodity boom?

Comparison of International Education Services with Other Top Exports in Goods from Canada
Selected countries , 2008

Export/ Ranked	China, Peoples' Republic of	Korea, Republic of	United States	France	India	Japan	Saudi Arabia	Taiwan	Hong Kong	Mexico
1	EDUCATION SERVICES $1.301B	COAL $1.272B	CRUDE OIL $63.7B	AIRCRAFT ENGINES $536.9M	FERTILIZERS $688M	COAL $2.3B	BARLEY 225.100	UNWROUGHT NICKEL $253.3M	UNWROUGHT NICKEL $241.3M	RAPE OR COLZA SEEDS $821.5M
2	ACYCLIC ALCOHOLS $869.5M	EDUCATION SERVICES $846.8M	LIQUIFIED PETROLEUM $36.3B	NON-CRUDE PETROLIUM OILS 307.1M	DRIED LEGUMES $422.8M	RAPE OR COLZA SEEDS $1.4B	EDUCATION SERVICES $144.2M	CHEMICAL WOODPULP $138.9M	GOLD $193M	MOTOR VEHICLE PARTS $479.2M
3	CHEMICAL WOODPULP $858.5M	CHEMICAL WOODPULP $239.6M	MOTOR VEHICLES $33.7B	EDUCATION SERVICES $263.9M	NEWSPRINT $232.3M	MEAT OR SWINE $801.6M	CHEMICAL WOOD PULP $65.6M	EDUCATION SERVICES $127.4M	RAW FURSKINS $146.3M	ELECTRONIC CIRCUITS $464.4M
4	RAPE OR COLZA SEEDS $782.5M	NICKEL PRODUCTS $220.9M	NON-CRUDE PETROLEUM $14.6B	AIRCRAFT PARTS $242.5M	EDUCATION SERVICES $225.7M	LUMBER $760.1M	UNCOATED PAPER $56.4M	COAL $118.4M	EDUCATION SERVICES $127.3M	MOTOR VEHICLES $332.9M
5	UNWROUGHT NICKEL $703.9M	SEMI-CHEMICAL WOOD PULP $145.5M	MOTOR VEHICLE PARTS $9.9B	BLOOD $180.9M	CHEMICAL WOODPULP $76.7M	COPPER ORES $737.7M	TANKS AND OTHER ARMOUR $47.2M	IRON ORES $86.7M	MOLLUSCS $65.8M	TELEPHONE SETS $195.3M
6	SULFUR $686M	COPPER ORES $143.2M	UNWROUGHT ALUMINUM $5.9B	IRON ORES $160.9M	AIRCRAFT $70.7M	WHEAT $550.9M	NEWSPRINT $45.2M	NICKEL PRODUCTS $80.4M	EDIBLE ANIMAL $62.8M	WHEAT $179.1M
7	FERTILIZERS $534.9M	UNWROUGHT ALUMINUM $141.2M	MEDICAMENTS $4.1B	URANIUM $98.4M	TELEPHONE SETS $62.2M	UNWROUGHT ALUMINUM $511.1M	LIFTING MACHINERY $26.3M	LUMBER $59.3M	PLANT PARTS $62.3M	MACHINERY PARTS $173.6M
8	SEMI-CHEMICAL WOOD PULP $409.8M	MEAT OR SWINE $118.4M	AIRCRAFT $5.1B	COAL $88.6M	GOLD $59.9M	CHEMICAL WOODPULP $421.4M	COPPER WIRE $21.1M	POLYMERS OF ETHYLENE $56.7M	MEAT OR SWINE $58.5M	COAL $148.8M
9	IRON ORES $315.6M	URANIUM $63.8M	POLYMERS $3.9B	TELEPHONE SETS $86.5M	COPPER ORES $46M	COBALT $206.6M	ASH & RESIDUES CONTAINING METAL $20.6M	RAW HIDES/SKINS $54.7M	NEWSPRINT $56.5M	BARS/RODS OF STEEL $133.2M
10	RAPE, COLZA OR MUSTARD OIL $269M	WHEAT $61.6M	ELECTRICAL ENERGY $3.6B	NEWSPRINT $85.3M	ASBESTOS $44M	EDUCATION SERVICES $204.5M	NON-DOMESTIC DRYERS $19.1M	SEMI-CHEMICAL WOOD PULP $43.5M	SCRAP PLASTICS $49.4M	UNWROUGHT ALUMINUM $127.6M
NOT IN TOP 10			EDUCATION SERVICES $349.2M							EDUCATION SERVICES $118.9M

