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International Cooperation on Services Trade Policies

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European University Institute and CEPR

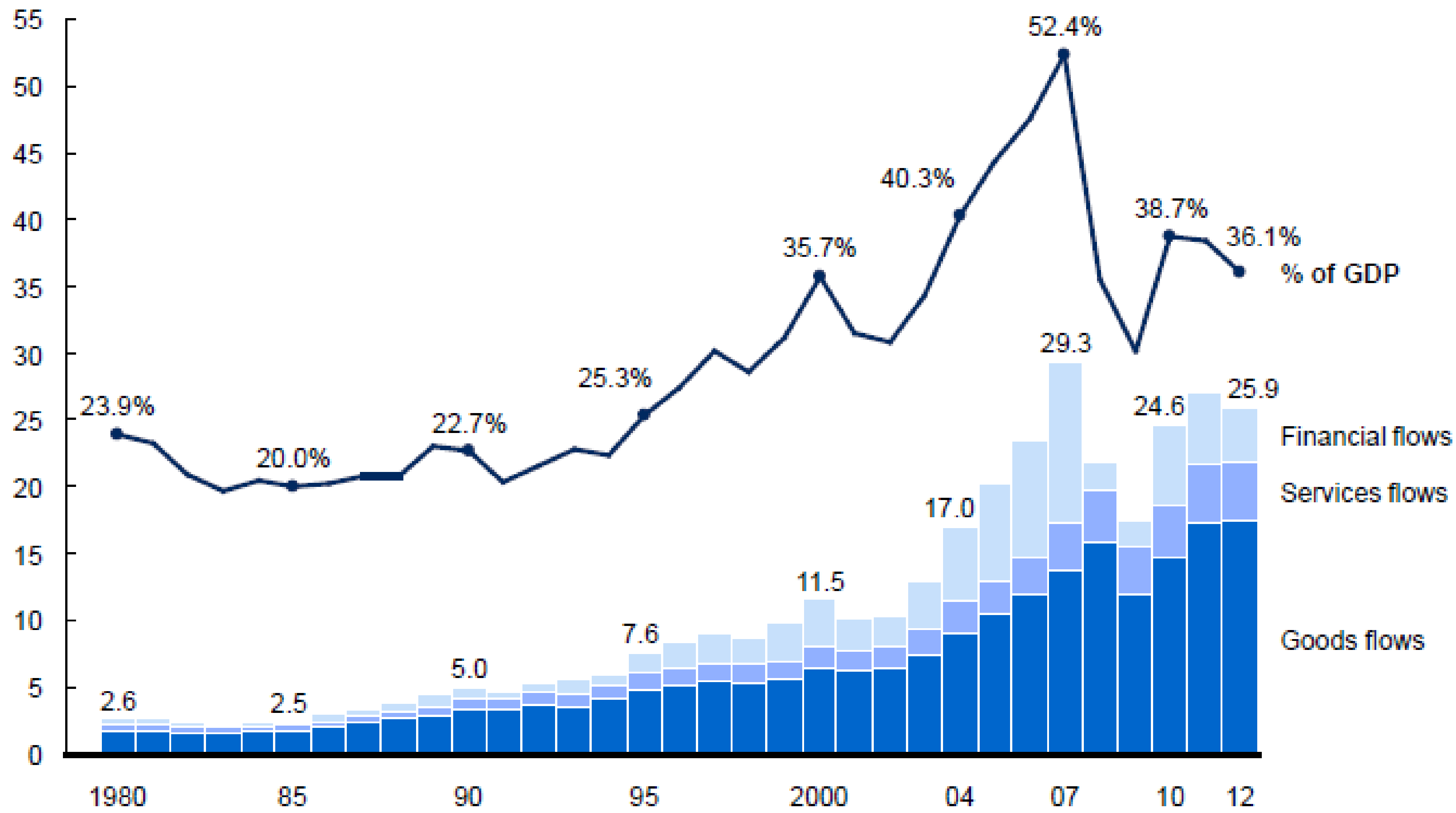
Empirical Investigations in Services Trade workshop

TED University, Ankara, June 5, 2014

Plan of talk

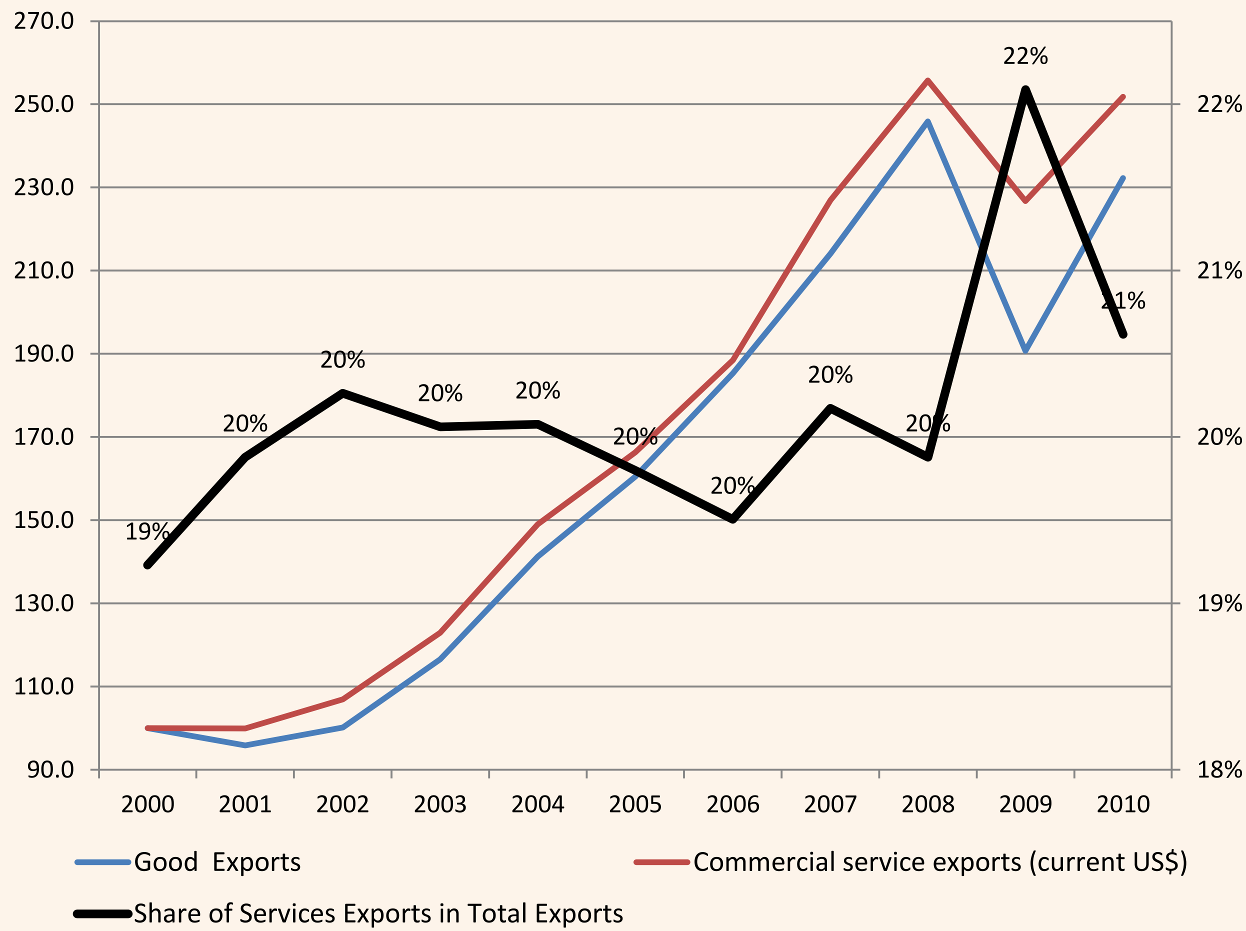
- Recent developments in trade & new data on services trade/investment policies
- Many (policy) research questions
  - – Impacts of services trade on economic performance
    - Productivity; “competitiveness”
  - – Implications of technological changes on tradability and use of alternative modes of supply
  - – Offshoring, re-shoring, servicification, supply chains…
- Focus here on impacts and design of trade integration agreements

