

Services Trade and Policy: Re-invigorating International Cooperation

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Sectoral shifts and “stages” of development



Source: Todaro and Smith, *Economic Development*, 2006

SERVICES, PERCENT SHARE OF VALUE ADDED

	1977	1987	1997	2007
High income OECD	58	63	69	74
High income non-OECD	—	56	62	66
Upper middle income	49	49	62	64
Middle income	40	43	52	59
Low and middle income	40	43	51	59
Lower income	—	43	45	48
HIPC	43	44	43	46
World	55	60	66	70

Notes: Some 2007 values are extrapolated. Regional definitions are based on World Bank classifications. HIPC stands for heavily indebted poor countries.

Source: World Development Indicators database, 2009.

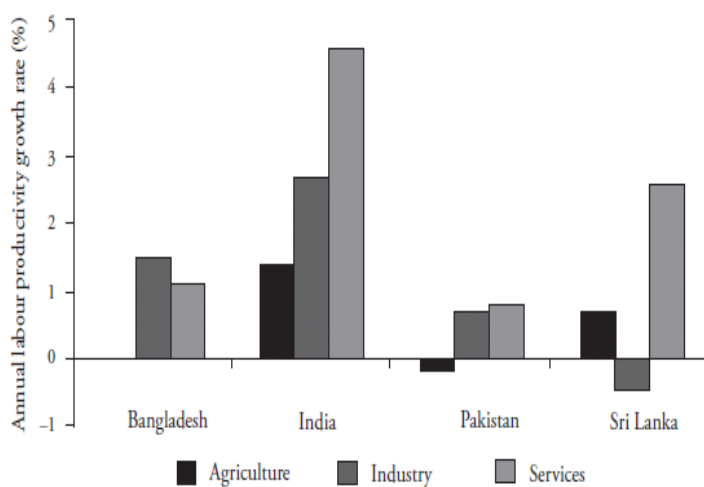
Services and Growth

- Growth driven by increases in the quantity and productivity of capital and labor
- Services are determinants of the productivity of these basic factors of production
 - Financial sector (intermediation across time)
 - Human capital = educational services, health services
- Producer and ‘backbone’ service inputs: determinants of the competitiveness of all firms
- Services allow “splintering” of value chain and Δ TFP through their intermediation role and coordination and communication across time/space

Productivity of services

- Triplett and Bosworth (2004): Productivity growth in services drove much of post-1995 expansion in US productivity
 - IT and managerial innovations – outsourcing, express delivery, new retail store format
- Timmer/van Ark (2006): aggregate productivity differentials in OECD due to services performance – especially TFP in business services
- Bosworth and Collins (2008): India's TFP growth in services 2.4% p.a. between 1980-2006, *double* that of other sectors
- See Francois and Hoekman 2010 JEL survey

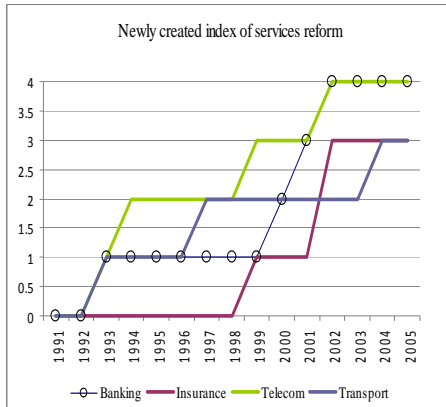
South Asia: Labor productivity growth, 2000-6