Source: RKA's calculation of education services; Trade Data Online – Industry Canada

Beyond GATS modes of supply: mode 5 services

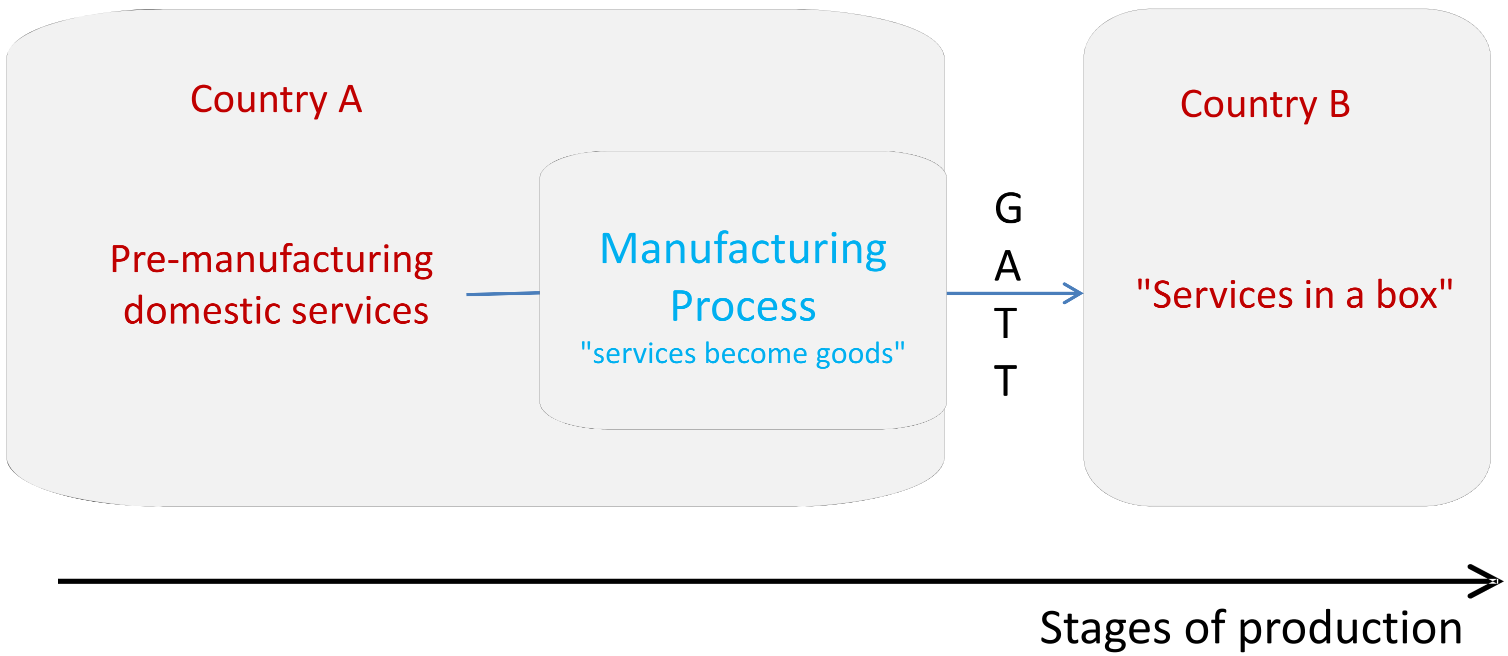
Services: tradability and measurement

- Main source of services' trade data is BoP which includes transactions between ***residents*** and ***non-residents*** (Mode 1, 2 and 4)
  - No data on Mode 3 – commercial presence
    - ESTAT Foreign affiliates statistics – FATS as a proxy? - we need to be very careful!
    - Mode 3 can be as important as cross border trade (WTO 2006 estimates)
  - No disaggregation by modes (1,2 and 4)
  - Yes disaggregation by sub-sector & bilateral but less detailed than goods
- Services are more tradable than measured?
  - The top export of Canada to China is "education services" (1.3 bil. in 2008) – estimates
  - "services in boxes" – mode 5 services exports