Global flows (BOP basis)
(share of GDP and US$ trillion)



McKinsey April 2014

Trade in services growing fast, but so has trade in goods

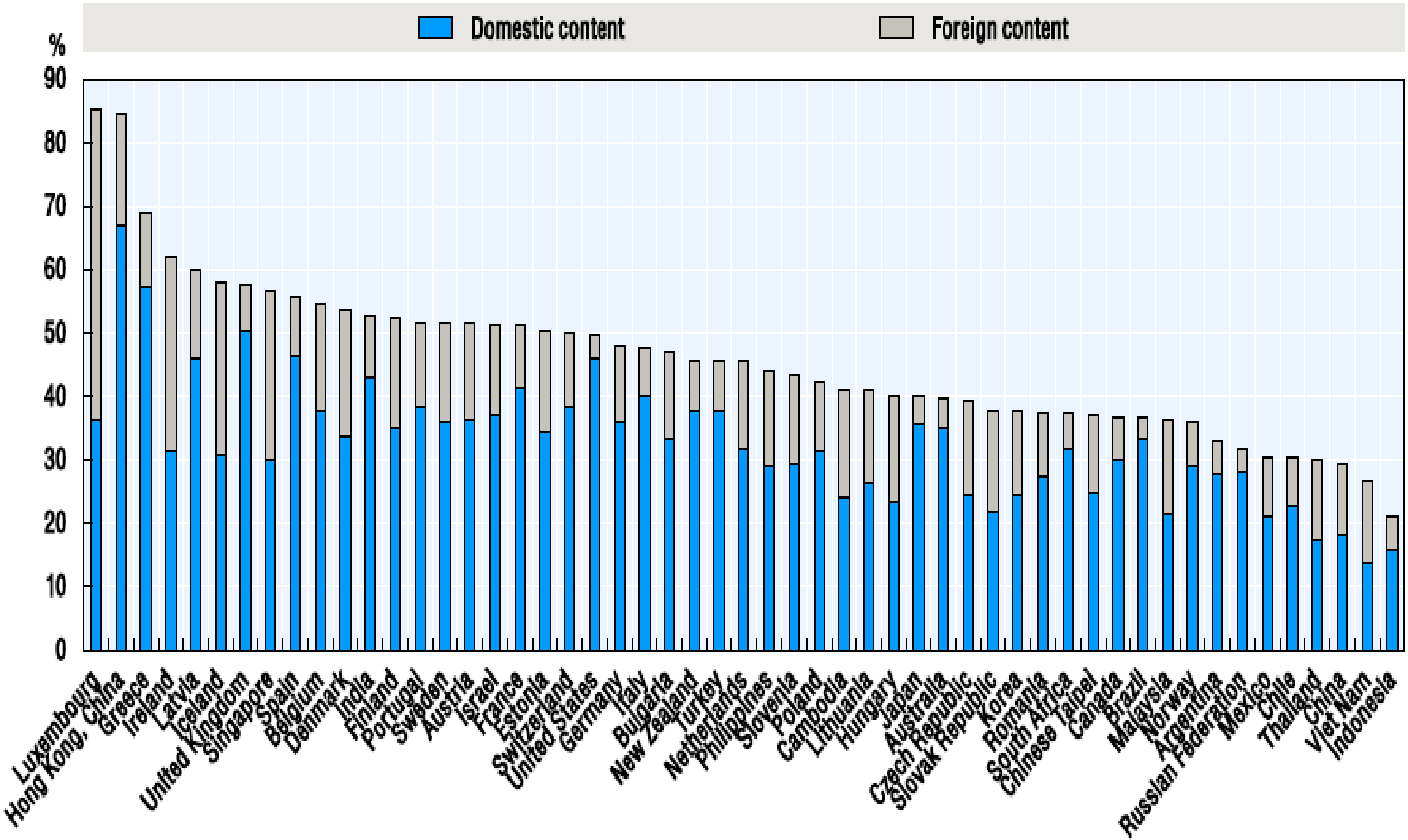


Changing composition of services trade

Exports of ICT and Business services fastest growing category of trade

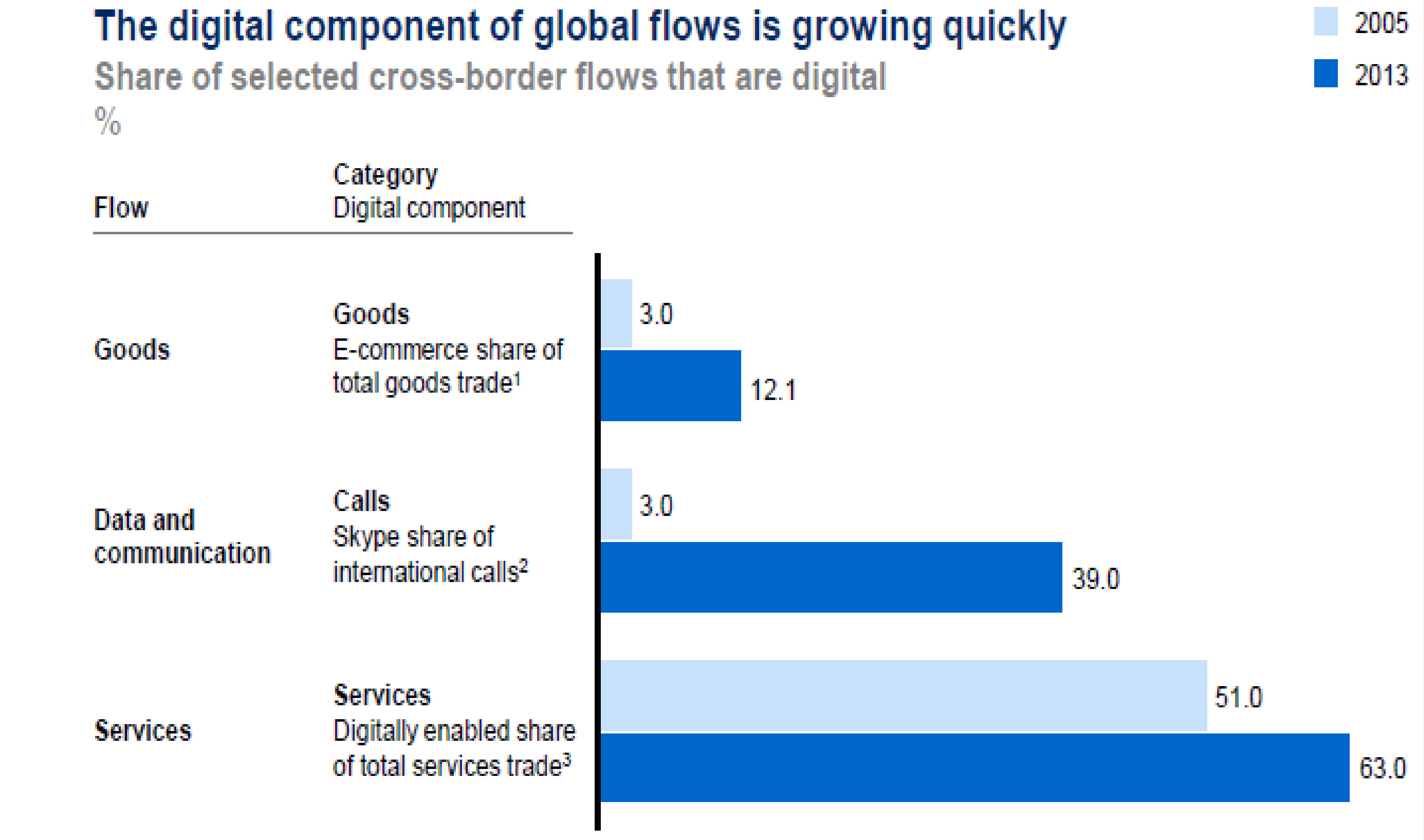
Source: World Bank, World Development Indicators

