Runway 22
RNAV
CPT 4R
BUZ 7R
BKY 5R
CLN 8R
22
LAM 3R
LYD 8R
DET 1R
NORMAL
WET ALERT
METAR AUTO
LAMPS
TOO
LOW
GMC
1522:52

3 Fostering economic development through services trade

Key points

- Despite challenges linked to characteristics intrinsic to services and the heterogeneity of services markets, a deepened commitment to supportive domestic business environments and to trade openness in services form indissociable parts of a comprehensive growth-enhancing policy agenda.

- Deepened international cooperation directed to increasing the predictability of policy regimes and of commitments made in trade agreements, lowering barriers to trade in services, and promoting the adoption of trade-facilitating regulatory practices, are all key to realizing the development promise of expanded services trade.

- While a significant share of the gains from services sector reforms are typically secured through the unilateral actions of governments, trade agreements can play a useful complementary role. Disciplines on domestic regulation in trade agreements are also important by helping ensure that regulatory objectives are pursued in ways that limit adverse effects on trade.

- Aid for Trade support which targets efforts to enhance international cooperation, reduce trade costs and improve the transparency and predictability of trading conditions could spur progress on the services trade agenda – particularly at the WTO. Aid for Trade could be a useful component in addressing the challenges many developing and least-developed economies face in services trade negotiations, implementing negotiated outcomes and exporting services to the global market.

- A Trade in Services for Development initiative could help to mobilize more technical assistance and capacity building in five key areas with the aim to:

  (i) improve data and information sources on services trade;
  (ii) facilitate the participation of developing economies in international negotiations and discussions on trade in services;
  (iii) strengthen services-related regulatory frameworks and institutions;
  (iv) help developing economies seize the services trade opportunities offered by accelerating the pace of digitalization;
  (v) boost supply capacities and skill sets in developing economies to increase and diversify their services exports.

1. Deepening international cooperation in services trade

A number of challenges, not least those arising from the sheer diversity of the services economy (see Box 12), confront governments as they enact policies aimed at harnessing the potential contribution of services trade to inclusive economic growth and development. Deepened international cooperation directed to increasing the predictability and credibility of domestic policy regimes, scaling up commitments made in trade agreements, lowering barriers to trade and investment in services, and promoting the adoption of trade-facilitating regulatory practices are all key to fulfilling this potential. In many instances, a conducive domestic environment will be a key determinant of the gains from expanded services trade.

(a) Increasing policy predictability and lowering barriers to services trade

Trade agreements can play a useful complementary role in securing the gains from services sector reforms, even though reform is typically secured through the unilateral actions of governments. Negotiations on services trade are worth pursuing for several reasons.

Demonstrating credibility

Services trade agreements provide governments the opportunity to reap the benefits of locking-in enacted domestic reforms. Binding commitments demonstrate the credibility of domestic reforms and signal a commitment to improved business and investment climates. The credibility enhancing properties of multilateral commitments rank among the most important features of the General Agreement on Trade in Services (GATS) and, more broadly, of WTO rule making. Similar considerations also apply to the binding commitments assumed under preferential trade agreements (Ciuriak *et al.*, 2020).

Services trade agreements offer the possibility of committing to future policy reforms, which can instil a greater sense of urgency about necessary domestic regulatory reforms while also promoting an orderly adjustment path.[1] A scheduled commitment to future market opening may be more credible than an unbound domestic reform announcement, particularly for countries saddled with higher risk premiums demanded by investors.

Reciprocal liberalization

Unilateral liberalization in services, while widespread, is far from uniform across regions, countries, sectors and modes of supply. Important barriers remain, including in areas of particular interest to several developing economies, such as the movement of natural persons or professional services for example. However enlightened, unilateral domestic reforms are not designed to address barriers in foreign markets. The only feasible means of doing so is to pursue reciprocal liberalization opportunities with key trading partners.

Reciprocity-based bargaining can help governments overcome domestic resistance to change. Reform can be easier if a government can demonstrate that its exporters will benefit from expanded market access opportunities, including those brokered in other areas of a trade negotiation.

Services diversification

Trade negotiations offer scope to diversify services exports and identify export potential that could gain from improved transparency and policy predictability at home and abroad. Expanded two-way trade in services can yield important gains by stimulating competition and diffusing international best practices, particularly in matters of domestic regulation, skills, technologies and investment capital.

Attracting investment

The entry of foreign providers can supply better services to domestic consumers, improve the competitiveness of domestic firms confronting more contestable market conditions and, given that a predominant share of trade in services occurs through foreign direct investment, bring much-needed capital to host countries. Affording easier entry conditions to foreign suppliers can also help to stimulate investment in infrastructure – an area that is often stifled by public-sector budgetary constraints or limited access to international capital markets.

Box 12. Differentiation matters: Contending with the diverse nature of services

Opening services markets to foreign competition confronts policy-makers with a host of challenges linked to the high degree of differentiation characterizing the services economy.* The sector's sheer diversity suggests that policy reforms need to pay close attention to – and be informed by – differences in the nature and roles that various services play, in the multiple ways they are traded, in the intensity of the regulatory scrutiny they command, in the broad range of public policy aims their supply pursues and in the political economy forces they put in play.

Services further differ in their skill and capital intensity, the degree to which they are connected to other sectors, their propensity to be supplied by micro, small and medium-sized enterprises or by large multinational firms, and the degree to which they can be remotely supplied. Such differentiation explains why services-sector governance rarely – if ever – proceeds on a one-size-fits-all basis. It also explains why domestic reforms anchored in trade agreements typically proceed in a progressive manner.