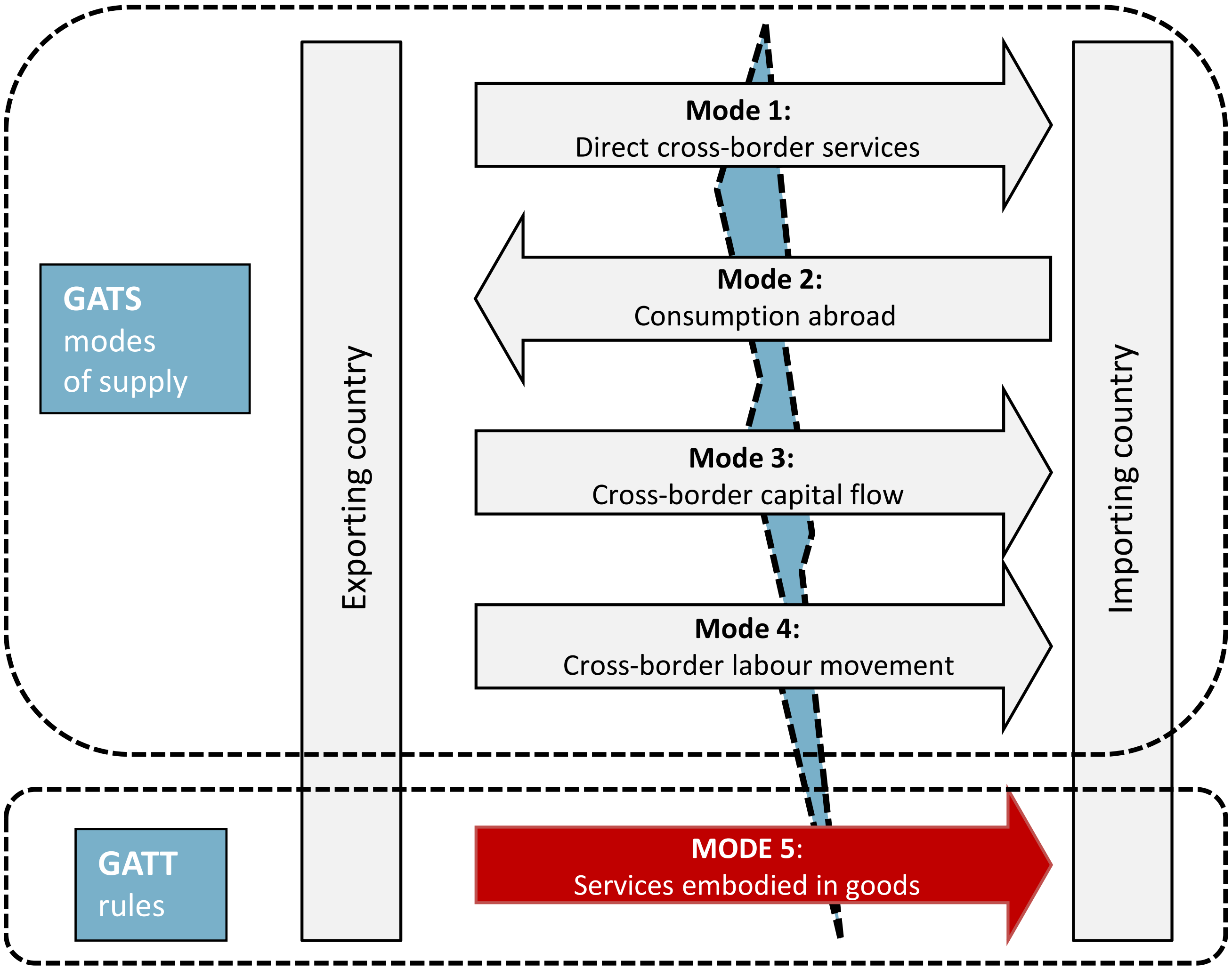
Trade, jobs and "servicification"

- New insights from studies on trade in value added: Services more and more embodied in trade of goods:
  - **Exports of manufactured goods** supported around 15.7 million jobs in 2007
    - 9 million jobs in the manufacturing sectors
    - around **6 million jobs were actually created in services sectors**.
  - Between 2000 and 2007:
    - export-supported employment in the manufacturing sectors barely increased (350.000 additional jobs)
    - in the services industries it increased by almost 3 million jobs.