Services share of value added embodied in exports, 2009



Source: OECD/WTO Statistics on Trade in Value Added, (database), April 2013, doi: 10.1787/data-00648-en.

Technology: Digitization



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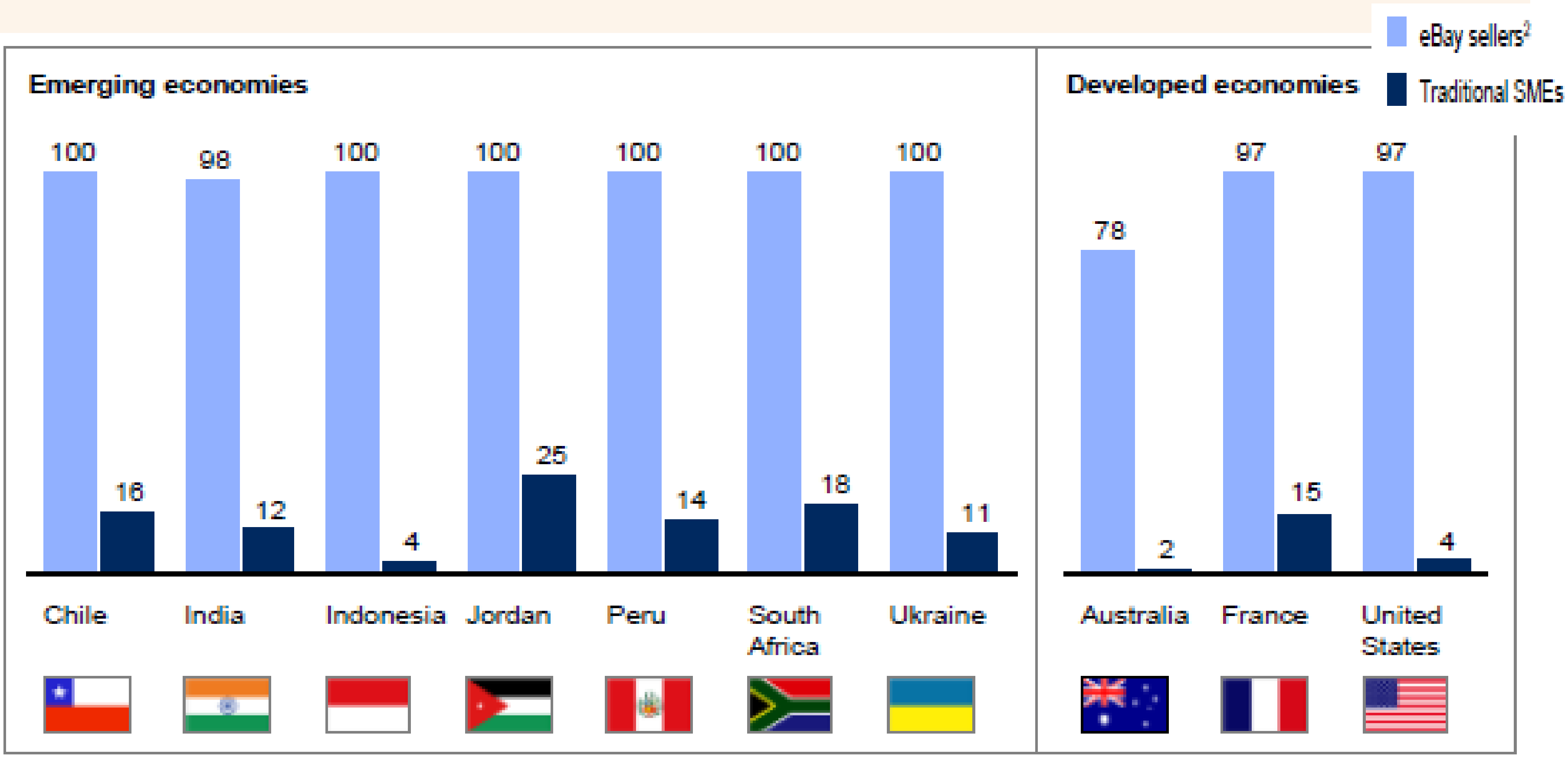
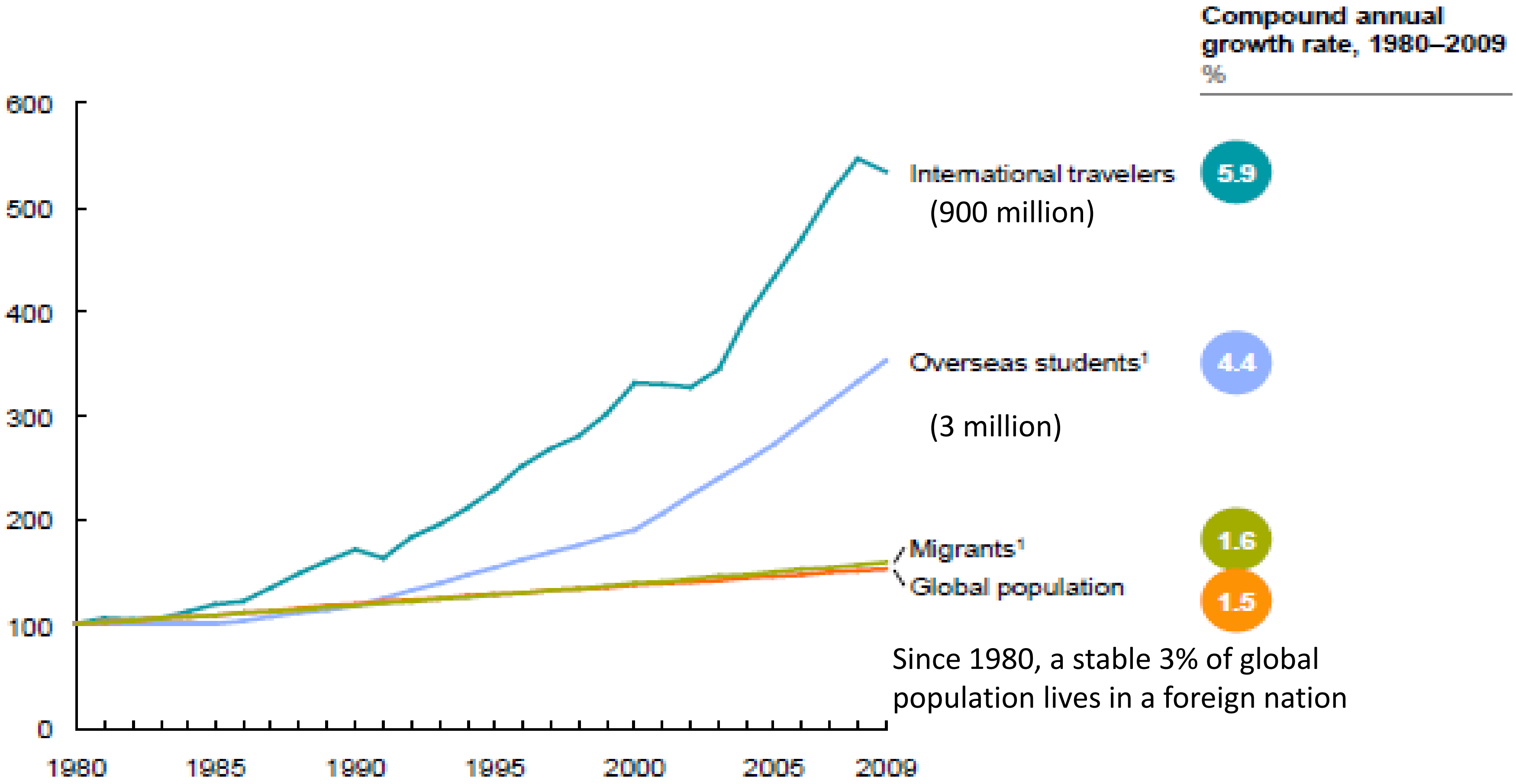
E-platforms & SMEs

