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Services Trade Policy and Inclusive Growth

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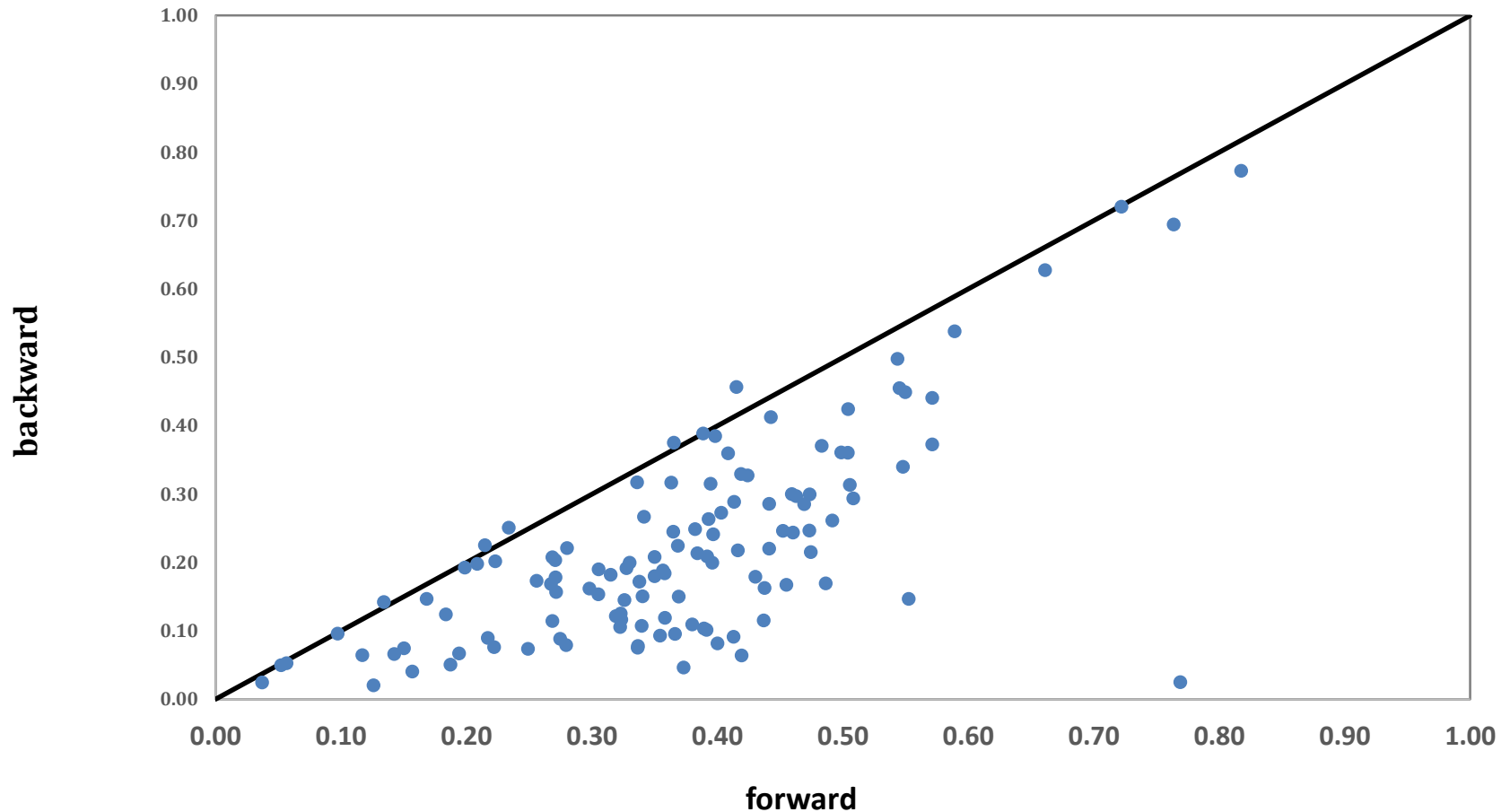
Services matter