Services such as maritime, air and land transport, wholesale trade, logistics and express delivery are all central to the production and facilitation of goods trade and to the operation and resilience of cross-border production networks. A host of services, ranging from energy, telecommunications, banking, insurance, business and professional services to transportation are embedded in all products – goods and services – that economies produce, trade and invest in.

Tourism-related activities represent the leading source of export earnings for a large number of developing economies, including many least-developed economies. Across the world, a vast array of information and communication services provide the backbone to e-commerce.

Education and healthcare services, with their important public good characteristics, are key to a healthy, skilled and productive workforce. While the healthcare sector traditionally has a strong public sector presence in many countries and is among the lesser committed sectors in trade agreements, trade in both areas has experienced rapid growth in recent years and produced major export gains in a rising number of developing economies.

The high degree of regulatory scrutiny services command reflects the ubiquity of instances in which services markets might fail to produce socially optimal outcomes in the absence of regulatory measures pursuing legitimate public policy aims, such as consumer protection, the prevention of systemic risks in financial markets, environmental degradation or undue market concentration in network industries.
All are factors to take into account in the context of international cooperation.

Differentiation is also central theme in services trade negotiations, which typically involve a broad and complex set of policies and regulations, ministries covering the leading sectors, regulatory agencies and diverse stakeholders – domestic and foreign, public and private. Care is thus needed when assessing the nature, pace and sequence of regulatory reform and market opening of services if they are to maximize an economy's growth and development prospects.

The conduct of services sector reforms, whether pursued autonomously or in the context of trade agreements, can therefore prove more challenging than in other sectors (see Sáez *et al.*, 2014). This suggests that a strong development payoff can be expected from stepped up levels of Aid for Trade targeting the nexus between domestic reforms and trade negotiations in the sector.

* For a fuller discussion of the differentiated nature of services, see Nayyar and Davies (2023).

Global value chains

Services trade negotiations can help countries secure greater value from their participation in cross-border production networks by boosting the competitiveness of services involved in backward and forward global value chain (GVC) linkages.

Technical and financial assistance

Developing economies can leverage binding commitments in trade agreements to benefit from increased technical and financial assistance to implement services sector commitments. Experience under the WTO's Trade Facilitation Agreement has shown the usefulness of tying the scheduling of commitments to economies' capacity to implement them – with technical and financial assistance to support implementation efforts. A similar approach is contemplated under ongoing plurilateral negotiations on Investment Facilitation for Development (see Box 13).

(b) Promoting the adoption of trade-facilitating regulatory practices

Since services are subject to a high degree of regulatory intensity, improved capacity to regulate services markets is of critical importance for enhanced competitiveness. A sound domestic regulatory environment is essential to reaping the benefits of expanded services trade and investment.

Measures taken to promote greater market contestability in services bring greater rewards when rooted in and accompanied by sound regulation and strengthened regulatory enforcement capacity.[2] Technical support directed at building or strengthening domestic regulatory capacity is therefore needed, including in sectors where liberalization is undertaken autonomously by developing economies.

Disciplines on domestic regulation contained in trade agreements play a significant role in promoting and consolidating domestic reform efforts in services markets and in ensuring that regulatory objectives pursuing key public policy objectives are achieved in an economically efficient manner. Such disciplines can also equip developing-economy exporters with the means to address regulatory barriers to their own exports in foreign markets.

As recurring bouts of financial market instability have shown, inadequate domestic regulation can give rise to serious internal distortions, which in turn can entail equally severe social dislocation with third-country ramifications, given the interconnected nature of financial markets. Inadequacies in domestic regulation, for example in the field of professional licensing, can also legitimize external barriers to trade, to the detriment of developing-economy exporters (OECD, 2023).

The establishment of an appropriate regulatory framework can enable a country to take advantage of potential export opportunities by promoting the emergence of competitive domestic suppliers that meet world standards of services provision. For example, by facilitating the development of a safe and reliable healthcare system, a sound regulatory framework can enable a country to take advantage of new opportunities to offer health and wellness-related tourism services.

Box 13. Negotiations on Investment Facilitation for Development

Investment facilitation at the WTO aims to promote more transparent, efficient and investment-friendly business climates by making it easier for investors to invest, conduct their day-to-day business and expand their existing investments, as well as for host and home governments to work cooperatively to facilitate greater volumes of sustainable investment.

Following two years of preparatory work, participants (currently more than 110 WTO members) formally launched negotiations on the Investment Facilitation for Development (IFD Agreement) in September 2020.

An IFD Agreement could complement and reinforce members' existing efforts to facilitate investment by:

- creating clear and consistent global benchmarks for investment facilitation, thus ensuring that (minimum) common standards are applied across economies, reducing regulatory uncertainty, minimizing transaction costs, and making it easier for investors to invest;
- anchoring domestic investment facilitation reforms in shared international commitments, thus reducing policy uncertainty, strengthening members' reform efforts and sending a positive signal to investors;
- providing a global forum to promote best investment facilitation practices, thus enhancing cross-border regulatory cooperation and improving information exchanges;
- supporting and strengthening the capacity of developing and least-developed economies to implement investment facilitation measures through technical assistance and capacity building.

An IFD Agreement would also include a section on sustainable investment, which contains provisions to encourage the uptake of responsible business conduct principles and standards by investors and enterprises, as well as the adoption of anti-corruption measures. An IFD Agreement would apply to investment facilitation in services and non-services sectors, but would not cover market access, investment protection and investor–state dispute settlement.