Share of eBay sellers that export >US$ 10,000



1 Small and medium-sized enterprises.
2 eBay sellers are defined as a commercial seller with sales of over $10,000.
SOURCE: Enterprise Surveys, World Bank, 2012; Australia Bureau of Statistics, 2012, 2007; eBay; McKinsey Global Institute analysis

Cross-border movement of people



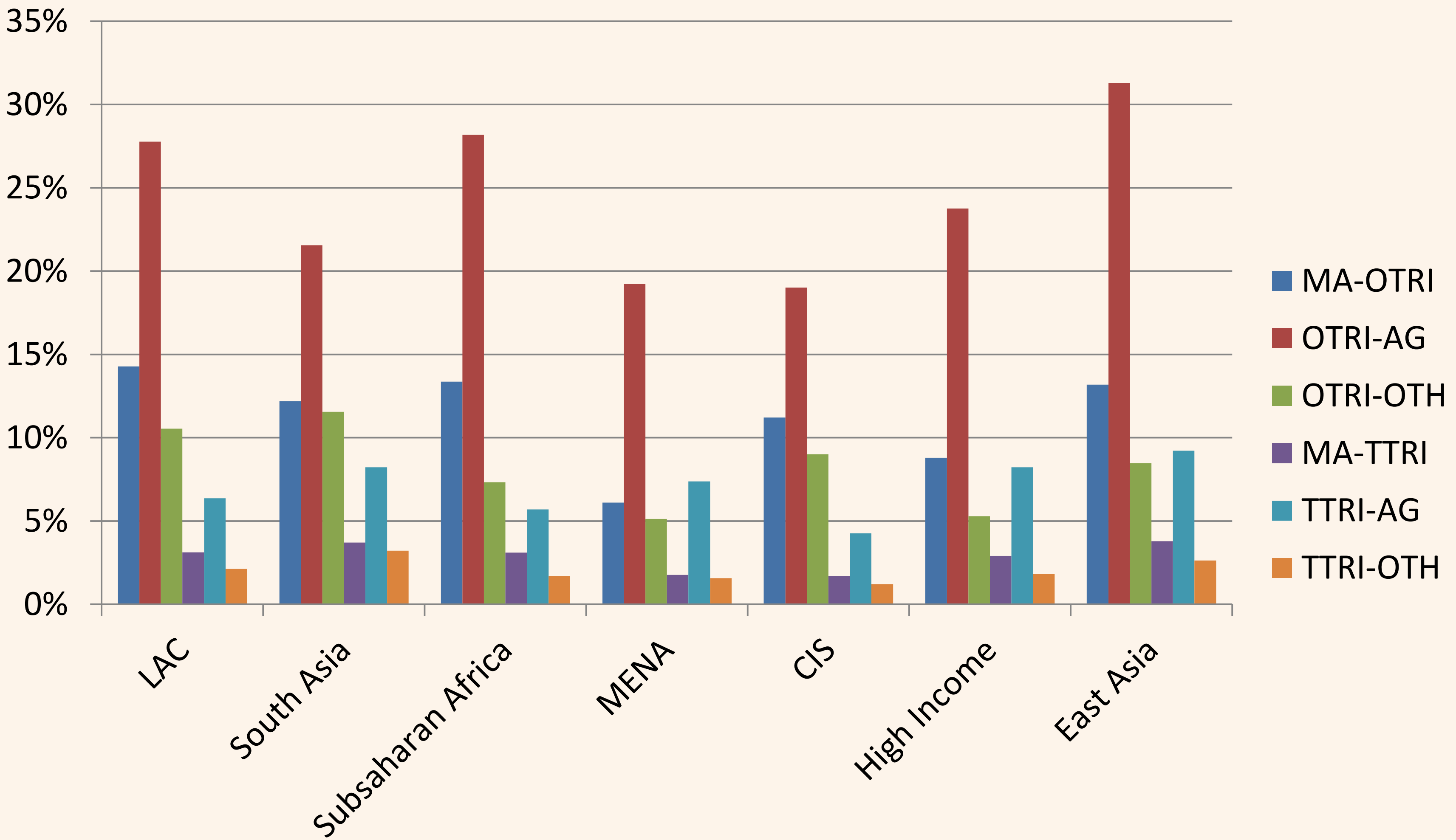
1 Data for overseas students are in five-year increments, and data for migrants are in ten-year increments of stock data.
SOURCE: International Civil Aviation Organization; Education at a glance, OECD; McKinsey Global Institute analysis

McKinsey April 2014

Goods vs. services: a meaningless distinction?