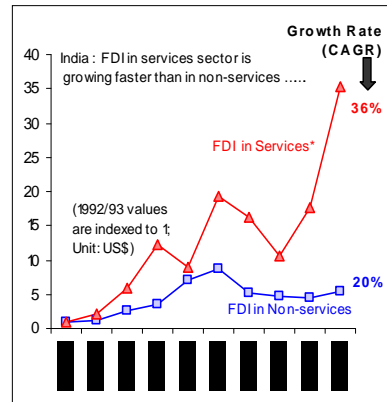
Source: Bosworth and Maertens, 2009

FDI a key channel: India example

Index of openness in selected services sectors

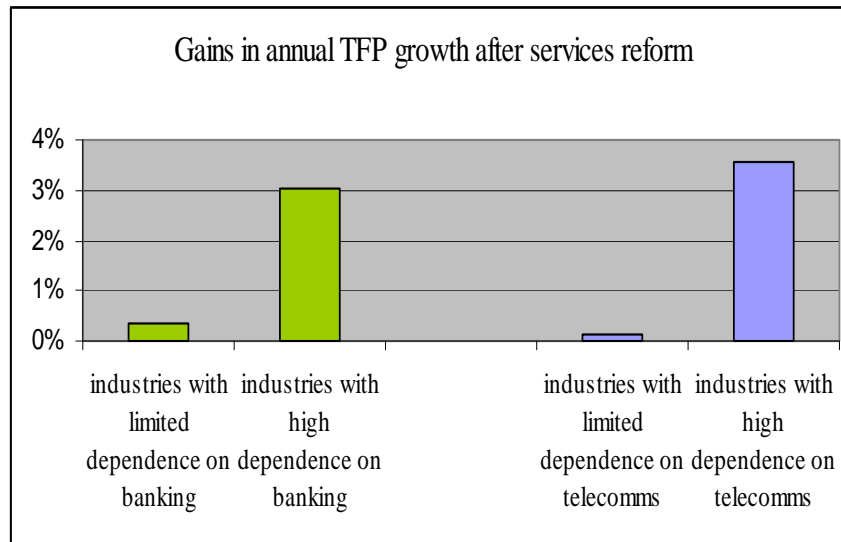


Growth of FDI in services and other areas



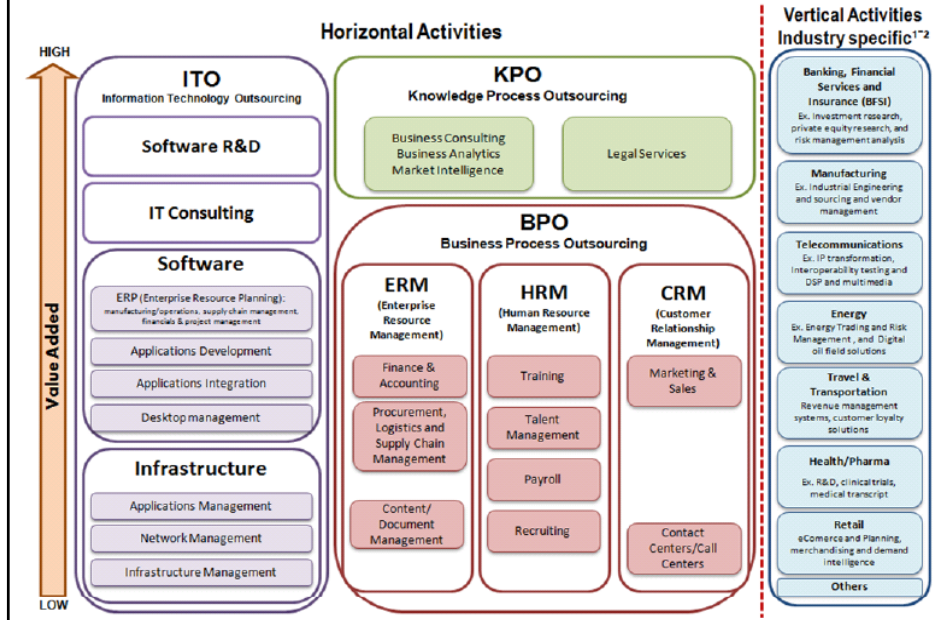
Source: Arnold et al. (2009)

