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**Services Trade Policy, Regulation and Institutions:  
Towards Greater Coherence**

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



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# Services trade policy, regulation and institutions: Towards greater coherence

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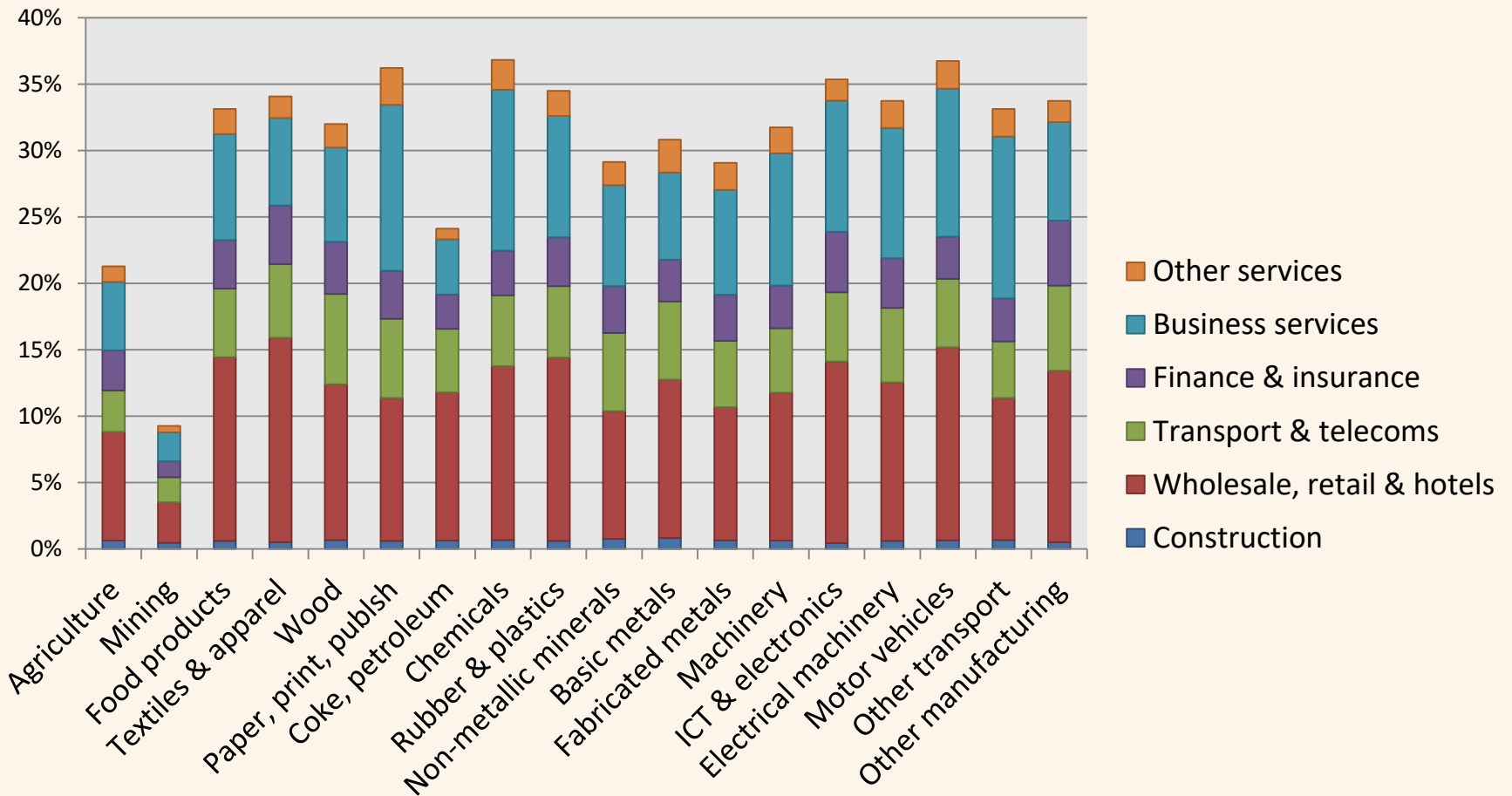
# Stylized facts