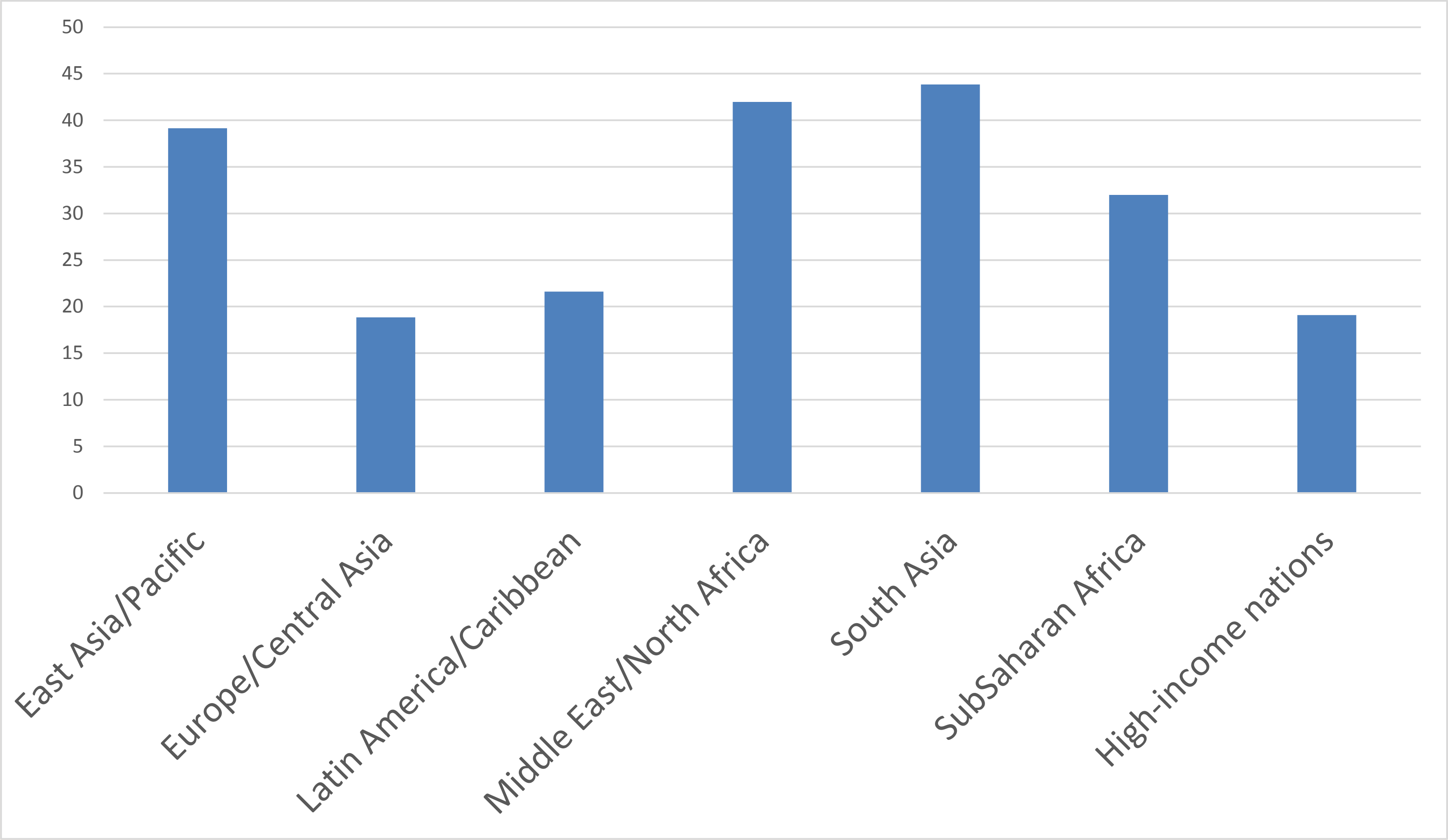
- Global trade in merchandise: $18 trillion; Services: $4.2 trillion (BOP basis)
- But add in FATS & net out embodied services:
  - Goods: < $14 trillion net of embodied services. Include sales of affiliates: ~ $24 trillion
  - Services: ~ $25 trillion
- Does not consider unpriced intra-firm services digital exchange, travel, communications, etc.
- Implication: Focus on value added

Merchandise trade restrictions, overall and tariff-only



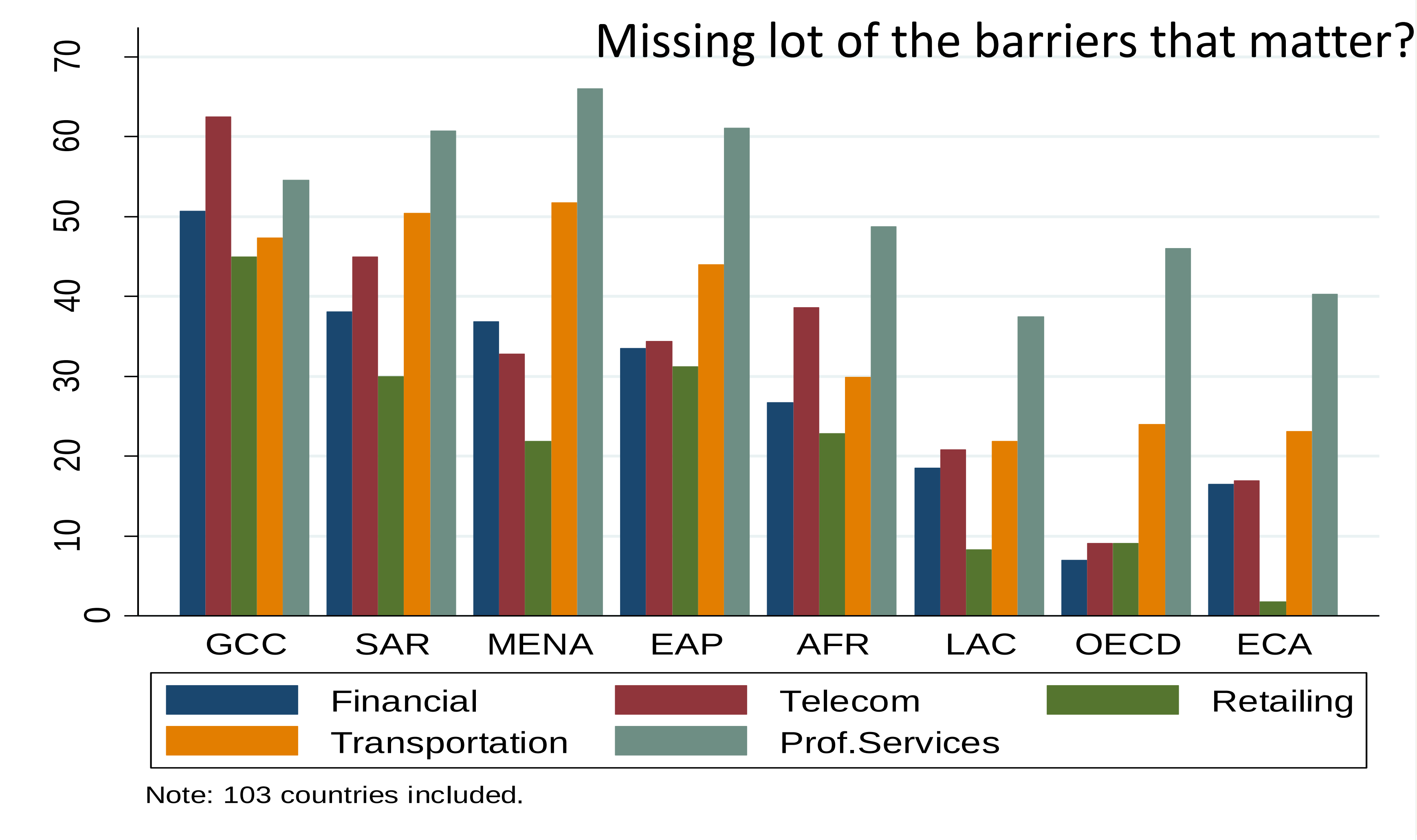
Source: World Bank, OTRI database (DECTI)