India: downstream productivity impacts



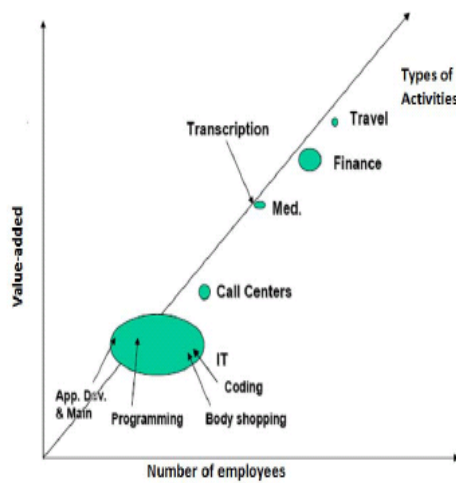
Source: Arnold et al. (2009)

Cross-border trade—not just transport/tourism any more! The global services value chain (Gereffi, WB WP 2010)

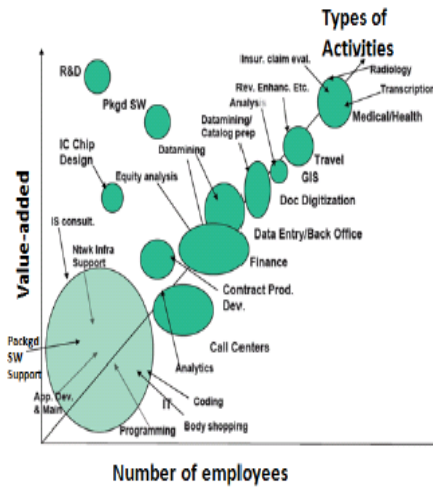


Dynamics of Indian offshore services

Indian Service Provision in 2000



Indian Service Provision in 2006



Source: (Dossani & Kenney, 2007)

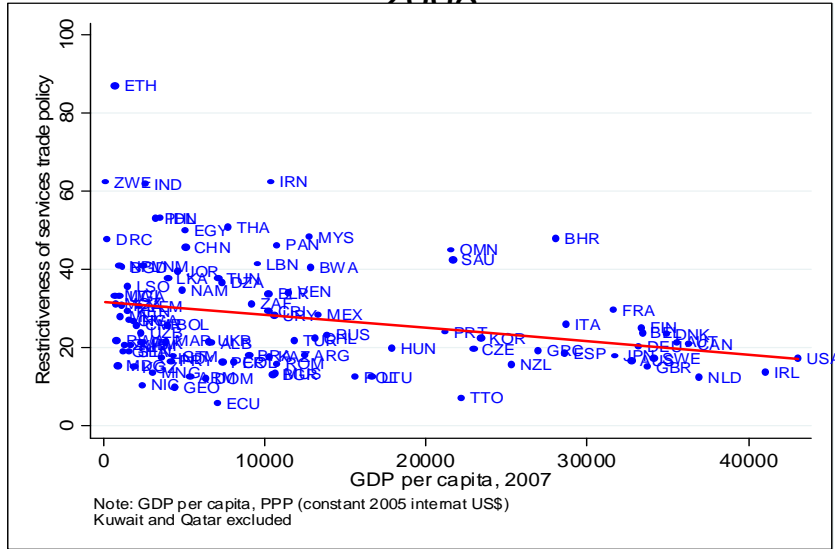
Research findings/experience

- Services matter: as inputs and as a source of exports
- Increasingly tradable—expanding global fragmentation
 - India the major example
- FDI is a major channel for gains from services trade
- Gains reflected in specialization and TFP growth in manufacturing and agricultural sectors – users/buyers
- Policy implication: open services markets to foreign suppliers
- Comparative advantage determined by same variables as trade in goods (endowments; technology; institutions)