Providing special and differential treatment, including technical assistance and support for capacity building, to developing and least-developed economies is also a key component of a prospective IFD Agreement. Echoing an approach pioneered in the WTO's Trade Facilitation Agreement, developing and least-developed economies would be allowed to designate the provisions of a future IFD Agreement under one of the three categories (A, B, C) and request additional time or technical assistance and capacity building for implementation.

Three key pillars are sections on

Transparency of investment measures

Accelerating and streamlining investment administrative procedures

Enhancing international cooperation, information sharing and exchange of best practices

Source: See https://www.wto.org/english/tratop_e/invfac_public_e/factsheet_ifd.pdf.

While an increasing number of developing countries have been undertaking reforms to improve their domestic business and regulatory environments, technical support directed to improving regulatory design and enforcement capabilities could further enhance their competitiveness at the international level.

The *Reference Paper on Services Domestic Regulation*[3], which a group of 69 WTO members agreed to in 2021, addresses transparency and procedural aspects linked with the permission to supply services across different services sectors (see Box 14).

The reference paper disciplines build on and consolidate important developments in the field of good regulatory practice and drafting trends in preferential trade agreements adopted over the past two decades. They also represent an important building block for countries that want to engage in more substantive regulatory co-operation.

"A sound domestic regulatory environment is essential to reaping the benefits of expanded services trade and investment."

2. A Trade in Services for Development initiative: Aid for Trade priorities in services

In addressing the deficits in negotiating, enforcement and supply-side capacities that many developing economies face in services negotiations, a practical Aid for Trade component could usefully underpin domestic reform efforts and complement trade agreements by forming part of negotiated outcomes. This was the case in the WTO's Trade Facilitation Agreement, where donor support has proven key to both reaching consensus on the accord and supporting the generally rapid pace of its implementation.

Similar approaches aimed at tying technical assistance to the implementation of agreed negotiated outcomes is today at play in the recently concluded agreements on harmful fisheries subsidies and services domestic regulation and is being discussed in other negotiating initiatives, notably in the area of investment facilitation for development.

Box 15 offers insights on the nature of Aid for Trade disbursements directed to supporting services-related activities. The figures reveal that, with the exception of Aid for Trade disbursements directed to banking and financial services, aid disbursements in all other areas relevant to services trade have either remained largely unchanged or decreased over the last 15 years, with the largest drop registered in Aid for Trade spending directed to business and other commercial services.

Just as trade agreements can be viewed as complements to domestic reform efforts in services markets, so too must Aid for Trade linked to heightened engagement in services negotiations complement efforts at improving the quality of domestic regulatory and policy-making environments that are independent from trade policy considerations.

Box 14. Tackling regulatory barriers to trade in services: The outcome on services domestic regulation

At the end of 2021, a group of WTO members representing 92.5 per cent of the world's services trade agreed on a set of disciplines on services domestic regulation to mitigate the unintended trade-restrictive effects of measures relating to licensing and qualification requirements and procedures, and technical standards. Several business associations around the world welcomed this WTO outcome as a concrete answer to the challenges that suppliers – and especially micro, small and medium-sized enterprises and women entrepreneurs – regularly face in services markets.

By focusing on procedural aspects of obtaining authorization to supply services, the disciplines aim to ensure that existing market access conditions are not in practice nullified by opaque and complex procedures that services suppliers have to navigate when seeking authorization to supply services.

While preserving WTO members' space to regulate services in accordance with their national policy objectives, the disciplines align closely to good regulatory practice developed at the international level under three key objectives: transparency, certainty and predictability of procedures, and regulatory quality and facilitation.

One of the novel disciplines that has been agreed requires that authorization procedures for services suppliers do not discriminate against women. Based on the recognition that many economies still maintain barriers for women to operate in services markets, which do not find correspondence for men, this discipline seeks to provide a concrete avenue to support women's participation in international trade in services.

Recent findings by the Organisation for Economic Co-operation and Development and the WTO suggest that the benefits from implementing the disciplines on services domestic regulation would result in significant reductions in trade costs, particularly in important backbone services sectors, such as commercial banking, telecommunications and insurance, as well as computer and professional services (OECD/WTO, 2021).

Implementation is likely also to generate broader trade benefits for the economy as whole, such as an increase in services trade by all modes of supply, as well as greater level of entrepreneurship and more active involvement in global value chains (Baiker *et al.*, 2021).

Three key objectives

Transparency

Certainty and predictability of procedures

Regulatory quality and facilitation

Source: See https://www.wto.org/english/tratop_e/serv_e/sdr_factsheet_jul22_e.pdf.

Box 15. Documenting Aid for Trade in services

The Synthesis Report annexed to the G20's 2020 Ministerial Communiqué* underscored that Aid for Trade needs to be mobilized to provide new trade opportunities, reduce trade costs in services, and enhance connectivity by providing an enabling environment for services markets.

A significant part of Aid for Trade disbursements – totalling US$ 48.7 billion in 2020 – interact with services, as suggested by the breakdown of broad categories of disbursements (see table below). Of the total, however, 54 per cent of Aid for Trade disbursements relate to transport and storage and energy generation and supply. Both categories concern the hard infrastructure of services markets (physical installations such as roads, airports or energy grids) rather than "soft infrastructure" at play in services negotiations (e.g. policy formulation, competitiveness diagnostics, institutional strengthening and services sector regulation).