Overall Services Trade Restrictiveness Index



Source: World Bank STRI database

Services trade/investment policies

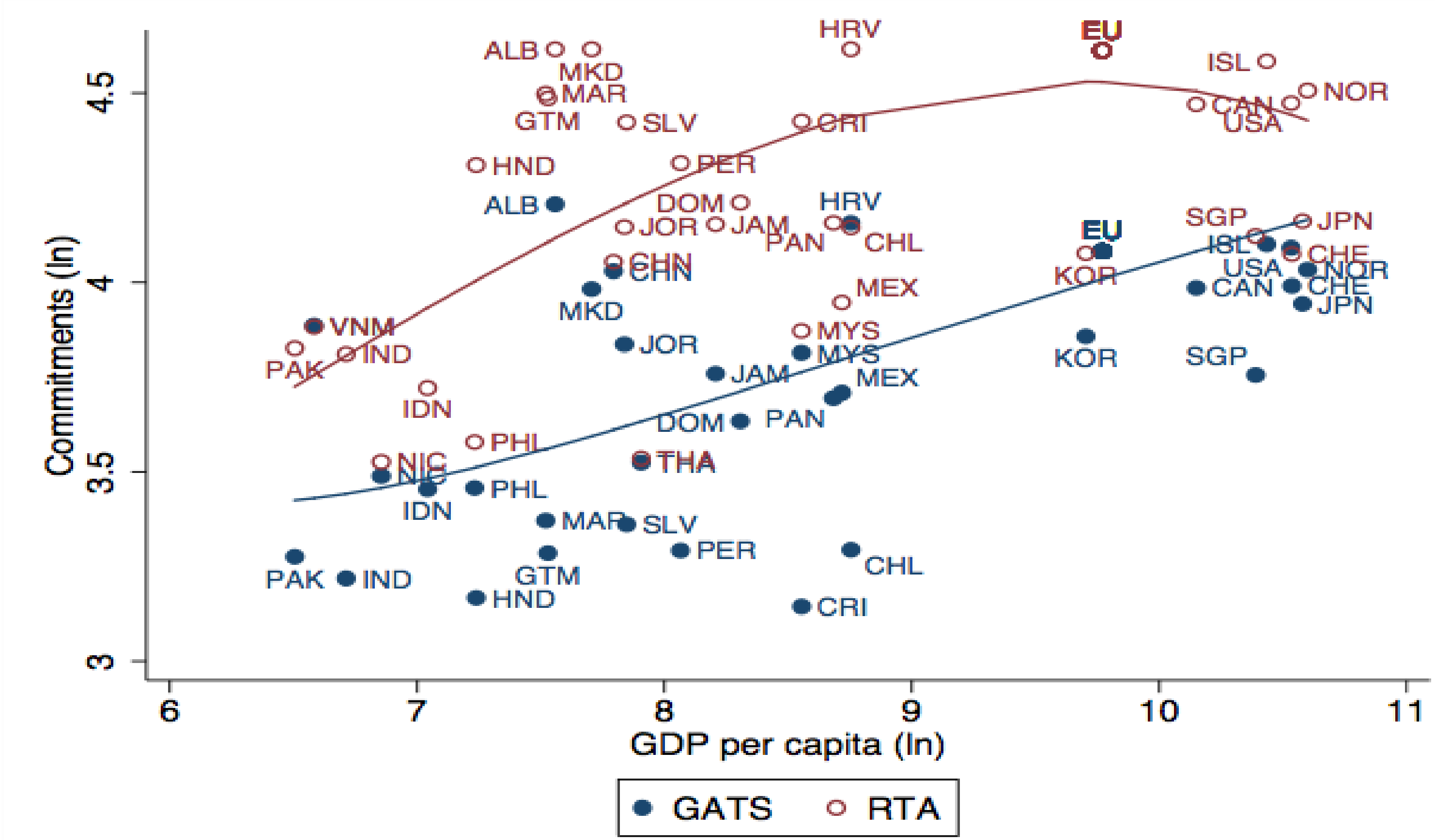


Source: Borchert, Gootiiz and Mattoo, 2013 (World Bank STRI database)

What do services trade agreements do?

- GATS; PTAs
  - North-North, North-South, South-South
- TISA
- Questions:
  - What is the objective (rationale) for cooperation?
    - 'Hard law': Terms of trade? Commitment?
    - 'Soft law': More a focal point for coordination?
  - Do standard theories work for services/investment?
  - What do we know about the underlying political economy?

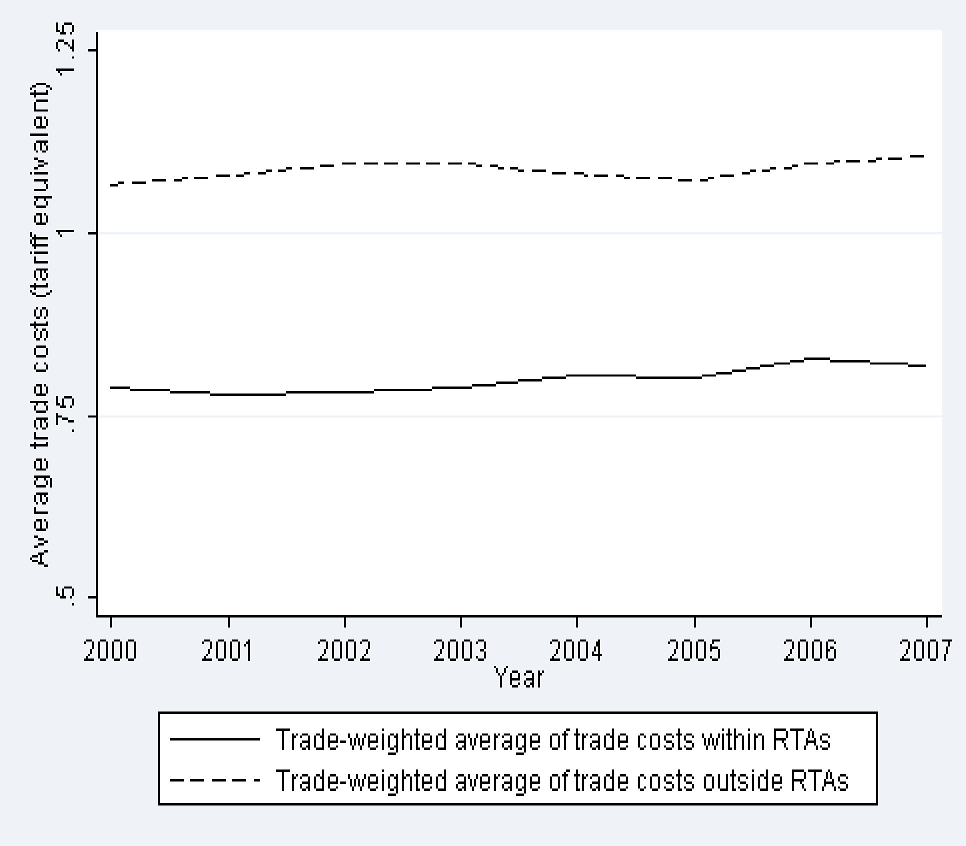
Services Sector Commitments: GATS vs. PTAs



