



SUPPORTING
ECONOMIC
TRANSFORMATION

TRADE IN SERVICES ROUNDTABLE 11 NOVEMBER 2016

KEY MESSAGES, OUTCOMES AND ACTION POINTS

This report summarises the key messages from an ODI-SET Trade in Services Roundtable Event hosted at DFID London on 11 November 2016. The roundtable sought to unpack the key challenges and opportunities for trade in services in developing countries and identify what DFID can do over the next five years to support services. The main suggestions emanating from the workshop on key action points for DFID going forward are outlined in the box below.

Key action points on trade in services for the international development community

- **Collectively build a more compelling narrative around the importance of services for economic transformation** (including the various channels through which services contribute to economic transformation and the links between services and job creation). This is key to engaging key decision makers around the importance of the services agenda.
- **Assist in the generation of knowledge on services and trade in services to support policy decision making, including by investing in data collection efforts to underpin analysis** (e.g. firm level data, but also looking beyond traditional methodologies to measure transaction costs and outcome indicators related to services trade). This could extend to support to improve and expand data collection in national statistical offices in developing countries. But support for better data collection will need to be accompanied by efforts to address localisation, privacy and data processing restrictions that hinder data mobility.
- **Ensure that post-Brexit UK trade policy includes a role for trade in services to support development.** The UK has an opportunity to introduce an innovative policy on services trade that goes beyond what is currently offered by the EU and promote developing country services trade across services modes. Preferences for services can play a key role (e.g. through mode 4), but need to be accompanied by building networks and connectivity with developing countries and building capacity to ensure they are able to utilise the preferences on offer.
- Provide **technical assistance to developing countries and their services exporters to support services trade**, including through (i) assistance to comply with the quality standards necessary to successfully export services; (ii) support to develop appropriate regulatory and standards frameworks that complement trade agreements, particularly around regulatory coherence across countries and mutual recognition agreements (MRAs); and (iii) support to modernise their services sectors and move labour out of low productivity services and into more productive services activities.
- **Push for greater emphasis on services in trade facilitation**, leveraging existing progress on broader trade facilitation initiatives but working to include more emphasis on services development and services liberalisation in the trade facilitation agenda.

This note summarises key thematic issues emerging based on roundtable reflections from representatives from ODI, TheCityUK, Commonwealth Secretariat, European University Institute, ILEAP, International Centre for Trade and Sustainable Development, International Growth Centre, International Trade Centre, Sussex University, United Nations Conference on Trade and Development, Centre for Global Development, and World Bank, and introduced by the UK Department for International Development. The views expressed in this note are those of the note taker and do not reflect the view of the above mentioned organisations.¹

THE IMPORTANCE OF SERVICES

There is clear evidence that services constitute a large part of global exports and contribute significantly to value addition. Collectively, the services sector is already the most important sector for all countries and the distinction between services and non-services exports is becoming increasingly blurred. Logistics and business services are embodied in goods exports through global value chains; and access to efficient financial, transport, ICT and business services is key for productivity and competitiveness in many sectors. Even so, much of the thinking on economic transformation remains focused primarily on agriculture and manufacturing and industrialisation. It is a challenge to ensure that policy makers internalise the fact that services also matter for development. For instance, efficient financial and energy transmission services play an important role in supporting manufacturing growth. The provision of tourism services offers opportunities for export-led job creation, revenue and foreign exchange generation, and visible supply linkages with the rest of the economy. ICT, logistics and financial services help to support productivity and trade in other sectors. Countries need to focus on developing these types of services sectors if they are serious about achieving the Sustainable Development Goals. There is still work to be done to change mindsets to recognise that services are enablers for development and that linkages with services sectors are key to promoting competitiveness.