Policy: barriers to trade vs. regulation

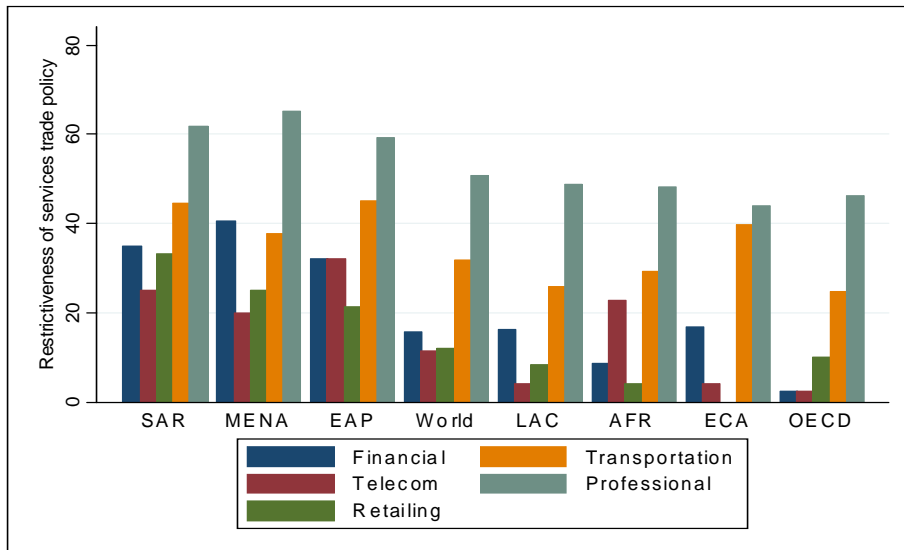
- Trade barriers: *discriminatory* policies
- Regulation: *non-discriminatory* policies
- Regulation is pervasive, reflecting the characteristics of services industries
 - Intangibility and associated information problems
 - Prudential regulation
 - Market power in network sectors
 - Equity and social objectives (e.g., access)
- Even if nondiscriminatory in application, can be major source of market segmentation
 - By creating fixed costs of entry; raising operating costs

Restrictiveness of services trade policies, 2008



Source: Borchert, Gootiz and Mattoo, World Bank, mimeo.