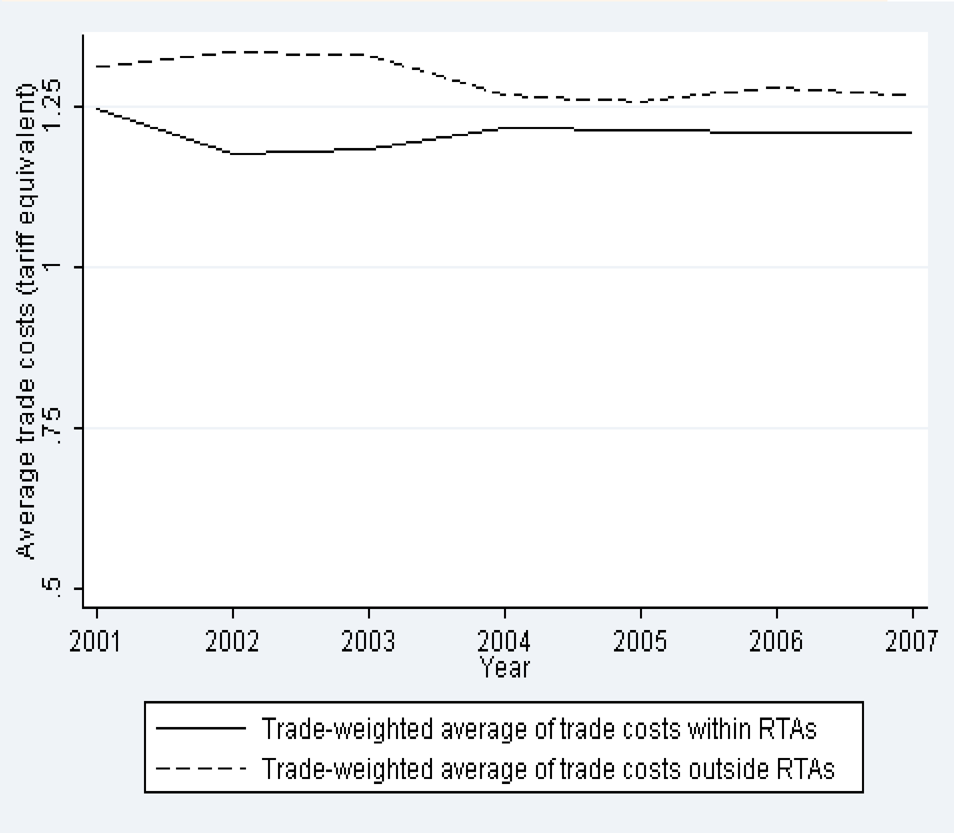
Source: Van der Marel / Miroudot (2012)

Trade costs for goods and services, intra- and extra-PTA

Goods



Services



Source: Miroudot, Sauvage and Shepherd, 2010

Not a problem?

- Less "need" for trade agreements?
  - Much reform implemented *unilaterally*
  - Low expected probability of backsliding as far as exporters are concerned
- Market access not that bad?
  - FDI has grown 3x faster than trade since 1990; 60% of this in services
  - On average the barriers to trade not that binding?
- Economic analysis, business surveys and disputes/enforcement (in EU) suggest there is a problem

A ‘regulatory problem’?

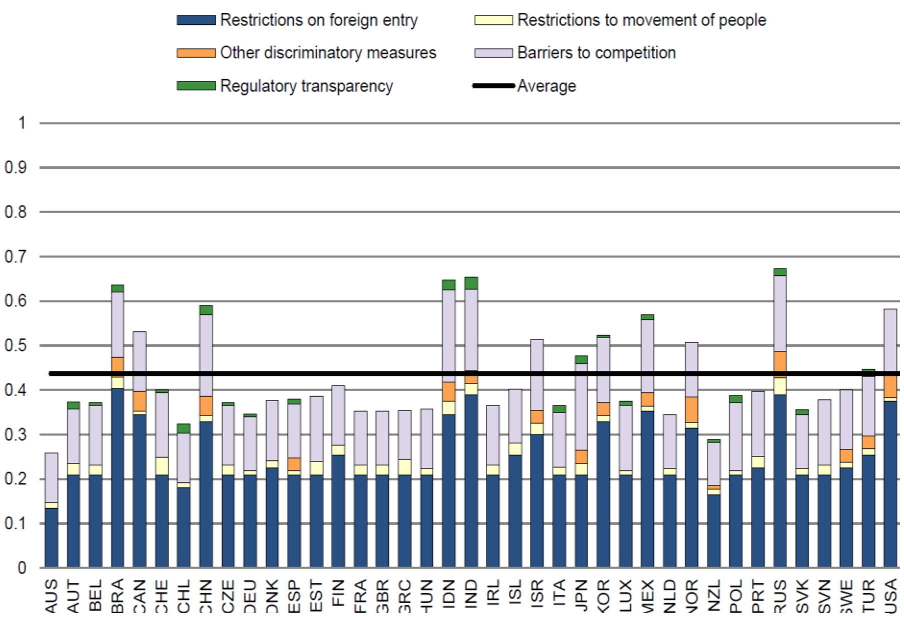
- Many services trade barriers are regulatory in nature, both sectoral and horizontal
- Regulators (agents) worry about autonomy and negative spillovers of a market access driven negotiation
- Citizens/parliaments (principals) worry about realization of regulatory objectives
- All this on top of standard protectionism – which is strong for some sectors
- Hard to disentangle intent from effects

Regulatory differences pervasive: Intra-EU variation significant

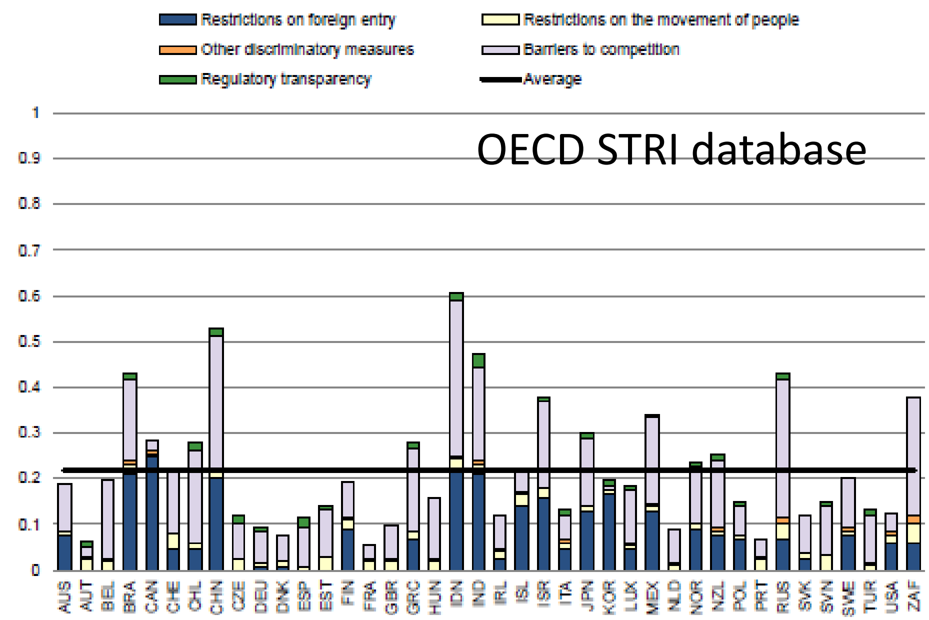
- OECD Product Market Regulation (PMR) indicators (OECD 2008)
  - Large differences between highest and lowest PMR indicators
  - EU members with the highest or second highest PMR tend to be large
  - Those with the lowest PMR mostly small
- Same pattern in enforcement action and disputes (Solvit, etc.)

