Services Trade Policy, Regulation and Institutions: Towards Greater Coherence

by

Bernard Hoekman
Professor and Director
Global Economics at the Robert Schuman Centre for Advanced Studies
European University Institute

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European University Institute and CEPR

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Stylized facts

• For any level of per capita income, services more important today than in the past
  • ICT & digitization of products; servicification of manufacturing
• Services = 55-75%+ of GDP → growth requires productivity improvements in services
• Services account for significant share of production costs of firms
  – Services performance a determinant of firm-level/aggregate productivity
• Provide coordination functions: ‘margin services’ & ‘facilitators’ of specialization (GVCs)
  – Logistics services key element of lower trade costs
  – Especially important for SMEs that confront higher burden in overcoming fixed trade costs
• Many SDGs require better performance of services sectors
  – Health, education, finance, transport, ICT services
  – Issues of quality, access, distribution on supply side
Services & economic transformation
(average share in manufacturing value added)

Source: OECD-WTO Trade In Value Added Database, June 2015.
Empirical literature

- Services performance is a determinant of aggregate productivity growth
- Numerous cross-country studies using firm and sector level data show impact of services productivity on downstream industries, controlling for intensity of services use
- **Intra-services sector** innovation/specialization as a driver of aggregate productivity growth
  - Business services; distribution services...
- **Intra-firm** servicification as a driver of productivity and performance differentiation within manufacturing
- Services are **not** ‘stagnant’: productivity growth ≈ other sectors (e.g., Young, AER 2014)
Services trade costs very high

Source: Miroudot and Shepherd, 2015
Services trade costs

• Not just high but declining more slowly than trade costs for goods
• In part a function of characteristics of services—more difficult to trade
• But policy is often a reason for high trade costs
• Two dimensions of policy:
  – Regulatory requirements that apply to all firms
  – Explicit discrimination against foreign providers – protection of domestic firms
Regulatory heterogeneity an additional source of trade costs

Discriminatory services trade/investment policies

STRIs by Region and Sector (late 2000s)

Source: World Bank STRI database
How much do services trade restrictions matter?

• Research: lower services trade and investment barriers has both direct and indirect positive effects on productivity
  – within services and on downstream firms that use services

• FDI a major channel for gains from services trade reforms
  – Foreign participation a mechanism to foster competition (entry & exit)

  – Francois and Hoekman (2010) *Journal of Economic Literature*
Complementary factors matter

- Productivity impact of lower(ing) STRIs is a function of economic governance quality
  - Rule of law; control of corruption; regulatory quality
  - Sectoral regulation

## Governance quality (control of corruption) and STRIs

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>Impact on labor productivity (%)</th>
<th>Own Institutions</th>
<th>Regional best practice (BWA)</th>
<th>Global best practice (DNK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>furniture/nec</td>
<td>34.3</td>
<td>-</td>
<td></td>
<td>62.2</td>
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<td>27.8</td>
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<tr>
<td>Ethiopia</td>
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<td>98.1</td>
<td>177.8</td>
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<td>48.3</td>
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<td>14.2</td>
<td>18.5</td>
<td>33.5</td>
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<tr>
<td>South Africa</td>
<td>agribusiness</td>
<td>34.7</td>
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</tbody>
</table>
Facilitating trade in services

• Requires reducing both discrimination & regulatory heterogeneity
• But should be complemented by trade facilitation measures
• Already have the TFA – at national level can leverage TFA by including a strong focus on services when implementing it
  – Include transport; logistics; etc. stakeholders in the mandate of National trade facilitation committees
• TFA builds on/leverages other WTO agreements (valuation, licensing, TBT, SPS, etc.)
  – Much less so for services—GATS more limited than GATT
• Implication: a more comprehensive approach is needed to facilitate trade in services
Conclusion

• Services matter for inclusive growth
• Services trade and investment barriers matter for productivity
• Need to focus on liberalization (removing discrimination) and regulatory reforms
• Ensure trade facilitation efforts include a focus on services...
  ... and on FDI: services & investment facilitation
• Link trade facilitation in services agenda to regulatory cooperation
  – Build on LDC services waiver and regional trade experience
• Include services in aid for trade – incl. regulatory institutions
• More analysis of interaction between services trade policies and economic governance and regulation
  – Value chain analyses to ‘unpack’ policy sources of services trade costs