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Trade in services: Opening Markets to Create Opportunities

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Stylized facts

- Services account for large share of production costs
 - Services are often inputs—40-60%+ at firm level
- Performance of services sectors a determinant of firm-level/aggregate productivity
 - Function matters: ‘margin services’ & services as ‘facilitators’ of specialization (GVCs)
 - ‘Backbone’ infrastructure services
- Are more than intermediate products
 - Health, education, finance, recreation, cultural services
 - Issues of quality, access, distribution on supply side

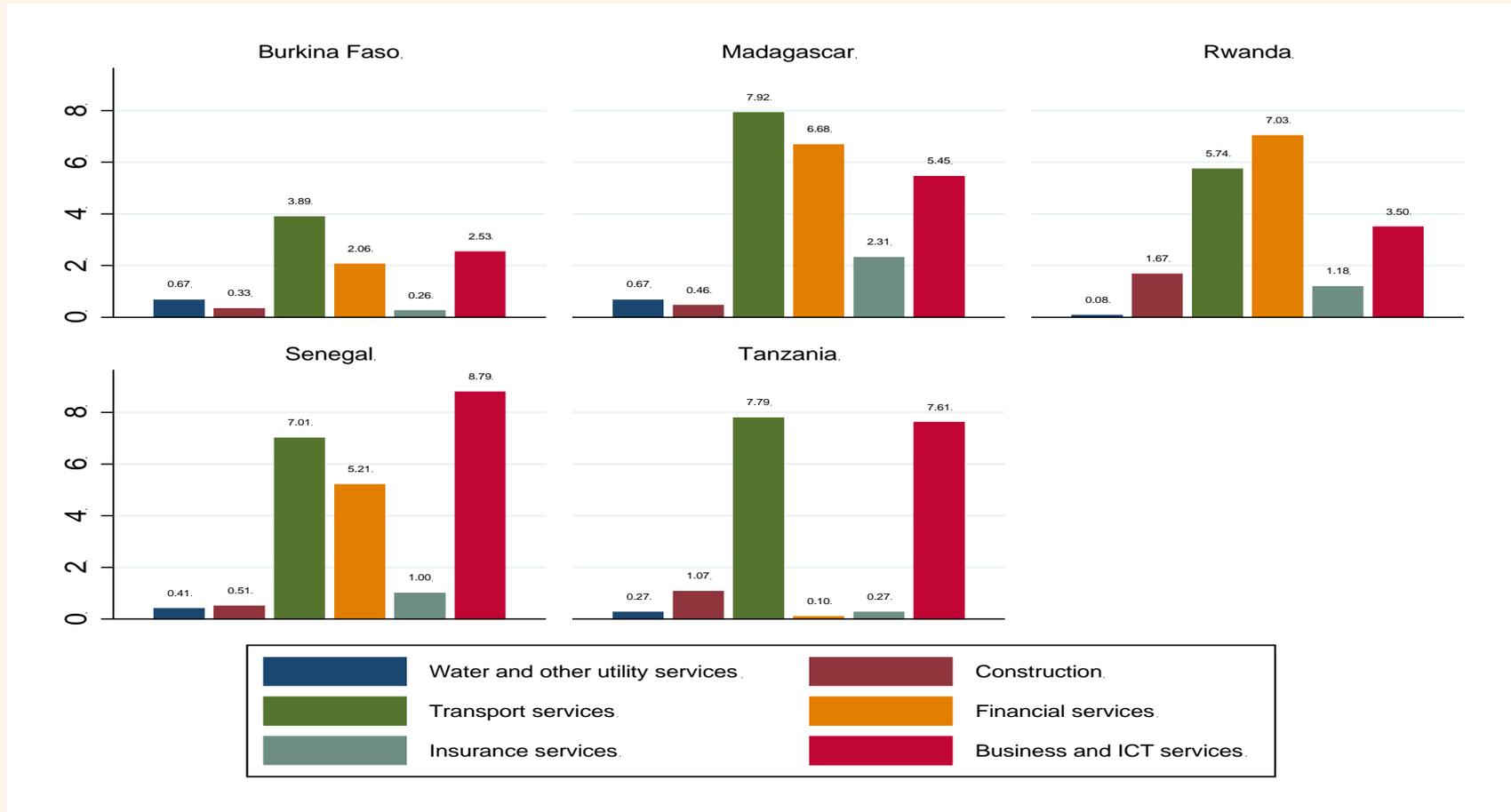


Stylized facts (2): trade

- Jointness in production; experience & credence goods
 - High natural trade costs; 20-25% of trade on a BOP basis—
≈ same for last 30 years!
- Leads to multiple ‘modes of supply’
 - Mode 1 – Cross-border provision
 - Mode 2 – Consumption abroad
 - Mode 3 – Commercial presence / FDI
 - Mode 4 – Temporary movement of suppliers (people)
- Are tradable – if consider different modes of supply
 - Gervais & Jensen (2014)
- But indirect trade \geq direct trade – embodied in goods
- Often have high trade barriers
- Differences in regulation increase trade costs



Services input intensity (forward linkages; selected SSA)



Share of services VA in goods exports of LICs increased from 16% in 1992 to 22% in 2012



Conceptual/practical issues

- ICT and digitization still conditional/limited
 - Need to consider factor movement—FDI, visa regimes...
 - Indirect exports – main channel for SMEs
 - Servicification – complement goods production
- Theory lags empirics
 - Limited literature on trade in services as services
 - Little focus on modeling role of services in supporting exchange, specialization & organizing production
- Empirics are ahead of the theory—despite data constraints



Empirical literature

- Often gravity-based – mode 1...
- Firm/industry level analysis: services as a determinant of productivity growth
 - Mostly on downstream firms/sectors
 - Assess effects of sectoral policy (reform) as a function of intensity of services use
- FDI a key channel for gains from services trade (reforms)
 - Mostly country studies given lack of time series data on policies