- 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)



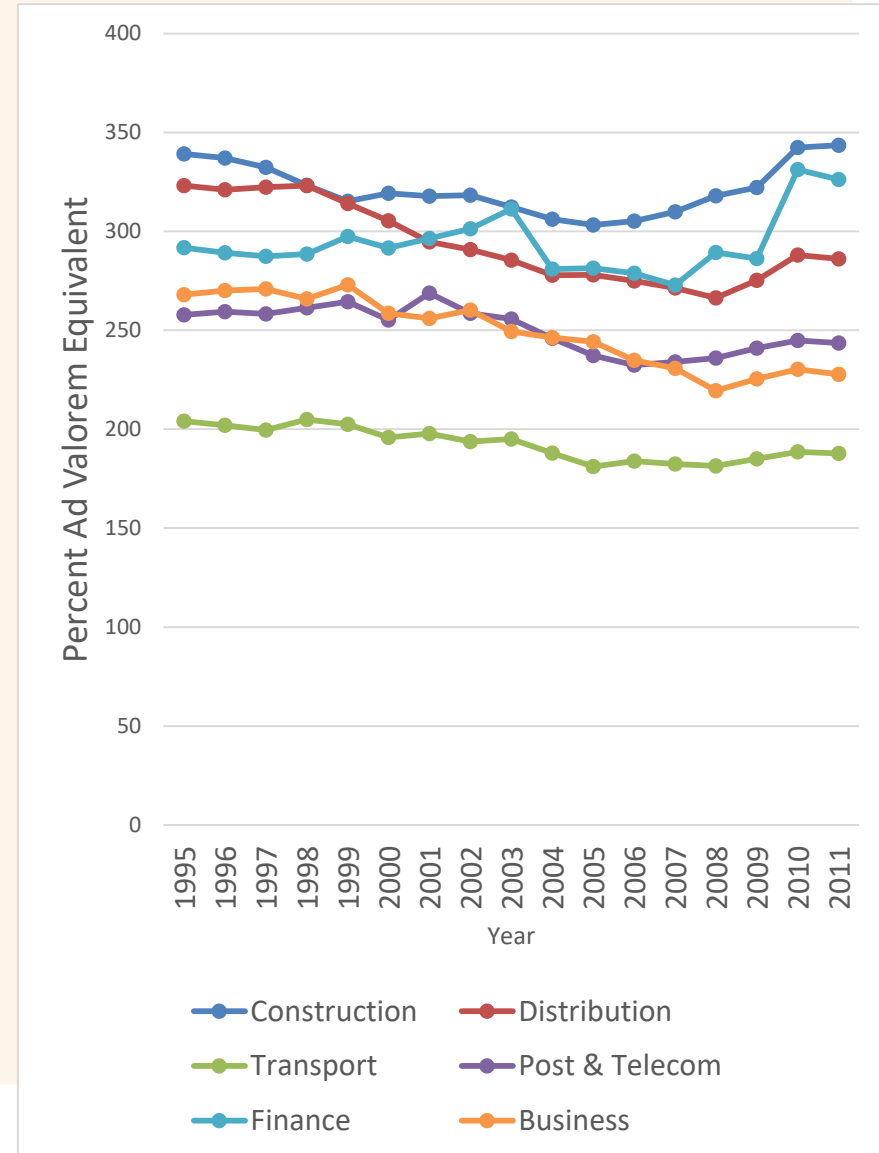
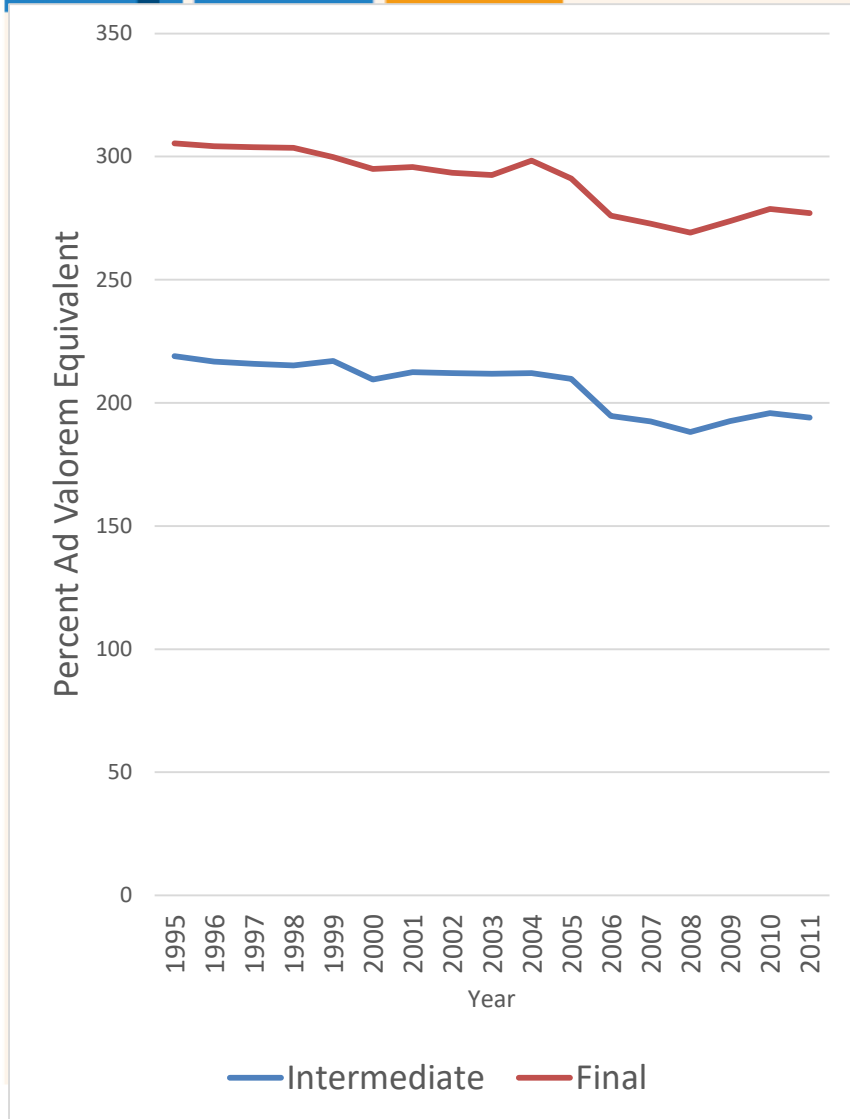