DATA AND KNOWLEDGE ON SERVICES AND SERVICES TRADE

Weak data on services remains a major challenge for policy decision making. Despite the existence of useful tools such as the Services Trade Restrictiveness Index and UNCTAD's Services Policy Reviews as well as the World Bank's ongoing work to collect data on neglected services sectors in Africa, we still do not know enough about the linkages between services or the trade aspects of services. For instance, knowledge is limited on the role of openness in trade in services or on the link between imports and exports of services and economic transformation. This manifests in a very practical way by making it difficult to connect trade in services negotiations with what is happening on the ground.

There is considerable scope to collect more data and develop greater knowledge around services and trade in services, including on:

- How firms use, and rely on, services.
- Investment in services in developing countries (particularly related to where investment decisions are being taken, by which firms and for what reasons).
- Barriers to trade in services.
- Services standards and regulatory policies and their effects, including those related to the cost of compliance.
- Constraints affecting services sector competitiveness.
- The effect of technological change in services sectors.

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- The impact of climate change and other sustainability issues on particular services sectors (e.g. tourism).
- The role of services as inputs into domestic, regional and global value chains.
- Gender differentiated impacts of services development.
- The interdependence of different modes of services trade.

At the same time, however, data collection efforts are complicated by a worrying tendency for countries to introduce localisation and privacy restrictions on data processing.

SERVICES TRADE POLICY

Brexit provides opportunities for the UK to create a new trade policy offering to developing countries and potentially go beyond what is currently offered by the EU in terms of market access for developing countries' services exports. This will require further thinking on how to deal with services within the framework of trade agreements. More generally, approaches to trade liberalisation involve building clusters of specific services sectors (e.g. financial services, transport services). Targeting such clusters can have demonstration effects on other sectors and modes of service delivery. At the same time, private services companies need to be encouraged to work together for more services friendly trade policy (e.g. through coalitions of services companies or industries to offset lobbies against services liberalisation).

Aside from trade commitments, softer commitments – such as MRAs for standards or cooperation and network building – will also help to boost developing countries' participation in services trade. In addition, the UK (and the international community more widely) can help to build capacity in developing countries in order to ensure they are better able to utilise the services preferences on offer.

At the same time, the potential gains to developing countries from importing services should also not be ignored (e.g. importing education services).

REGULATION, STANDARDS AND SERVICES

Domestic regulation plays a key role in services. Investors are reluctant to invest in markets with low regulatory standards or weak institutions governing services sectors. The strength of a country's competition policy is particularly important in this regard. In addition, the importance of regulation extends to its interaction with trade policy – there is evidence that openness is good for services productivity; but a degree of regulatory maturity is necessary to ensure that the pre-conditions for openness are in place. Collective regulation initiatives, regulatory coherence across countries, and harmonisation or mutual recognition of standards can complement trade agreements (e.g. in the case of mutual recognition of professional services in the East African Community); as can support to developing countries to comply with quality and other standards in order to access markets for their services exports. These efforts need to be focused and they also need to address political economy and institutional dimensions in specific contexts.

TRADE FACILITATION AND SERVICES LIBERALISATION

Barriers to trade in logistics and other services sectors create inefficiencies in markets for services and generate trade costs. These, in turn, constitute a formidable impediment to realising the gains from services trade. At the same time, weak institutions and poor infrastructure affect foreign direct investment into services sectors. Greater emphasis on services liberalisation in trade facilitation can help to address these issues. This should leverage what is already being done to facilitate trade (e.g. through the WTO Trade Facilitation Agreement), but with greater emphasis on including services in the trade facilitation agenda.

SEMINAR

The roundtable meeting was followed by a seminar discussing the latest [ODI SET paper on services and economic transformation](#). It was presented by Prof Bernard Hoekman, Dr Dirk Willem te Velde and Dr Maximiliano Mendez-Parra. Some of the questions raised included differentiating amongst different types of services in LDCs, the jobs impact of different services, on how to raise productivity of services (e.g. innovation, competition), and on the importance of trade restrictiveness for manufacturing productivity.