Indeed, classification of Aid for Trade data does not provide sufficiently disaggregated information to capture the extent to which development assistance qualitatively improves trade negotiating capacities, strengthens regulatory institutions and improves services trade policy formulation and implementation. Other categories, such as communications, business and other services or tourism, account for a relatively small – and sometimes diminishing – share of total Aid for Trade disbursements directed to the services.

Aid for Trade disbursements, 2006-2020
(Value in US$ million and per cent of total)

	US$ million				In per cent			
Categories	**2006**	**2010**	**2015**	**2020**	**2006**	**2010**	**2015**	**2020**
Trade policy and admin. management	383.3	636.9	447.5	681.4	1.85	1.99	1.03	1.40
Trade facilitation	71.9	354.9	446.8	362.1	0.35	1.11	1.03	0.74
Regional trade agreements	60.2	108.2	102.0	48.8	0.29	0.34	0.24	0.10
Multilateral trade negotiations	18.4	29.9	17.0	7.9	0.09	0.09	0.04	0.02
Trade-related adjustment	0.0	66.3	14.3	2.7	0.00	0.21	0.03	0.01
Trade education/ training	9.7	35.2	34.2	25.1	0.05	0.11	0.08	0.05
Transport and storage	5,835.1	9,463.6	11,893.7	11,053.2	28.22	29.54	27.43	22.68
Communications	511.2	538.7	478.3	874.3	2.47	1.68	1.10	1.79
Energy generation and storage	4,178.0	6,988.6	10,394.5	11,784.7	20.21	21.81	23.97	24.18
Business and other services	1,703.2	1,646.2	2,136.7	2,307.8	8.24	5.14	4.93	4.74
Banking and financial services	1,527.9	2,498.7	5,999.1	7,354.2	7.39	7.80	13.84	15.09
Agriculture	3,466.1	6,817.2	7,804.1	8,737.3	16.76	21.28	18.00	17.93
Forestry	504.5	758.9	801.4	1,159.9	2.44	2.37	1.85	2.38
Fishing	221.4	322.9	240.8	448.1	1.07	1.01	0.56	0.92
Industry	1,215.8	1444.2	1,904.3	2,685.4	5.88	4.51	4.39	5.51
Mineral resources and mining	914.7	173.9	471.2	1,029.0	4.42	0.54	1.09	2.11
Tourism	55.6	153.7	175.8	169.9	0.27	0.48	0.41	0.35
Aid for Trade total	20,677.1	32,038.0	43,361.6	48,731.7				

Source: OECD/WTO (2019, 2022).

* See https://www.g20.org/content/dam/gtwenty/gtwenty_new/about_g20/previous-summit-documents/2020/Final%20G20%20FMCBG%20Communiqu%C3%A9%20-%20July%202020.pdf.

Note: In the 2019 WTO-OECD Aid for Trade Monitoring and Evaluation exercise, most donor countries (66 per cent) and recipient countries (88 per cent) identified services as the sector where future support for economic diversification would be most required.

Moreover, any call for increased Aid for Trade must feature a parallel call for its rigorous monitoring and evaluation. The question of aid effectiveness in services trade remains an area where important information gaps remain and to which empirical attention could usefully be directed.

A trade services for development initiative could aim to:

- improve data and information sources on services trade;
- facilitate the participation of developing economies in international negotiations and discussions on trade in services;
- strengthen services-related regulatory frameworks and institutions;
- help developing economies seize the services trade opportunities offered by the accelerating pace of digitalization;
- boost supply capacities and skill sets in developing economies to increase and diversify their services exports, as called for by GATS Article IV (Increasing Participation of Developing Countries) and as recently reaffirmed by the outcome document of the WTO's 12th Ministerial Conference.[4]

(a) Improving the availability of services-related data and policy-relevant information

The first area where increased efforts at international cooperation can improve policy design and lend direct support to services trade negotiations is addressing the often acute deficits of data, information, analytical capacity and expertise limiting the ability of developing and least-developed economies to engage meaningfully in services trade policy formulation and negotiations at the national, regional and global levels. This concerns, for example, a lack of information on existing national policies that may be affected by the rules and commitments scheduled in different sectors and modes of supply.

Some developing economies also have limited capacity to diagnose sources of comparative advantage in services, identify the policy mix best able to boost productive capacity or assess the distributional impacts of various policy choices (Engel *et al.*, 2021). Also common are weaknesses in domestic institutional architectures for inter-agency coordination and external stakeholder consultations given the large number of public and private sector actors at play in services trade policy.[5] All are areas in which technical assistance directed at strengthening negotiating and analytical capacities in services can yield important benefits.[6]

Informed policy-making in services needs to be underpinned by credible data. Despite marked improvements in the availability of services trade data relative to the situation prevailing during the Uruguay Round, the statistical landscape governing services trade continues to exhibit important shortcomings. For instance, too few developing economies gather, compile and publish data on bilateral services trade (on a balance of payments basis), on the activities of foreign affiliates and on investment flows in the services sector.

Such data inadequacies force recourse to mirror data to approximate the value of transactions, which is far from optimal given the many gaps in reported bilateral data. Many developing economies also confront a dearth of disaggregated data on services traded at the product level, on the value of services trade by modes of supply, on digital trade as well as on domestic services output.

Initiatives to broaden the availability of the above statistical sources in developing economies – in particular least-developed economies, call for more funding directed to technical assistance and statistical capacity building. In response to these data gaps, the OECD, the World Bank and the WTO have developed experimental trade in services datasets.