Restrictiveness by sector/region

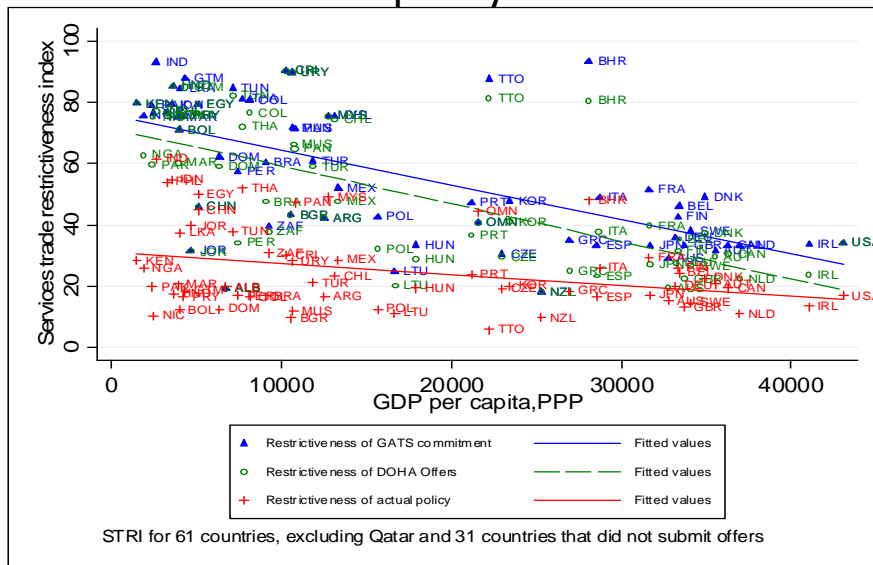


Source: Borchert, Gootiz and Mattoo, World Bank, mimeo

GATS and Doha

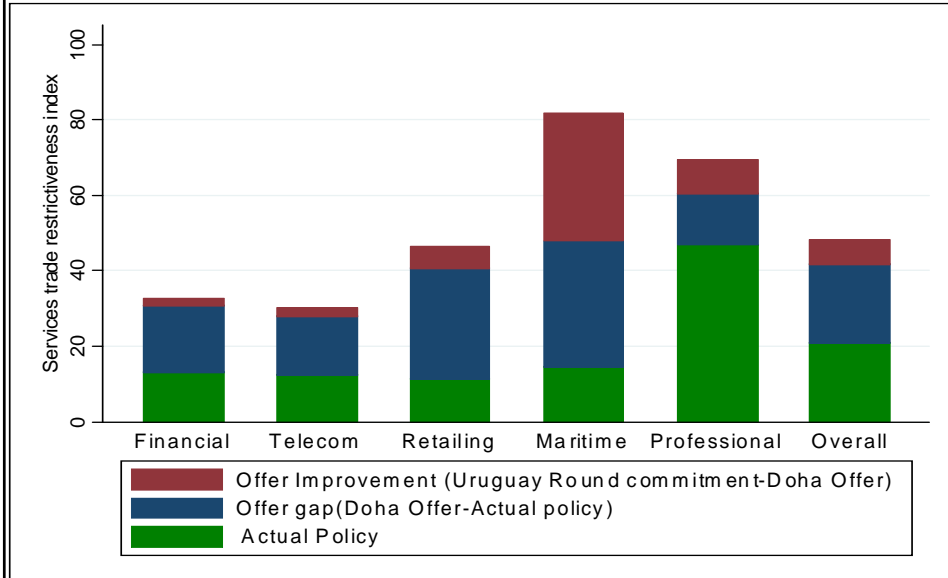
- WTO focuses on discrimination:
 - National treatment; market access
 - Does *not* address substance of domestic regulation
- Very little *additional* liberalization to date
- Only limited *binding* of status quo reforms—incl. OECD countries
- Little use of GATS as pre-commitment device to pursue future reform (China a major exception; also other accession countries)
- GATS sector/mode coverage:
 - < 50% for most developing countries;
 - Full national treatment/market access <25%

GATS schedules, Doha offers and actual policy



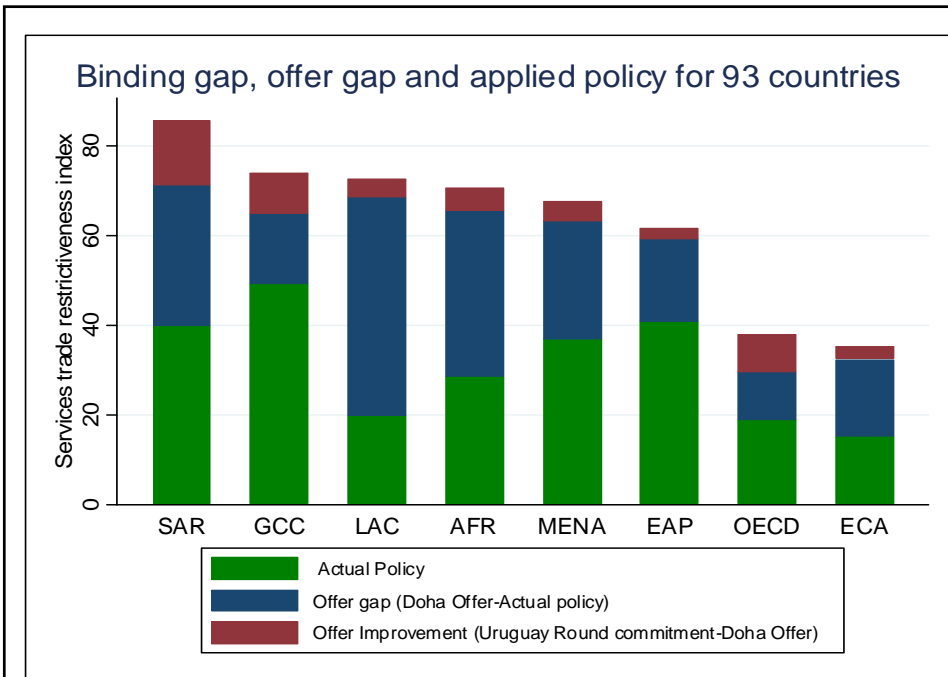
Source: Borchert, Gootiz and Mattoo, World Bank

Doha offers and actual policy



Source: Borchert, Gootiiz and Mattoo

Binding gap, offer gap and applied policy for 93 countries



Source: Borchert, Gootiiz and Mattoo

Movement on services is needed

- Services should matter in and of themselves (given growth, productivity, links, etc.)
- Services exports a source of diversification
 - Proved to be less volatile/more robust in crisis
- Services needed to conclude the Doha Round
 - Countries being asked to lower agricultural & industrial barriers need a quid pro quo
 - Major area of interest to the OECD countries being asked to reduce agricultural support
 - Also an area in which many developing countries have a comparative advantage