'Mode 5' and international trade

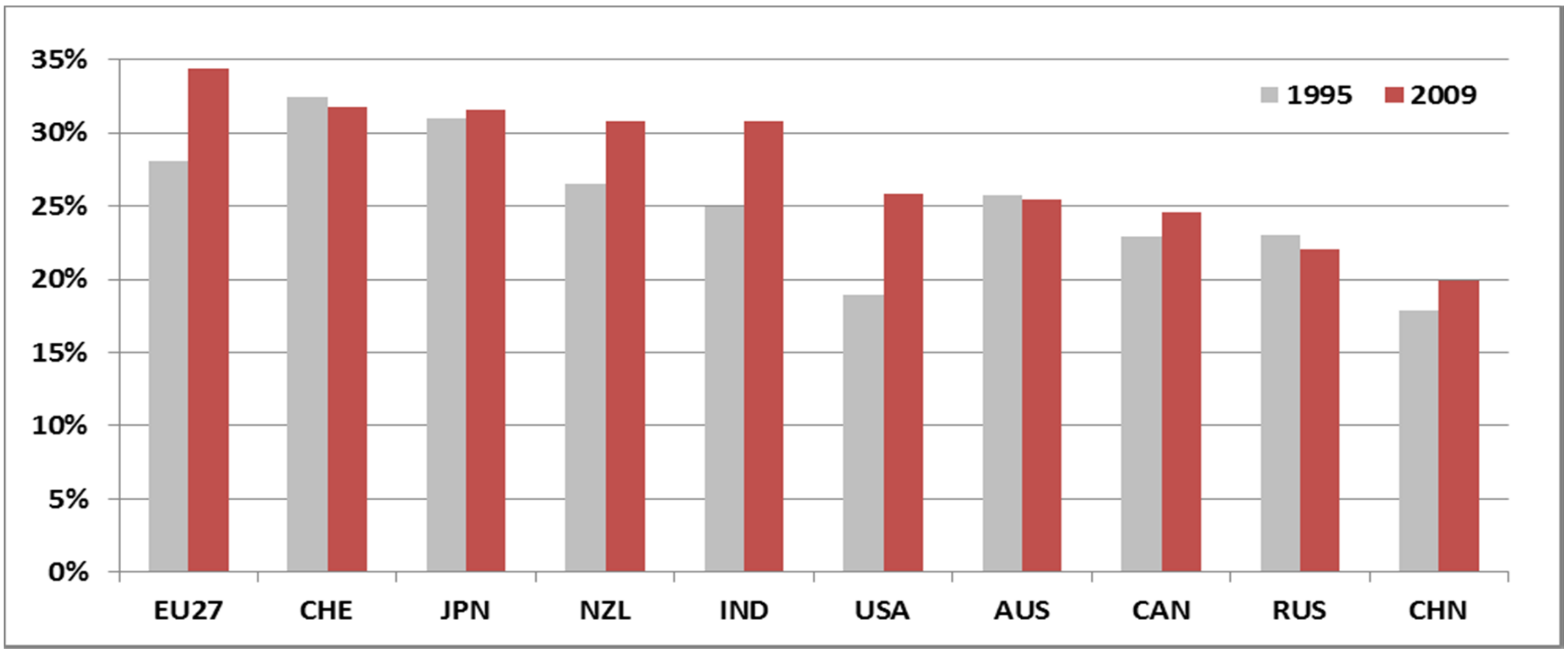


The concept of 'mode 5'