WTO–OECD Balanced Trade in Services dataset

The WTO–OECD Balanced Trade in Services (BaTiS) dataset is a comprehensive and consistent matrix of trade in services statistics (on a balance of payments basis) for 200 reporters and partners covering 12 services subsectors combining available national data with a range of estimations and adjustment procedures.

Trade in Services by Mode of Supply dataset

The Trade in Services by Mode of Supply (TiSMoS) dataset was produced by the WTO and funded by the Directorate-General for Trade of the European Commission. Covering 200 economies, it provides an overall picture of international trade in services across the four modes of supply defined by GATS.

Trade in Value-Added dataset

Efforts are being made to better understand the flows of goods and services in GVCs, since such flows and interactions between economies are not reflected in conventional measures of international trade. The development of Trade in Value-Added (TiVA) estimates by the OECD addresses this information gap. However, such data are rarely available for developing economies, given the lack of underlying official statistics necessary to compile TiVA data – in particular supply-use or input–output tables, national accounts data by type of activity and detailed bilateral trade in services statistics.

Services Trade Policy Database and Services Trade Restrictions Index

The World Bank and the WTO have jointly developed the Services Trade Policy Database (STPD), a services regulatory database, and the associated Services Trade Restrictions Index (STRI), which quantifies levels of applied policy restrictiveness in services markets (see Box 16).

Improving data coverage

While the above statistical advances significantly improve countries' understanding of key trends and the policies driving them, all require deeper country coverage (particularly of poorer countries) and regular updates to serve useful diagnostic and analytical purposes. This in turn implies the need for continued donor support for the various international organizations to cover the recurring costs involved in collecting and analysing such data.

Moving in this direction can be expected to produce the twin benefit of ensuring that policy choices rest on rigorous analysis and that the comfort level required to engage more deeply in services sector reforms and negotiations is raised.

(b) Strengthening developing-economy participation in international discussions on services trade

Much capacity-building effort in services has so far focused on helping trade negotiators and policy officials master the legal provisions of services agreements, such as GATS. For many poorer economies, this remains an important challenge, particularly where services expertise is scarce in trade and foreign ministries and even more so in relevant line ministries and regulatory agencies. Short-term training activities directed to overcoming such knowledge gaps retains its salience in many poorer settings.

However, equally important needs include:

- acquiring the analytical tools to assess alternative domestic reform scenarios;
- developing government-wide negotiating processes;
- strengthening public–private dialogue on services-related reforms and negotiations;
- helping domestic services providers take full advantage of the market access opportunities arising from regional and multilateral liberalization efforts.

Box 16. WTO–World Bank Services Trade Policy Database and Services Trade Restrictions Index

Since 2013, the World Bank and the WTO have been developing the joint Services Trade Policy Database (STPD) and the associated joint Services Trade Restrictions Index (STRI). This cooperation builds upon earlier work on services trade policies by the World Bank in 2008-2011. The STPD, inaugurated in 2019 (Borchert *et al.*, 2019, 2020), comprises two components: a regulatory database and the STRI.

Originally, the database covered 76 economies and the following services (with some of the listed sectors disaggregated into more detailed subsectors):

- professional services (accounting, auditing, legal);
- distribution;
- financial (banking, insurance);
- telecommunications;
- transport services (air, rail, road, maritime).

The database was significantly expanded between 2020 and 2022 to cover 54 African economies (all parties to the African Continental Free Trade Area) and six Pacific Islands. Sectoral coverage was also increased (adding architecture, engineering, computer, postal and courier, audiovisual, construction, health, tourism). Again, there was additional subsector detail in some cases.

As of May 2023, the STPD covers 129 economies and is in the process of being expanded to cover new ones. The database provides regulatory information on around 500 measures affecting services supply in each economy through the various modes of supply. The regulatory information is displayed and organized according to a classification of policies jointly developed by the WTO and the World Bank that comprises five broad categories:

(i) conditions on market entry;
(ii) conditions on operations;
(iii) measures affecting competition;
(iv) administrative procedures and regulatory transparency;
(v) miscellaneous measures not covered by the previous four categories (see table 1 of Borchert *et al.*, 2020).

Based on the regulatory information collected, the restrictiveness of countries' policies in each of the subsectors is quantified by means of the STRI – an index that quantifies a country's applied policies on trade in services on a scale from 0 (fully open) to 1 (completely closed to foreign services or services suppliers).

Drawing from the STPD regulatory information at the individual measure level, all key restrictions affecting trade in services are individually given a score from a six-level scale of restrictiveness that ranges from 0 to 1. All measures thus scored at the country-subsector-model level are then combined and aggregated using an algorithm that is based on a constant elasticity of substitution function.

The STRI summarizes policy restrictiveness in an accessible and compact way that is impossible to achieve with text-based measures. It thus facilitates a comparison of regulatory stances across sectors, countries and potentially over time, and it serves as crucial input into a wide range of quantitative analyses.

Source: World Bank and WTO (forthcoming).

Note: The regulatory information is collected in two ways: information for OECD economies is from the OECD STRI regulatory database. For other economies, the data are collected through primary surveys completed by local law firms or consultants.

Mastering such skills can strengthen developing economies' capabilities to fully take advantage of services trade.

Benefits could also be derived from having roadmaps in place for services sector development in the context of national development strategies. Efforts directed at helping governments craft a strategic roadmap for their services sector and the role that trade policy and trade agreements can play in pursuit of the sector's development are especially important. This would help many developing economies to better define their interests when negotiating on services in trade agreements at the bilateral, regional or multilateral levels[7] and ensure their alignment with ongoing domestic reforms.