Movement more urgent now

- Pressures to reduce current account imbalances
- World has changed since 2001 (Doha): greater risk of trade restricting/nationalistic measures
- Rebalancing must involve changes in economic structure/sectoral performance
- Deficit nations, especially if have fixed exchange rates, must raise internal competitiveness
 - Lower trade and input costs is mostly a services agenda
- Greater domestic absorption in surplus nations like China must entail a rise in the share of services

Why such limited traction?

- Firms don't care: less "need" for trade agreements?
 - Much reform implemented *unilaterally*
 - FDI grew 10 times faster than GDP since 1990; reached \$15 trillion in 2008; 60 percent of global stock
- Preferential trade agreements and bilateral investment agreements deal with key business concerns?
 - Commitments may extend on a "MFN" basis to all firms
- GATS lock-in not perceived to be of great value?
 - Low expected probability of backsliding
- Standard political economy factors are stronger?
- WTO reciprocity machine does not work?
 - Developing countries: key demand (mode 4) is very sensitive
- Mistakes by WTO Ministers?
 - Services talks conditional on modalities in NAMA & agriculture

Regulatory concerns/constraints

- Sectoral and "horizontal" regulators (e.g., immigration/visa regimes) are important factors
 - Regulators may worry about autonomy
 - Governments may worry about ability to manage foreign entry (e.g., abuse of market power)
 - Civil society worries about realization of social objectives (e.g., universal access)
- Needed internal coordination/dialogue between trade and regulatory communities difficult
- May need joint action between regulators in both countries before trade can be liberalized
 - E.g., movement of service suppliers (licensing, etc.)

Towards greater ambition

- 2005: adoption of a plurilateral approach
- What now? A critical mass approach to construct a package that includes four elements:
(Hoekman/Mattoo, 2010)
 1. Lock-in current policies in GATS, i.e., remove the binding overhang, including in mode 1
 - This is “costless” but valuable: reduces uncertainty
 2. Negotiate pre-commitments to liberalize in future
 - Focusing on modes 3 and 4
 3. Take concrete actions to address regulatory agenda
 4. Address the data lacunae – improve statistics

Go beyond binding applied policies

- There *are* many discriminatory barriers – WTO needs to address these, including sectors such as transport
- Recognize regulatory issues
 - Pre-commitments to liberalization (by sector/mode) among a critical mass will require these be identified and dealt with (and give governments time to do so)
- Use a “cluster approach” (define sets of complementary services) to enhance relevance for business
 - Can identify regulatory policies that should be subject to WTO commitments (viz. precedent of telecom reference paper)
- Mode 4: liberalize temporary movement of contractual service suppliers and independent professionals, with source country commitments to support expanded trade

Cooperation on regulatory regimes

- In *parallel* to WTO: establish mechanisms to assess/discuss domestic regulation
- National/regional/global *knowledge platforms*, fora to support processes to:
 - Assess/analyze impacts of current policy regimes
 - Exchange information and learn from national experiences with regulation/reform
 - Identify beneficial reforms and needed investments
- Build on existing platforms—APEC, OECD, etc. – and existing networks of regulators
- Center on regional integration initiatives?
- Link to aid for trade initiative for implementation

Data: increase transparency

- *Statistics*: Lack of information on trade and investment flows is a major constraint on analysis
 - Very limited bilateral data; highly aggregated
 - Use Doha to commit to addressing the statistical gap
- *Applied policies*: No reporting to/by WTO
 - Result of positive list approach to scheduling
 - But also non-compliance with notification requirements for scheduled sectors
 - Albania: some 200 notifications since 2000 vs. 5 for EU/US
 - World Bank & OECD projects show it is feasible
- Mandate WTO secretariat to collect and report data on all applied policies
- Commitment by members to report comprehensively

End