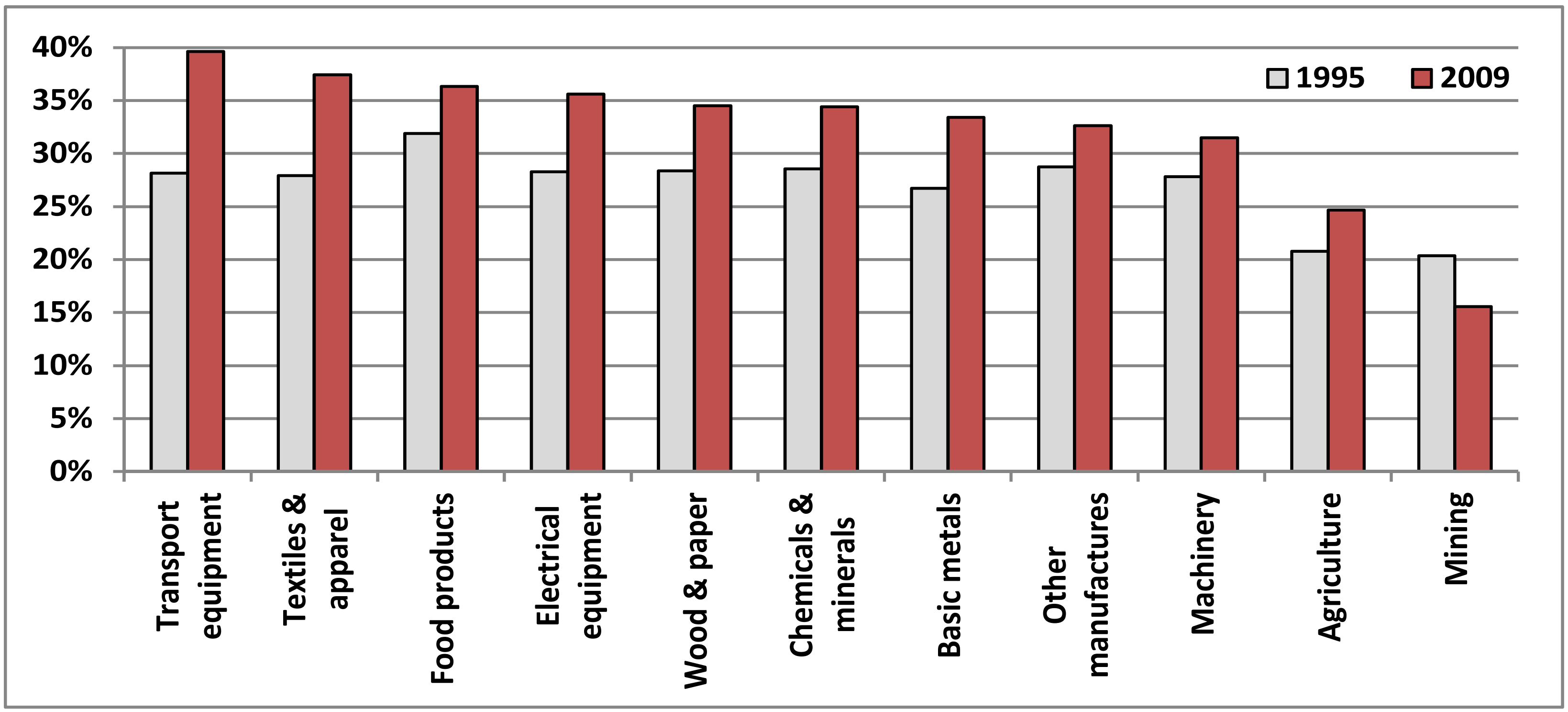
'Mode 5' services exports*: Cross-country comparison

€300bn – the EU27 'mode 5' services exports, in absolute value (based on latest available TiVA data)