Equally important are efforts directed at strengthening in-country capacity – within governments, policy research institutions and academia – to produce the data and analysis needed to inform trade policy formulation and implementation.

Defining national interests in services requires detailed information about the full range of measures that prevent effective access to the markets of key trading partners. The breadth of services trade and the diversity of sectors render information gathering a complex task that challenges many developing economies, even larger ones.

Trade-related technical assistance can provide services suppliers in developing economies with greater economic information on, among other things:

- market access conditions and opportunities in export markets;
- access to distribution channels;
- information on product standards;
- business-to-business dialogue;
- networking.

Support given to mapping the landscape of competitive domestic services suppliers, the majority of which are micro, small and medium-sized enterprises (MSMEs), can promote heightened insertion in both regional and global value chains and closer linkages with the lead investor firms that typically drive GVCs.

Technical assistance and discussions on services-related analytical tools deserve greater attention from multilateral agencies and the donor community. Such support could build on South–South learning and involve dissemination of best practices by developed and developing economies that have been successful reformers.

(c) Conducting regulatory audits on services trade

As a significant part of services trade policy comprises behind-the-border measures, much of the work involved in developing a services strategy will need to focus on the domestic regulatory regime.

An inventory or trade-related audit of key existing domestic measures "affecting trade in services" can be very useful and pursued even in the absence of trade negotiations. This will strengthen the process of information sharing and inter-agency coordination and help to promote a healthy dialogue between officials involved in domestic and external policy matters, while also favouring a culture of regulatory reform and periodic regulatory impact assessment and review (see Box 17).

Trade negotiations offer opportunities for engaging in such an exercise and building trade-related capacity among regulatory officials about international agreements, trade and investment law, and international negotiating processes. Such an exercise can also improve knowledge among trade officials of the underlying policy rationale of sectoral regulatory issues and policy reform challenges and the impacts they hold for the nature and sequencing of commitments scheduled in trade agreements.

Examining the domestic regulatory regime

- **How is it framed?**
- **What objectives does it pursue and with what degree of efficiency?**
- **How rooted in international standards or international best practice are domestic regulatory requirements?**
- **How user friendly are domestic rules and administrative procedures?**
- **How are domestic regulations applied and who applies them?**
- **How trade and investment friendly are domestic regulatory regimes?**
- **Can domestic regulatory objectives be attained in ways that are less trade or investment restrictive?**

Box 17. Regulatory Assessment of Services Trade and Investment

The World Bank has developed the Regulatory Assessment of Services Trade and Investment (RASTI) toolkit to help policy-makers assess regulations consistently, streamline regulatory frameworks to improve efficiency and establish a sound process for introducing new regulations.

Filling information gaps

The first objective of RASTI is to fill information gaps on the regulatory framework for services trade. Many developing countries have only recently embarked on services sector reforms. In some cases, market opening predates regulatory reform. This can pose sequencing problems and add to the challenge of regulating the domestic services market.

RASTI provides comprehensive information on the features of the regulatory framework for all services sectors. It identifies institutional weaknesses and regulatory deficiencies that can impair services trade and the development of an enabling services sector.

Supporting regulatory reforms

Identifying laws and regulations that restrict services trade and investment is the key first step in the process of regulatory reform. Where data are available, a quantitative analysis presents additional information on how regulatory restrictions affect services sectors. This information can be used to identify the measures and sectors that are most restrictive.

Policy-makers can then consider alternative paths towards improved regulatory frameworks for services. RASTI can be conducted as part of a broader policy to attract foreign investment, as the

> “Identifying laws and regulations that restrict services trade and investment is the key first step in the process of regulatory reform.

streamlining of regulatory frameworks can identify and eliminate unnecessary hurdles.

Supporting trade negotiations

Countries engaged in international trade negotiations can use RASTI to identify potential inconsistencies with international disciplines that may affect the negotiation process or compliance with agreed commitments. RASTI can also help to identify regulations that serve legitimate policy objectives and should not be affected by international trade agreements.

A detailed mapping of regulatory frameworks gives trade negotiators an accurate picture of the sectors and measures requiring attention. It can, for instance, inform trade negotiators of sensitive sectors and measures that may conflict with a proposed agreement. Once an agreement enters into force, a RASTI can support implementation by identifying inconsistent laws and regulations or sectors in need of new regulations aligned to new international obligations.

Assessing regulatory performance

Analysis of the governance framework assesses regulatory institutions' ability to develop a regulatory framework that stimulates the services sector while achieving policy goals. It also identifies administrative practices that impair the services sector, such as excessively burdensome registration requirements, non-transparent licensing procedures, and weak regulation monitoring and enforcement practices.

Note: For background information, see Molinuevo and Sáez (2014).

(d) Strengthening regulatory capacities and facilitating the mobility of capital and labour

Technical assistance relating to the services sector can make an important contribution in strengthening regulatory capacity – both of the institutions and their officials – in developing and least-developed economies. Regulatory institutions are costly to establish and maintain and require staff with sophisticated legal and economic skills. However, sound domestic regulation is critical to realizing the full benefits of open services markets, correcting market failures and addressing potential distributional impacts.

An important step in enhancing regulatory governance in services was secured by the recently agreed disciplines on services domestic regulation reached by a group of WTO members, whose provisions are intended to apply to all WTO members on a most-favoured-nation treatment basis (see Box 14).