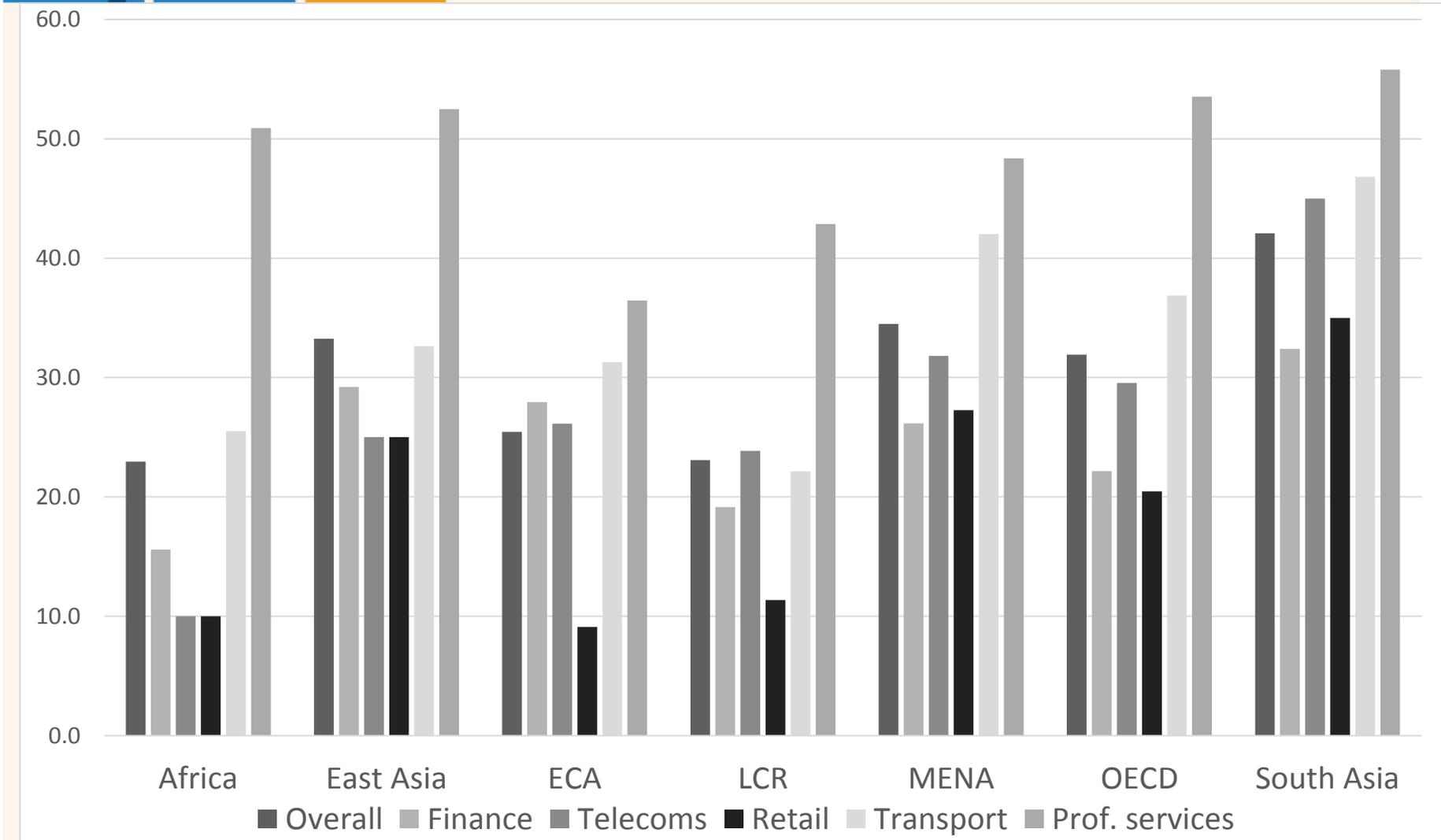


Trade, services & the SDGs

- Many of the SDGs center on performance of services sectors – health, education, finance, transport...
- Services matter both for growth (competitiveness) and for many of the “non-economic” SDGs
- “Services as a mechanism to overcome fixed trade costs – digital economy, e-commerce, etc. Trade in services matters for achieving the
 - Need to focus on services policies
- All modes of supply, but especially mode 3
- Lowering services trade and investment barriers has both direct and indirect positive effects on productivity