- 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



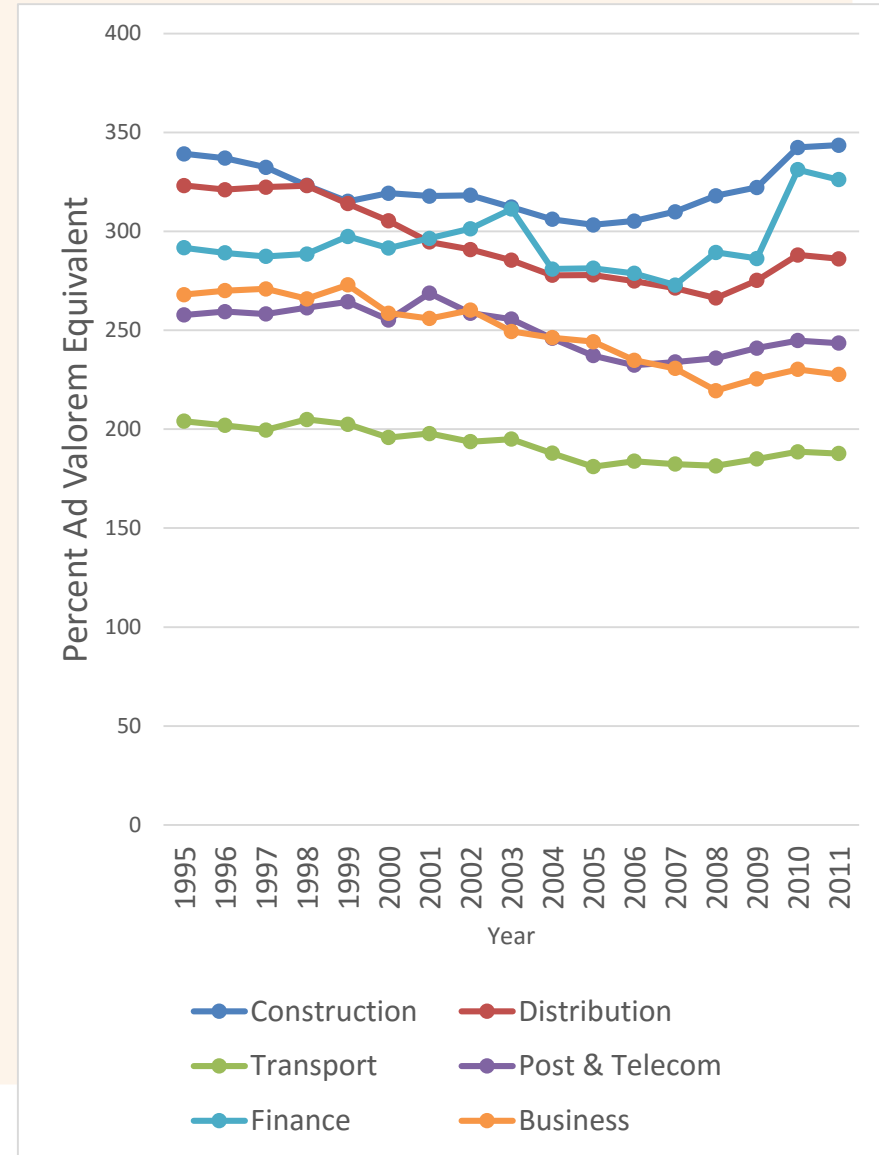
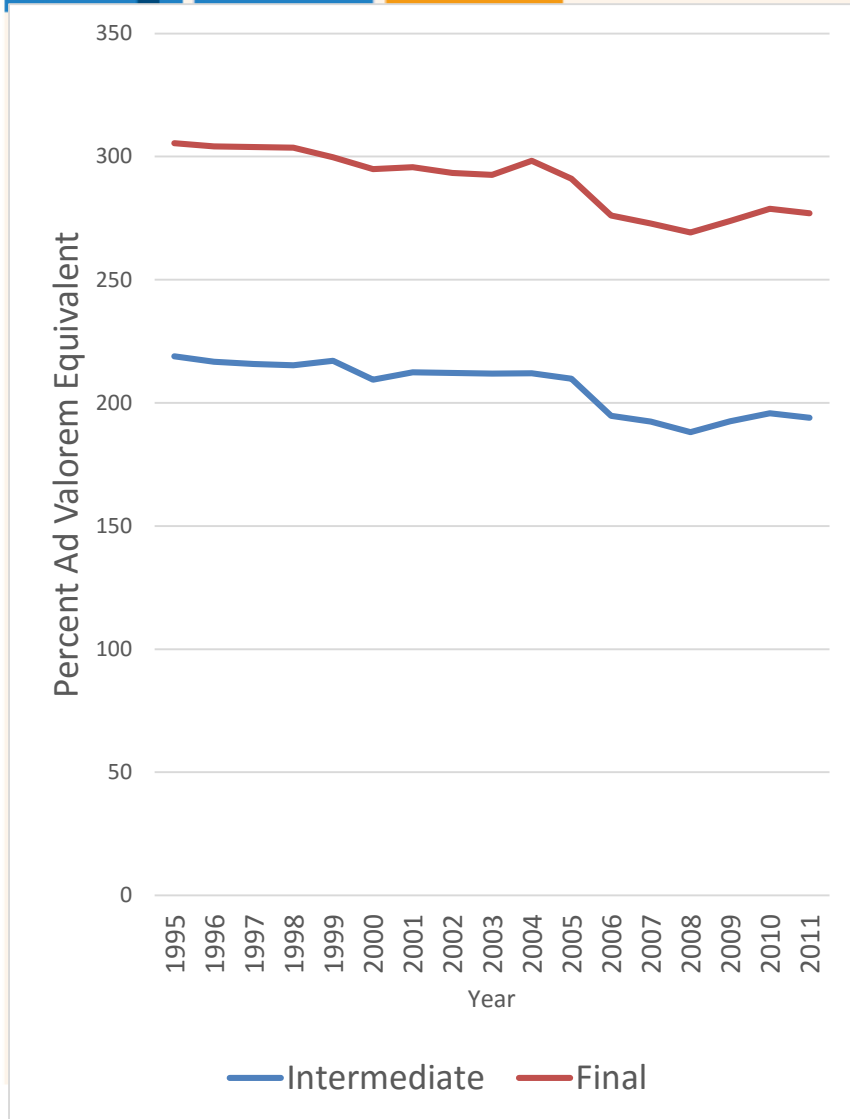