Assistance directed at enhancing the economy's investment climate may also be particularly important in strengthening the competitiveness of the services sector, given the predominance of commercial presence as a mode of supplying services.

Assistance can also be directed at facilitating and reducing the costs attached to the cross-border mobility of services suppliers, including via mode 4 trade, where barriers remain significant. This can be done by sharing best practices in the design and operation of trade-facilitating mutual recognition agreements, as well as from initiatives aimed at reducing the costs of complying with temporary entry requirements.

Developing economies also stand to benefit from enhanced assistance in designing reforms that properly factor the distributional impacts that services trade may exert on poorer households, women, the youth or disabled workers by improving access to essential services, running the gamut from sanitation to transport, telecommunications, banking, trade finance, education and vocational training – particularly digital literacy – as well as health.

(e) Accelerating the pace of digitalization

Digitalization and the related shift to services is reshaping the geography of trade in ways that present important opportunities for developing economies. Digital trade opens new opportunities for firms of all sizes, anywhere in the world, to gain access to new and larger markets.

Digital services do not require the usual scale or capital intensity characteristic of manufacturing. Successful digitalization strategies require not only investments in information and communications technology (ICT) hardware, software and digital literacy but also a conducive legal, regulatory and institutional enabling environment for ICT services (see Box 18).

Services supplied remotely over digital networks and platforms is growing in importance. To boost cross-border trade in services, there needs to be:

- greater regulatory convergence;
- development and adoption of international or regional standards;
- adoption of measures governing issues such as data privacy and network interoperability.

Technical assistance for all these areas is being provided by international organizations to help economies narrow digital divides, improve the digital regulatory environment and strengthen their participation in digital trade negotiations (see Box 19).

Beyond efforts aimed at boosting digital readiness at the national level, a set of international rules for digital commerce is also needed to underpin the orderly growth of cross-border digital trade. Negotiating such rules will once more require more international cooperation and enhanced policy-making expertise (see Box 20).

Box 18. Digital Economy for Africa Initiative

Together with development partners and sector stakeholders, the World Bank Group's Digital Economy for Africa (DE4A) Initiative* supports the African Union's Digital Transformation Strategy for Africa** in identifying the key policy reforms and investments needed at the national and regional level for the countries in Africa to achieve their digital development ambitions.

The DE4A Initiative supports policy reforms and leverages public and private investments to build digital economies in Africa. This commitment has been accompanied by a call for countries in Africa to increase their spending on the digital economy and prioritize critical reforms.

The DE4A Initiative includes the development of "Digital Economy Scorecards" across the five key pillars of the digital economy to track objectives.

Country diagnostics offer a snapshot of the state of the digital economy at the country level across each of the five pillars. As of March 2023, 40 country diagnostics had been completed.

Digital Economy Scorecard

1. **Digital infrastructure**
2. **Digital public platforms**
3. **Digital financial services**
4. **Digital businesses**
5. **Digital skills**

* See https://www.worldbank.org/en/programs/all-africa-digital-transformation.
** Available at https://au.int/en/documents/20200518/digital-transformation-strategy-africa-2020-2030.

> Services supplied remotely over digital networks and platforms are growing in importance.

Box 19. Digital Advisory and Trade Assistance Fund

The Digital Advisory and Trade Assistance (DATA) Fund* is a pilot programme managed by the World Bank as part of the Umbrella Facility for Trade**, a multi-donor trust fund. With contributions from Australia and Switzerland under the E-Commerce Capacity Building Framework***, the DATA Fund was established to advance technical assistance in digital trade and to support developing economies' participation by improving the domestic regulatory and business conditions for engaging in global digital markets. It will also support capacity building in drafting international rules on digital matters through specialized training for policy-makers and other stakeholders.

The main focus of the DATA Fund is on projects that have a direct impact on the benefit trade in digital services and e-commerce can bring to developing economies, including:

- legal, regulatory and institutional framework for digital trade;
- development and analysis of digital trade statistics;
- border management and logistics for e-commerce;
- digital skills and entrepreneurship;
- fiscal regimes for e-commerce and digital services;
- capacity building for policy-making and international negotiations.

* See https://blogs.worldbank.org/trade/digital-trade-talks-voices-least-developed-countries-are-missing.
** See https://www.worldbank.org/en/programs/umbrella-facility-for-trade.
*** See https://www.wto.org/english/tratop_e/ecom_e/jiecomcapbuild_e.htm.

Box 20. WTO Joint Statement Initiative on E-Commerce

A group of 71 WTO members agreed in 2017 to initiate exploratory work towards future WTO negotiations on trade-related aspects of e-commerce.* In January 2019, 76 WTO members confirmed in a joint statement their intention to commence these negotiations.

As of February 2023, there are 89 WTO members participating in these discussions, accounting for over 90 per cent of global trade. Four least-developed economies are participating – Benin, Burkina Faso, the Lao People's Democratic Republic and Myanmar – alongside a significant number of developing economies from most regions of the world.

The discussions aim to update the WTO rulebook on e-commerce to unlock the important opportunities that the digital economy offers for members at all levels of development, including by lowering the cost for businesses, particularly and micro, small and medium-sized enterprises, to access and participate in global markets. Participating members seek common disciplines to facilitate remote transactions and strengthen trust in digital markets, while helping to tackle digital trade barriers.