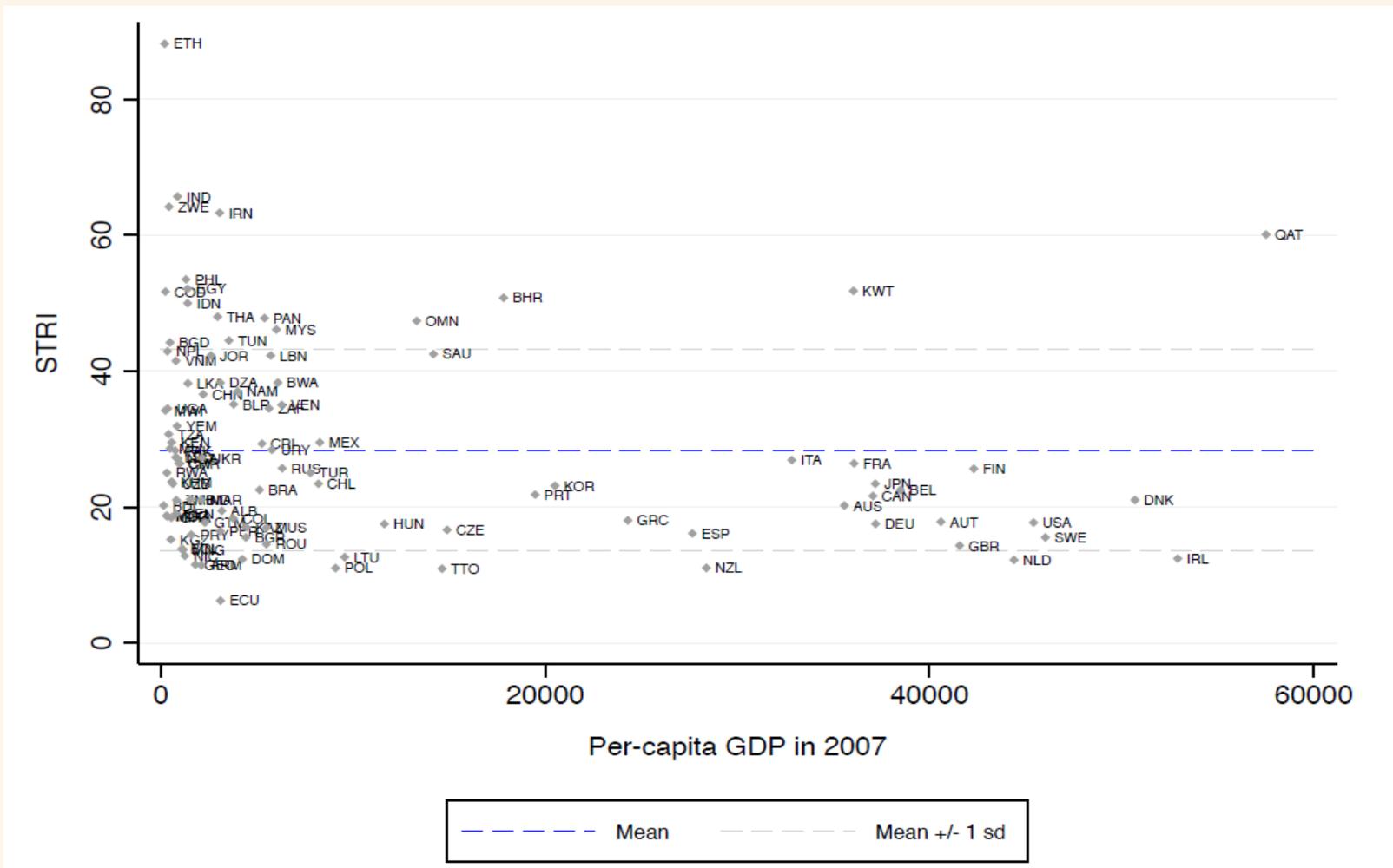


Services trade/investment policies



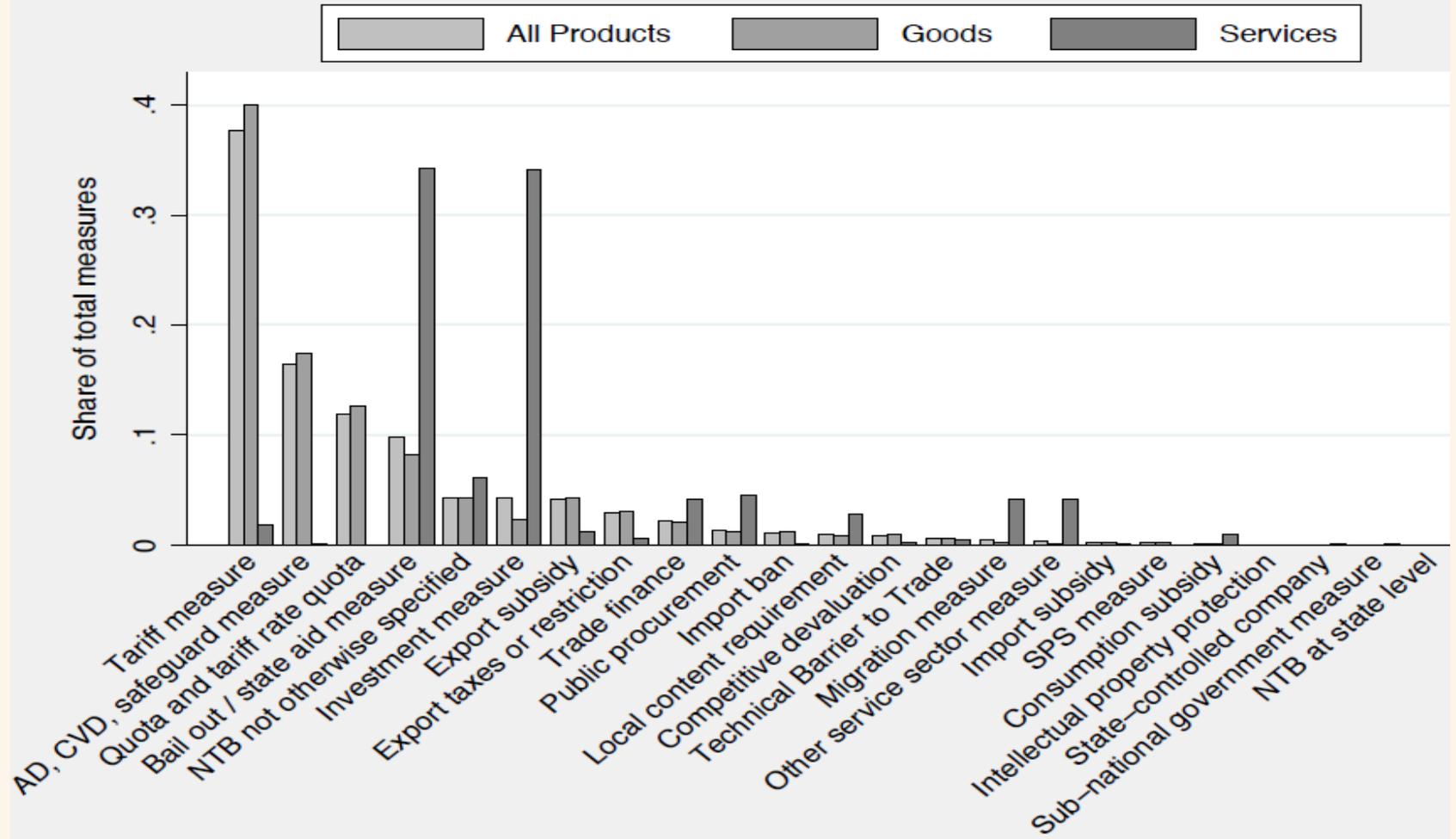


STRI and per capita incomes





Trade policy in services ≠ goods



Source: Global Trade Alert



Beverelli et al. (2015)

1. Higher STRIs are associated with lower labor productivity & TFP in downstream merchandise-producing sectors
→ Potential source of welfare gains from regional integration; should be focus of more attention in RECs/CFTA
2. Productivity impact of lower(ing) STRIs is a function of economic governance quality
– Rule of law; control of corruption; regulatory quality