Empirical literature

- 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



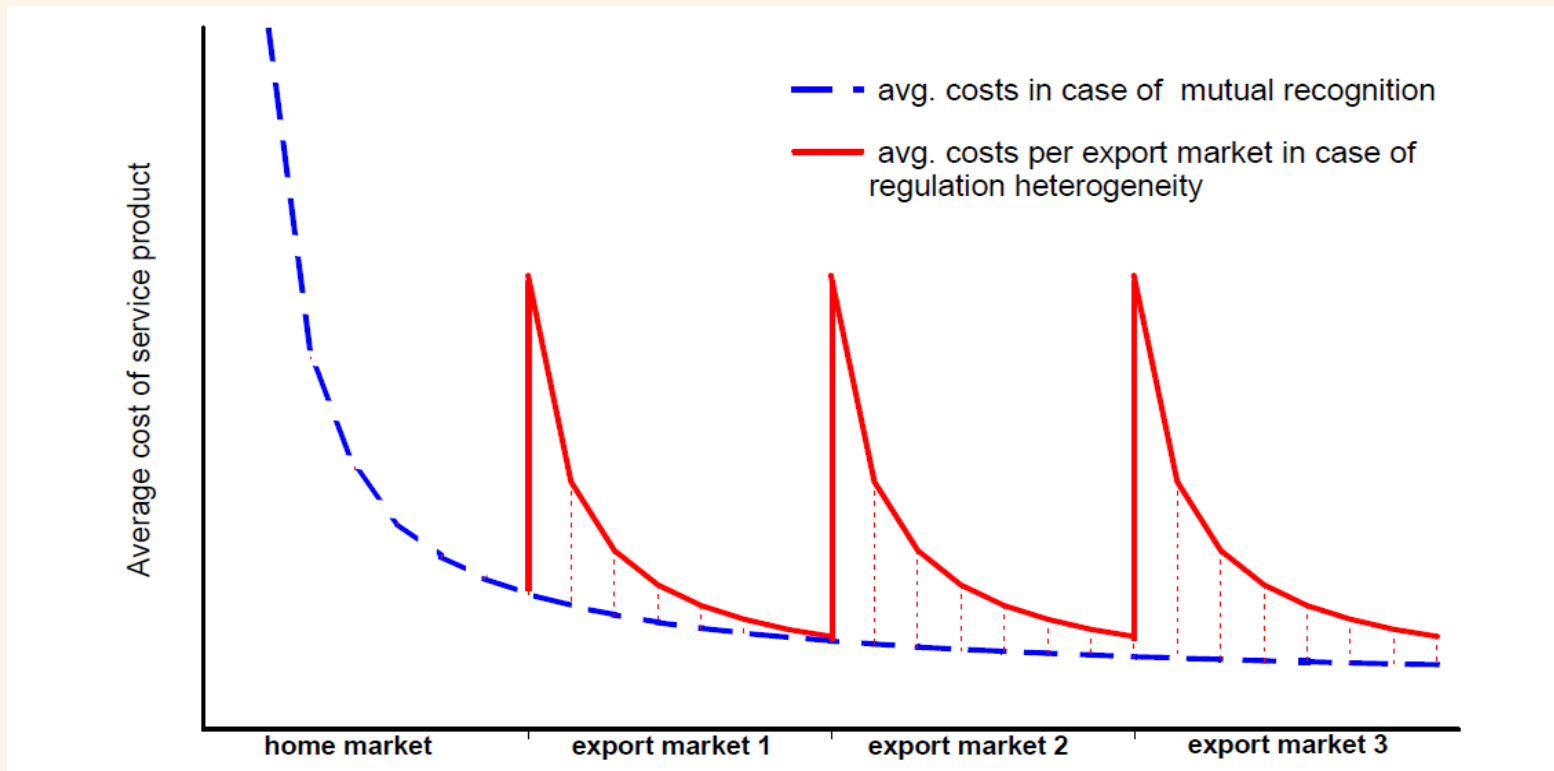
Services trade costs

- Not just high but declining more slowly than trade costs for goods
- In part a function of characteristics of services
- But policy often a reason for high trade costs
- Two dimensions:
 - Regulatory policies that apply to all firms
 - Explicit discrimination against foreign providers



