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## Services Trade Policies and the Global Economy

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# Executive summary

Services generate more than two-thirds of global gross domestic product (GDP), attract over three-quarters of foreign direct investment (FDI) in advanced economies, employ the most workers, and create most new jobs globally. Impediments to global services trade, however, remain pervasive as national trade and regulatory policies in individual services sectors are often made with limited regard for economy-wide impacts.

This book synthesises recent work by the OECD that analyses services trade policies and quantifies their impacts on imports and exports, the performance of manufacturing and services sectors, and how services trade restrictions influence the decisions and outcomes of firms engaged in international markets. The main implications emerging from the analysis highlight the magnitude, nature and impact of the costs entailed by restrictive services trade policies.

## Main findings

### *Open and well-regulated services markets help make globalisation work for all*

Dynamic markets with a thriving entrepreneurial spirit are an important factor in ensuring that economic growth is inclusive. Such conditions rely on global access to the networks, goods and services that carry knowledge around the world.

### *Open services markets are the gateway to global value chains*

Open and well-regulated services markets ensure access to information, skills, technology, funding and markets in a modern, increasingly digital economy. Intermediate services reduce costs, improve quality, and match suppliers and customers around the world. Moving up the value chain, therefore, depends on a local business services sector open to ideas, skills and investment from cutting edge firms wherever they may be found.

### *Services reforms boost SMEs*

It is clear that the cost of services trade restrictions falls disproportionally on small and medium sized enterprises (SMEs). In addition, regulatory co-operation to minimise duplication of compliance costs and better use of technology to ease the burden of administrative procedures would help SMEs.

### *Regulatory co-operation reduces trade frictions*

Regulatory heterogeneity has a negative impact on services trade flows, over and above the impact of services trade restrictions. Conversely, countries trade more with partners with similar regulation. Trade agreements are likely to have the largest effect on trade when they, *inter alia*, reduce the level of trade restrictiveness hand-in-hand with forward-looking regulatory co-operation.

### *Trade in services depends on the movement of professionals*

Cross-border movement of people may not account for a large share of services trade, but it is essential for international business operations. Mobility of natural persons across international borders is crucial, particularly for trade in business services, which in turn is an important channel for knowledge transfer.

### *Trade in services underpins the digital economy*

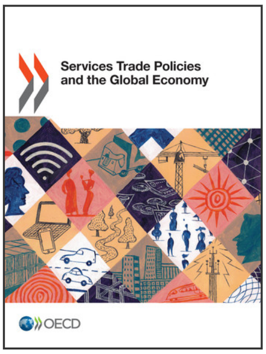
Liberalisation and pro-competitive reforms in the telecommunications sector are associated with a substantial reduction in the trade costs for business services. High capacity networks at competitive prices are a necessary condition for a digital transformation of knowledge-intensive services. Access to the professions and the services they provide is also essential.

### *Trade-relevant regulations should keep up with the digital economy*

A precondition for a dynamic market is that dominant firms cannot abuse their market power with impunity. In recent years, the start-up rate of new firms has slowed down considerably while market concentration has increased significantly. The best way of enhancing entrepreneurship is to ensure open markets with low barriers to entry for both local and foreign enterprises and entrepreneurs.

## Key policy recommendations

- There is substantial scope for reducing trade costs in major services sectors by scaling back measures that discriminate against foreign providers. The largest gains would occur if domestic regulation regarding competition and transparency is concurrently improved.
- Regulatory co-operation makes doing business easier for exporters. Where high restrictions to services trade still prevail, reducing them remains a prerequisite for regulatory cooperation to make a substantial difference.
- Smaller and less experienced exporters face a steeper cost burden in more restrictive regulatory environments. Opening up services markets would primarily benefit SMEs, which are responsible for the majority of new job creation.
- The business models for supplying services are complex, often involving a combination of modes, a bundle of goods and services, or a mix of digital products and face-to-face interaction. In order to avoid distorting these business models, a balanced approach should be taken towards the different modes of supply across the spectrum of trade, investment and competition policies.
- There is not one service industry, but many services with different business models, competition challenges and best practice regulatory frameworks. To maximise the benefits of reform, targeted policy advice needs to identify the main bottlenecks by taking into account the level of actionable trade costs in each sector, how far sectoral regulation diverges from that of key trade partners as well as flow-on effects on downstream segments of the economy.
- Reforming services trade brings benefits for consumers and strengthens domestic productivity and economic performance. Modern manufacturing is a heavy user of high-tech services inputs and its competitiveness relies on access to state-of-the-art suppliers at the best price. Furthermore, countries with more favourable and transparent regulatory environments are also more attractive for FDI, which stimulates extra activity, jobs and exports.

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