Source: Own calculations based on OECD TiVA database,

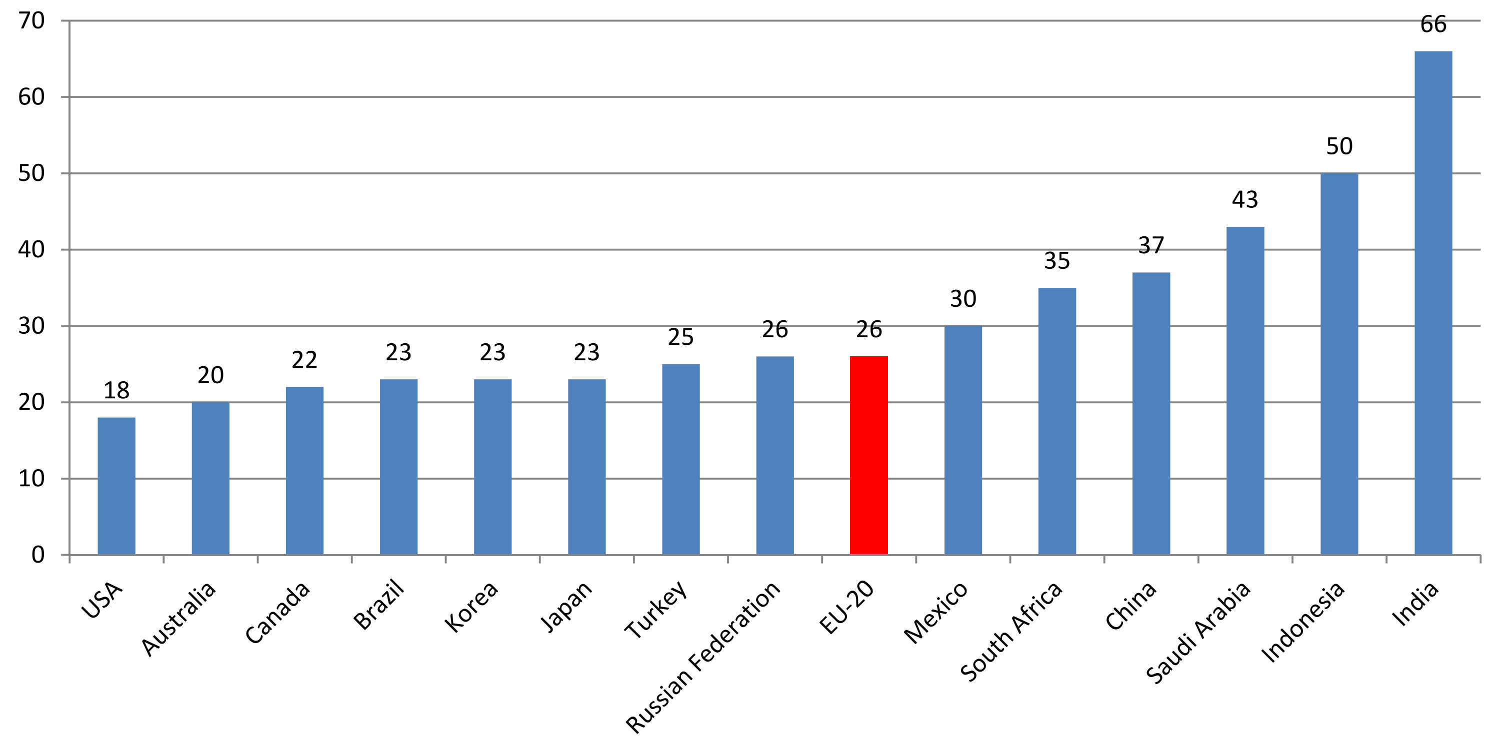
EU 'mode 5' service exports: Cross-sectoral breakdown