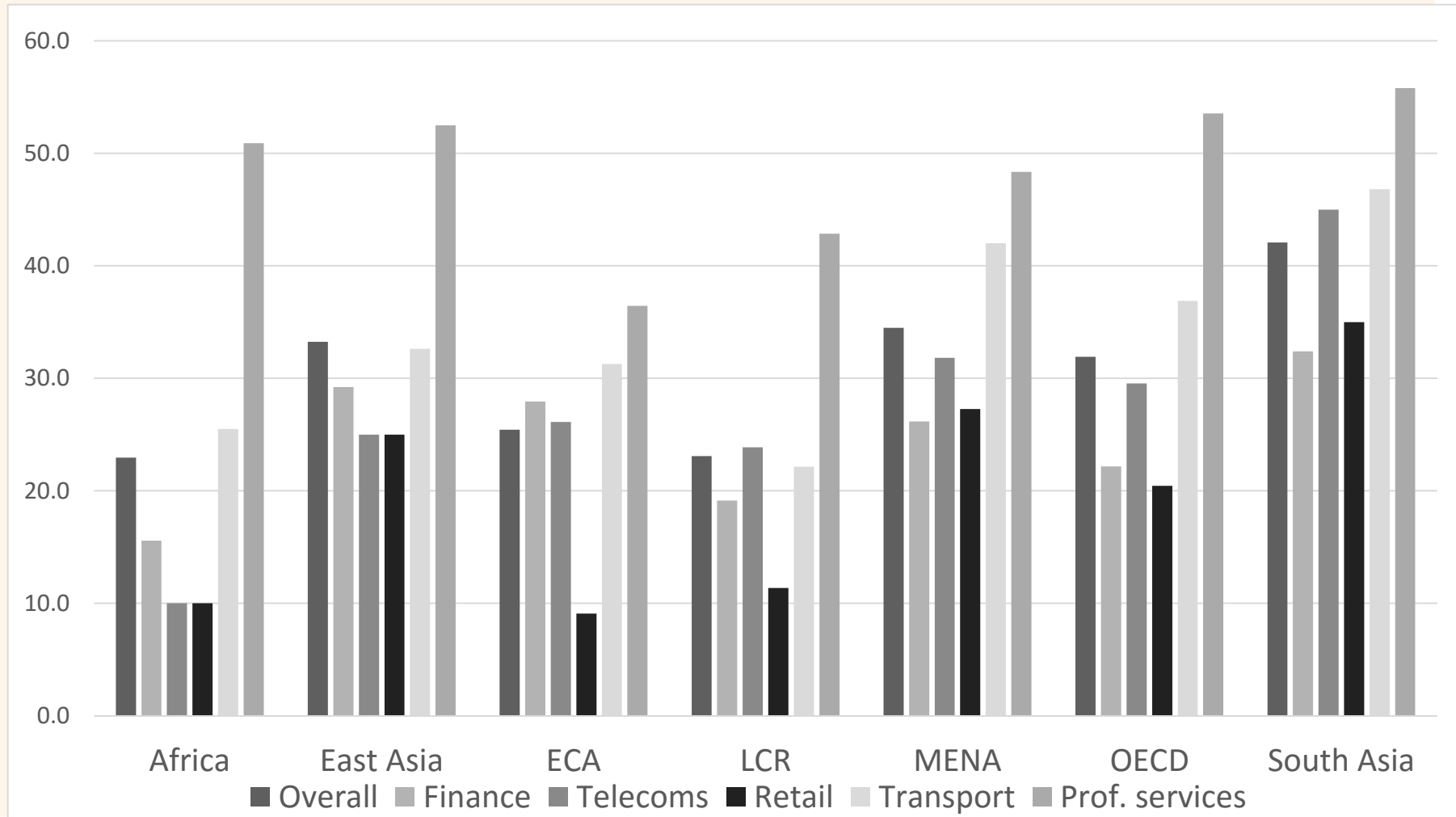
Regulatory heterogeneity an additional a source of trade costs

Major focus of integration initiatives across Atlantic and in APEC





Discriminatory services trade/investment policies





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

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



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