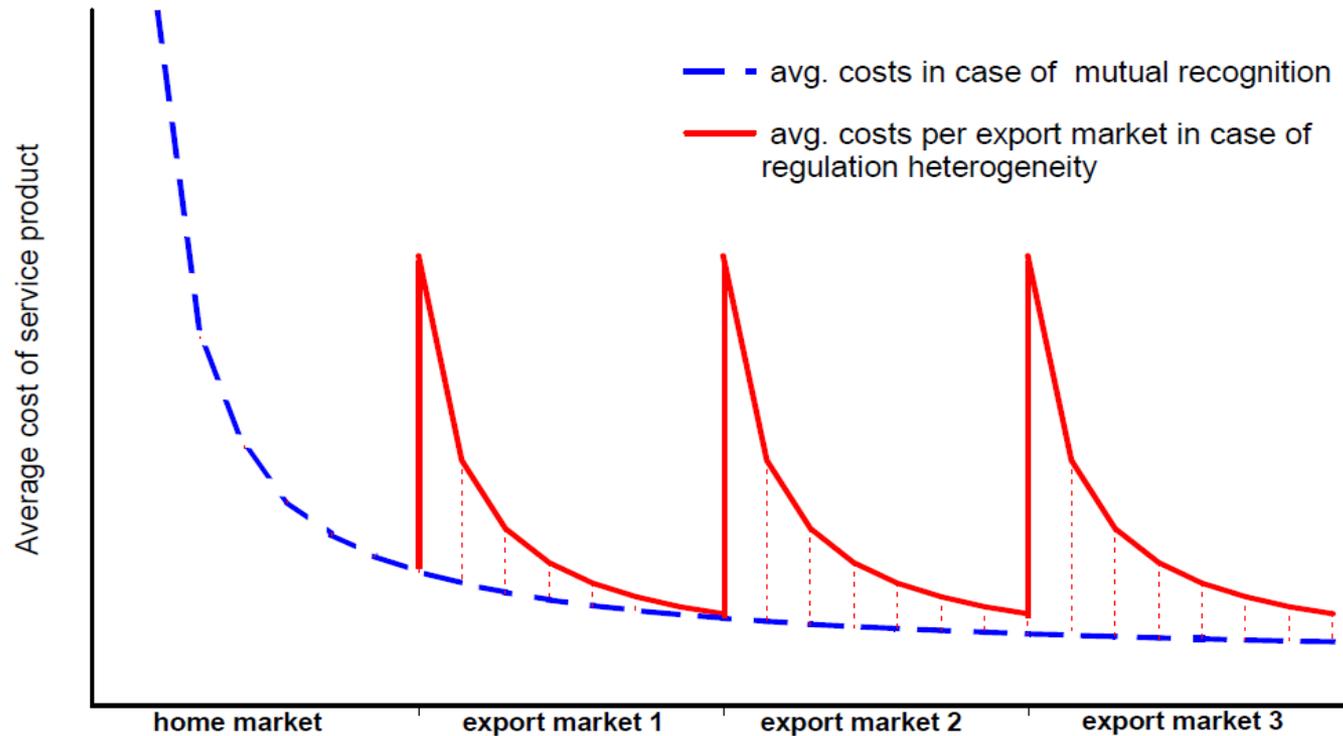
Governance quality (control of corruption) and STRIs

Country	Sector	Impact on labor productivity (%)		
		Own Institutions	Institutions (BWA)	Institutions (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