Source: TiVA database

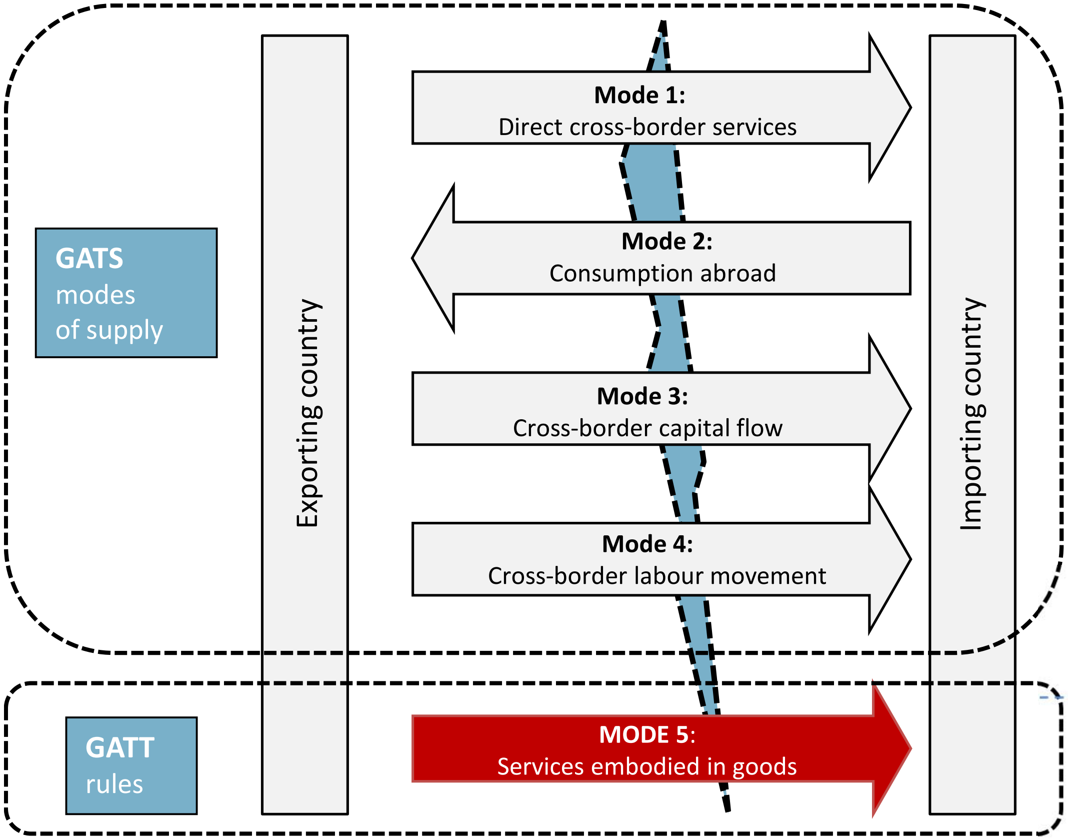
Trade rules: GATS (and GATT)

Barriers: the WB - STRI



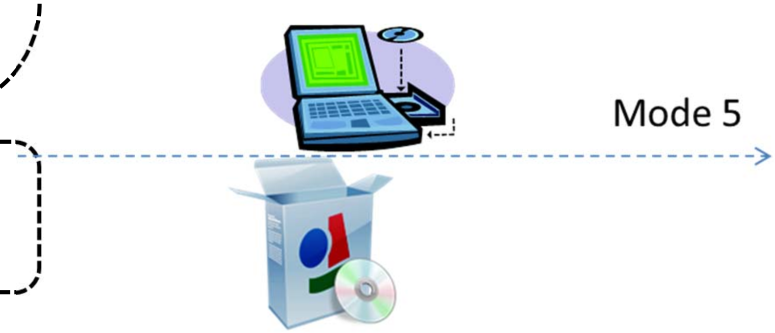
Notes: the index is built considering 5 sectors (transport, retail, some professional services, telecommunication and financial services) and mode 1, 3 and 4 of supply

'Mode 5' and customs valuation: from concepts to reality



- 'Mode 5' service exports do usually pay duties.
- The same service export under mode 1 does not pay duties.

Example: software in a laptop and a CD-ROM



Mode 5 services and high-tech products

GM's Volt: 10 Million Lines of Code

- When does software exports pay duties?
- What about design?
- Electric cars are new but Art. 8 of WTO CVA is old but relevant

Trade rules for the future

What do we know so far….