Significant progress has been achieved in the negotiations since 2019. By the end of 2022, the initiatives' co-conveners (Australia, Japan and Singapore) had issued streamlined text with convergence on ten articles:

- paperless trading;
- electronic contracts;
- electronic signatures and authentication;
- unsolicited commercial electronic messages;
- online consumer protection;
- open government data;
- open internet access;
- transparency;
- cybersecurity;
- electronic transactions framework.

Discussions are continuing on a range of additional issues, including on provisions to enable and promote the flow of data, such as on cross-border data flows, data localization and source code.

Recognizing the challenges faced by developing and least-developed economies seeking to benefit from the digital economy, Australia, Japan, Singapore and Switzerland have launched the E-Commerce Capacity Building Framework**, which aims to strengthen digital inclusion and to help harness the opportunities of digital trade. The Framework will offer a range of technical assistance, training and capacity building to support the participation of developing and least-developed economies in the e-commerce negotiations.

* See https://www.wto.org/english/tratop_e/ecom_e/xcom_e/joint_statement_e.htm.
** See https://www.wto.org/english/tratop_e/ecom_e/jiecomcapbuild_e.htm.

(f) Boosting supply capacity and the skills relevant to services trade

Strengthening productive capacity

Scaled-up support is needed to strengthen productive capacity in domestic services markets, including through improved access to technology and enhanced connectivity, both digital and physical. Aid for Trade in services needs to target the very real constraints that many exporters in developing economies face in attempting to supply newly opened markets.

Scaling-up domestic services capacity would provide benefits for employment, particularly for women given their preponderant role in many sectors. It would also speed up the pace of digitalization and allow countries to take advantage of expanded export opportunities, including in higher value-adding services activities.

Such support may prove particularly important in sustaining diversification efforts in countries characterized by high degrees of dependence on only a few sectors (e.g. extractive industries, tourism). While the fixed costs of entering foreign markets is often lower in services than in manufacturing, they may still prove prohibitive for services suppliers in developing economies – the bulk of which are MSMEs.

Even in services sectors where developing economies export, suppliers face a number of common problems, including:

- lack of access to financing for export or business development;
- difficulties in establishing credibility with international suppliers;
- lack of access to reliable and inexpensive infrastructure;
- inadequate access to a range of formal and informal networks and institutional facilities necessary for trade.

Strengthening the performance of trade and investment promotion institutions and adapting their promotional toolkits to the specificities of services trade can be especially important in this regard (ITC, 2022).

Improving domestic services standards

Significant development gains can be made by helping developing economies improve domestic services standards, notably by strengthening their participation in regional or global standard-setting initiatives. Similar to poor compliance with technical barriers to trade and sanitary and phytosanitary standards in goods trade, weak standards and related inadequacies in domestic regulation can frustrate services providers in developing economies trying to access foreign markets.

Opening up markets

Businesses which export services also have a stake in ensuring that markets are opened up, and that such opening proves sustainable and proceeds in a stable regulatory environment. These objectives can be served by leveraging private sector support for strengthened regulatory institutions and improved services policy design, including through increased South–South dialogue and cooperation.

Capacitating private actors

On account of its central focus on the private sector, supply-side capacity building involves a different set of institutional actors from those involved in the strengthening of trade negotiating or regulatory enforcement capacities. Such differences matter for assistance design and inter-agency coordination efforts.

Greater private-sector involvement from services exporting firms and coalitions of services sectors in industrial and emerging markets could usefully complement the efforts of bilateral donors and regional and multilateral agencies such as the International Trade Centre, the United Nations Conference on Trade and Development and the World Bank, as well as regional development banks.

Improving training and skills

Boosting the capacity of suppliers to produce competitively priced services that meet the quality standards of global markets requires a parallel investment in skills, for which targeted educational expenditures alongside Aid for Trade interventions can be directed. Training and the acquisition of skills are key to sustained productivity gains by boosting the capabilities of workers.

In services, low-skilled tasks generally require only basic digital literacy (Engel *et al.*, 2021). For high-skilled tasks in the services sector, a key challenge is for tertiary education, particularly STEM subjects – science, technology, engineering and mathematics – and vocational skill development programmes to become more responsive to changing industry demands, including for ICT-related skills such as software programming and coding or complementary engineering skills that are often in short supply in developing economies.

At the same time, strengthening foundational skills such as literacy and numeracy, as well as the soft skills that foster adaptability, problem solving and initiative from an early age, also merits emphasis. Such skills can also be bolstered through less formal forms of learning, such as on-the-job training and the continued acquisition of skills through lifelong learning (World Bank, 2019).

Firms seeking to upgrade their production processes and innovate require improved managerial practices – not least because adopting new technologies can be disruptive and force managers to plan for and address change in processes. Managers also need to know how to take advantage of the potential that new technologies bring.

Targeting upskilling efforts at firms owned or managed by women and young entrepreneurs can yield important gains in inclusiveness – particularly in the digital realm, where both managerial profiles are particularly present.

> “Training and the acquisition of skills are key to sustained productivity gains by boosting the capabilities of workers.

Endnotes

1 For background information, see Mattoo (1999).

2 See the work by Delimatsis (2008, 2016).

3 *Reference Paper on Services Domestic Regulation*, WTO document INF/SDR/1, 27 September 2021.

4 *MC12 Outcome Document*, WTO document, WT/MIN(22)/24 WT/L/1135, 22 June 2022.

5 For background information, see ADB/ITD (2009).

6 See the work by Sauvé and Lacey (2013).

7 For further information, see Hollweg and Sáez (2019).