# Empirical literature

- 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  $\approx$  other sectors (e.g., Young, AER 2014)



# Services trade costs very high



Source: Miroudot and Shepherd, 2015

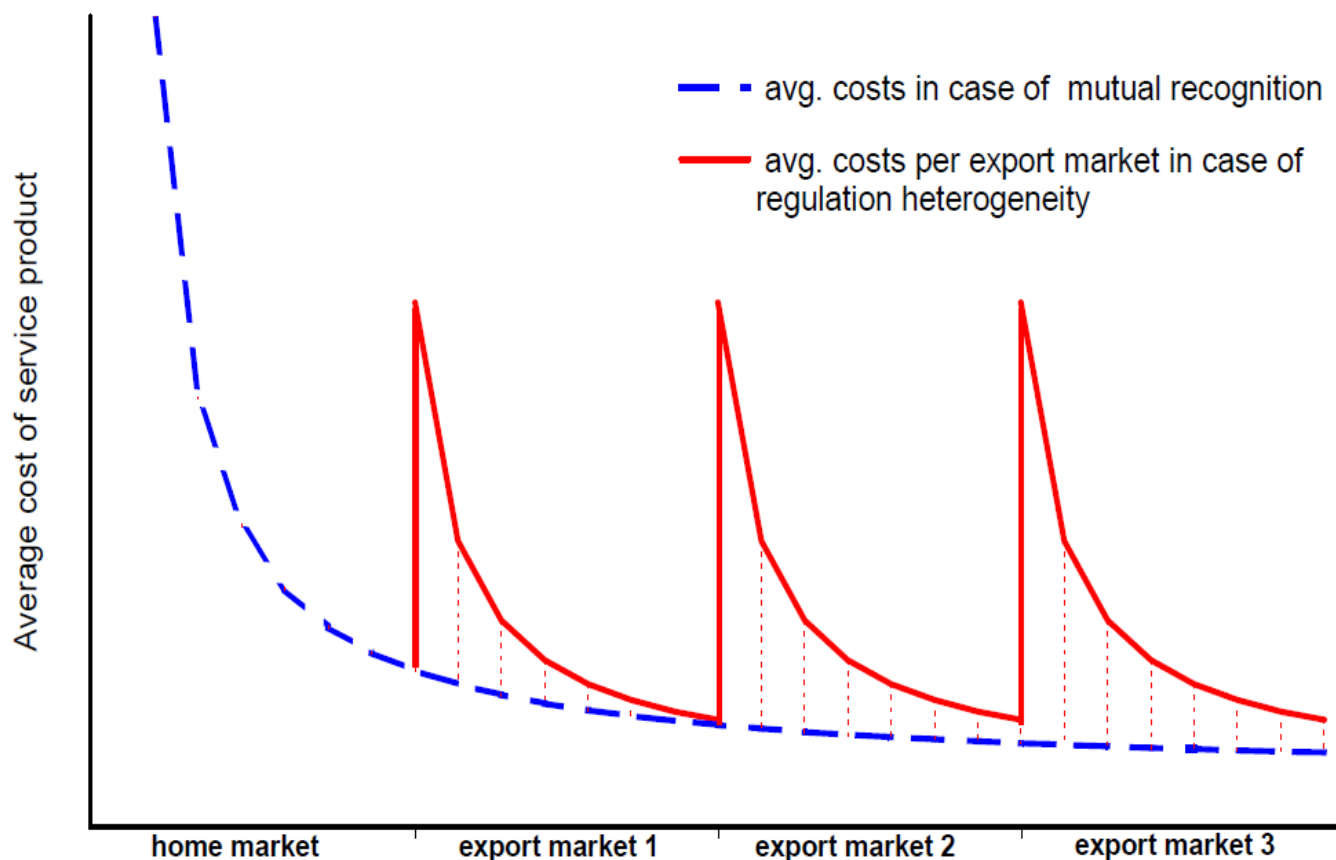


# Services trade costs

- 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 a source of trade costs

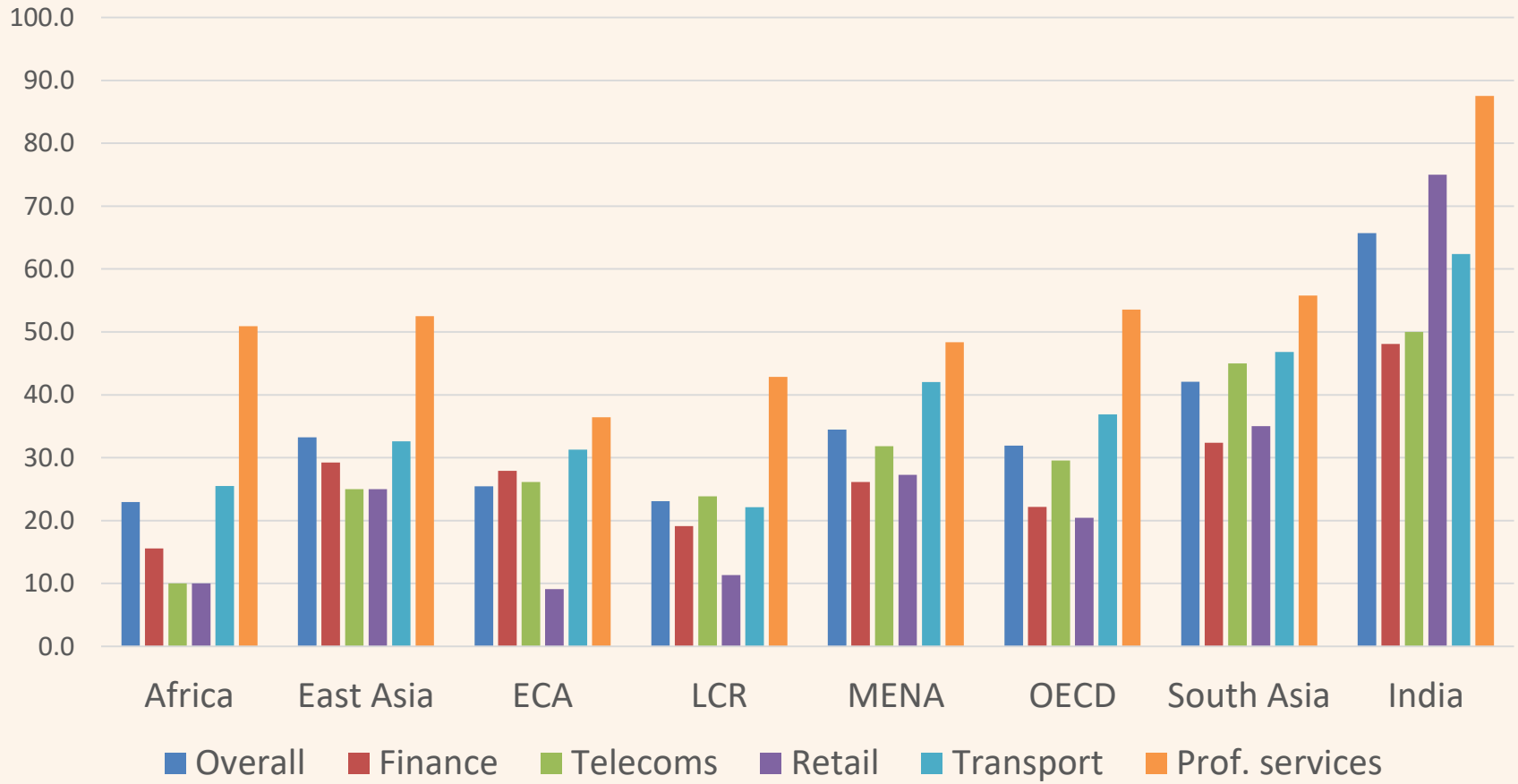






# Discriminatory services trade/investment policies

STRIs by Region and Sector (late 2000s)





# 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

See Beverelli, Fiorini & Hoekman, *Journal of International Economics* (2016); Fiorini & Hoekman EUI RSCAS working paper 2017/27



# Governance quality (control of corruption) and STRIs

Country	Sector	Impact on labor productivity (%)		
		Own Institutions	Regional best practice (BWA)	Global best practice (DNK)
Botswana	furniture/nec	34.3	-	62.2
Burundi	agribusiness	-1.6	27.8	50.4
Ethiopia	agribusiness	20.1	98.1	177.8
Malawi	agribusiness	6.4	26.6	48.3
Mauritius	textiles	14.2	18.5	33.5
South Africa	agribusiness	34.7	55.2	100.1
Tanzania	agribusiness	14.1	41.6	75.4



# 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