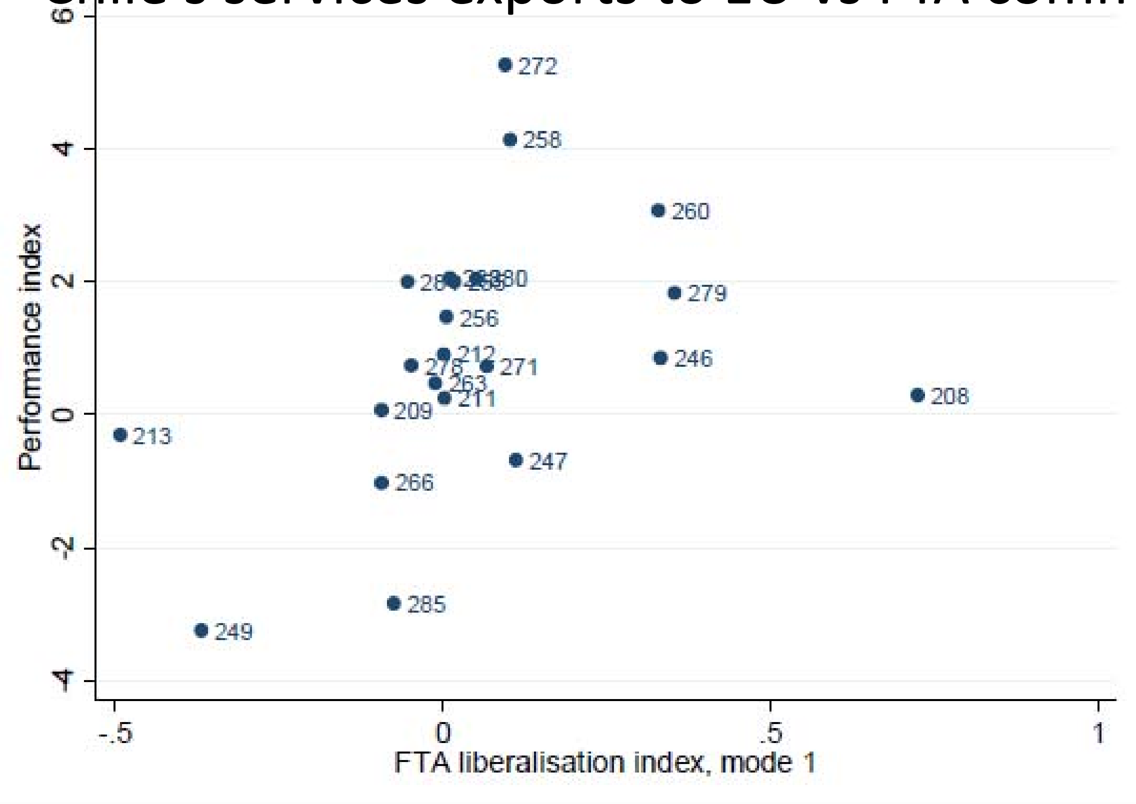
- Services trade are relevant for EU employment and EU value added
- Services are traded less than manufacturing but given the measurement issues (mode 5, FDI, servicefication) this is only the "tip of the iceberg"
- Market access provisions, if well crafted, tend to matter

Recent FTAs (will) matter

- EU-Korea FTA bound to create win-win services gains
  - Services market access closely intertwined with other rules (investment, procurement, TF, IPR, etc)
    - Public procurement – additional coverage on infrastructure services
    - Not just for MNCs: EU and Korean SMEs treated equally
    - relax foreign ownership requirements
    - non-discriminatory treatment in the use of port services and infrastructure
    - No obligatory subcontracting requirement for construction services
    - Improved legal certainty in e-commerce
- Similar examples in other FTAs

Older FTAs matter too…

Chile's services exports to EU vs FTA commitments



Source: Authors' computation based on official texts and on UN Service Trade.
Note: The FTA liberalisation degree is computed as the difference between the index of liberalisation under the FTA and under GATS. Labels refer to the service code in the Balance of Payments Coding System. The list of service codes and definition is given in Appendix (Table 64).

Source: ITAQA ex-post evaluation. Available on Chief Economist's website http://ec.europa.eu/trade/policy/policy-making/analysis/

Fast FWD: past, present, future

- GATS, FTAs and trade rule matter across the board
  - Tariffs, services, NTMs, government procurement, IPR, state aid, competition, etc.
- New goods-services interface:
  - 'Mode 5' and future drivers of competitiveness
- Trade rules, GVCs, technology and innovation
- The (not so distant) future:
  - 3D printing and 'the internet of things'