*** Statistically significant at 1% level; **: 5% level



Regulatory heterogeneity as a source of trade costs

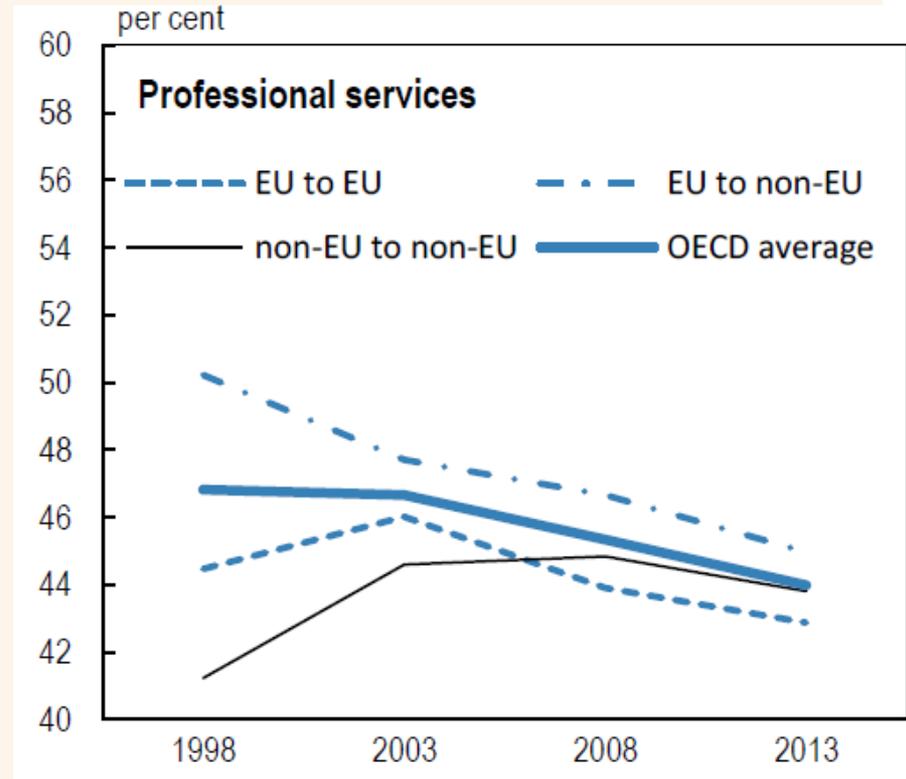
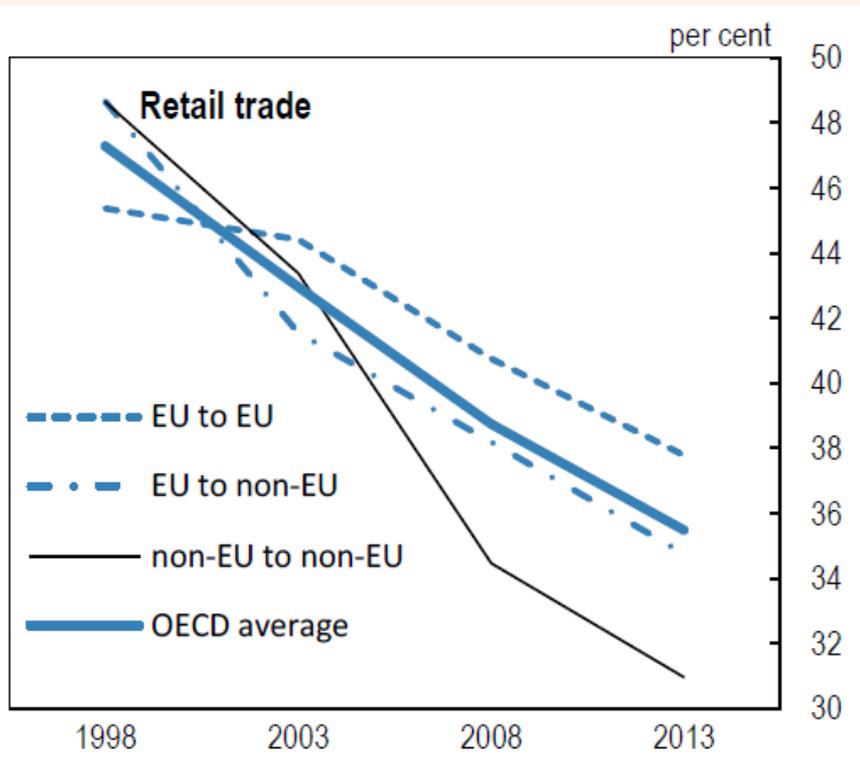


De Bruijn et al. Journal of Policy Modeling, 2008



What can trade agreements do?

Bilateral heterogeneity in regulation, EU & OECD



Source: Fournier (OECD working paper)



Conclusions

- Services matter for productivity growth / employment
 - and for many of the SDGs
- Services trade and investment barriers matter
 - For productivity (and for access) – pro-competitive effects
 - Imports of services embedded in goods
- But so do institutions / governance / regulation
- What matters most? Needs specific analysis
 - Research suggests policy focus on ‘intermediation’ or ‘connectivity’ services: transport/logistics and ICT
- What can be done through trade agreements?
 - Case studies: much services trade is regional, incl. in SSA
 - Start with discrimination—in itself a big agenda
 - Create mechanisms to look beyond STRI—platforms etc.