	Highest PMR		Second highest PMR		Lowest PMR	
	PMR	ECMS	PMR	ECMS	PMR	ECMS
Electricity	67,2	Italy	49,3	France	19.5	Denmark
Construction	10,8	Greece	10,7	France	5,8	Sweden
Distribution	56,2	France	51,8	Austria	19,4	Sweden
Hotels, restaurants	12,4	Austria	9,9	Italy	5,4	Sweden
Transpor, /storage	65,4	Greece	51,3	Italy	15,8	Britain
Post, telecoms	32,2	Belgium	29,7	Italy	21,8	Denmark
Financial services	43,9	Austria	38,6	Italy	19,6	Ireland
Real estate	7,6	Austria	6,9	Germany	2,4	Greece
Renting of machinery	53,8	Austria	52,7	Germany	15,0	Sweden
Business services	52,0	Austria	51,0	Germany	15,0	Sweden

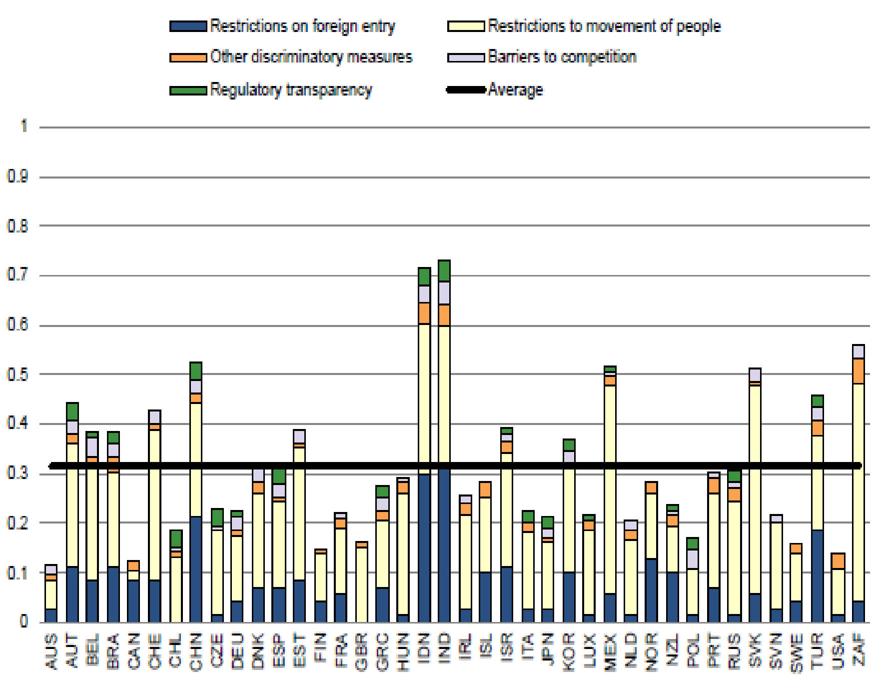
STRI for commercial establishment in air transport by policy area



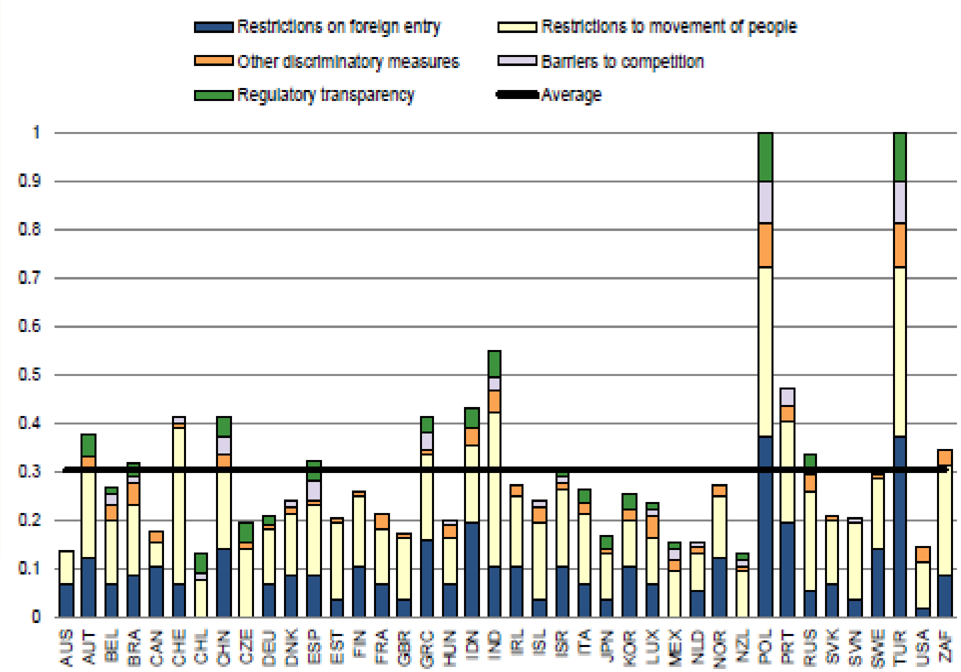
STRI by policy area: Telecommunications



STRI by policy area: Legal services



STRI by policy area: Accounting services



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Dealing with differences in regulation

Dimensions of regulatory differences

- *Given* underlying rationale for regulation, often have multiple agencies that regulate the same product/sector
- Often not coordinated—redundancy and duplication
  - In part reflection of multiple levels of government—central, state/provincial, municipal
  - 28 nations in the EU; 50 states in the US
- Often no consideration by regulators/legislators for effects on trade and investment

Reducing regulatory market segmentation

- Dealing with the trade/investment consequences of the “policy silo” problem
  - In part an information/coordination problem
  - In part a ‘mandate problem’—trade/investment not something that features in regulatory design
- Implies need for institutional cooperation
  - Processes; learning to learn; etc.
  - Need to establish trust across agencies
  - Requires transparency, information, communication…

Some research implications

- Key aspect of new vintage PTAs is cooperation in regulatory areas – mostly services
- What can economists contribute?
  1. Estimate magnitude of trade costs created (AVEs etc.)
     - Limited usefulness? Depends on many factors/assumptions ("actionability"; substitution between modes, etc.)
  2. Enhance understanding of effects of regulations (and political economy)—are there rents; who gets them?
     - E.g., impacts of value chains/production networks
  3. More research on lessons of experience
     - Focus more on EU given depth of integration effort