Services Trade Policy and Inclusive Growth

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Services matter

• For any level of p.c. income, services are **more** important today than in the past
  • Servicification
  • Technology: Internet, e-commerce, digitization & trade
• Services account for large share of production costs
  – Services are often **inputs**—40-60%+ at firm level
• Performance of services sectors is a determinant of firm-level and sector/aggregate productivity
  • Function matters: services as ‘facilitators’ of specialization (finance; logistics; backbone infrastructure services)
• Many of the SDGs center on performance of services sectors
  – Health, education, finance, transport, connectivity ... raising issues of quality, access, distribution on supply side
• More simplistically: if services = 55%+ of GDP, growth requires productivity improvements in services
Forward linkages dominate

Services inputs matter for manufacturing...and for other services

Source: based on WIOD
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
- But policy often a reason for high trade costs
- Two dimensions:
  - Regulatory policies that apply to all firms
  - Explicit discrimination against foreign providers
Regulatory heterogeneity an additional a source of trade costs

Major focus of integration initiatives across Atlantic and in APEC

Discriminatory services trade/investment policies

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)
Impact of mode 3 liberalization on manufacturing productivity – conditional on governance

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>Impact on labor productivity (%)</th>
<th>Own Institutions</th>
<th>Institutions (BWA)</th>
<th>Institutions (DNK)</th>
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<tr>
<td>Botswana***</td>
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<td>27.8</td>
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</tbody>
</table>

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

Beverelli, Fiorini & Hoekman (2016)
Some implications

- Design/use RECs/CFTA to lower trade costs broadly defined to include services
- Services reforms comprise a mix of liberalization (removing discrimination) and regulatory reforms
- Broaden focus on trade facilitation to include services
- Including focus on FDI – investment facilitation ....
- More analysis of interaction between services trade policies and economic governance variables – including regulation and regulatory heterogeneity
- Case studies/value chain analyses that ‘unpack’ policy sources of trade costs – goods and services