

LDC PERFORMANCE IN SERVICES EXPORTS

Bernard Hoekman

European University Institute and CEPR

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DEDICATED SESSION OF THE COUNCIL FOR TRADE IN SERVICES:
REVIEW OF THE OPERATION OF PREFERENCES NOTIFIED UNDER THE LDC SERVICES WAIVER

Background: services matter for development beyond exports

- For any level of per capita income, services more important today than in the past
 - ICT & digitization of products; servicification of manufacturing
- Given that services $\geq 50\%$ of GDP \rightarrow increasing real incomes requires productivity improvements in services
- Services account for significant share of production costs of firms
 - Logistics services key element of lower trade costs
 - Especially important for SMEs that confront higher burden in overcoming fixed trade costs
- Many SDGs require better performance of services sectors
 - Health, education, finance, transport, ICT services
 - Issues of quality, access, distribution on supply side

Determinants of export performance

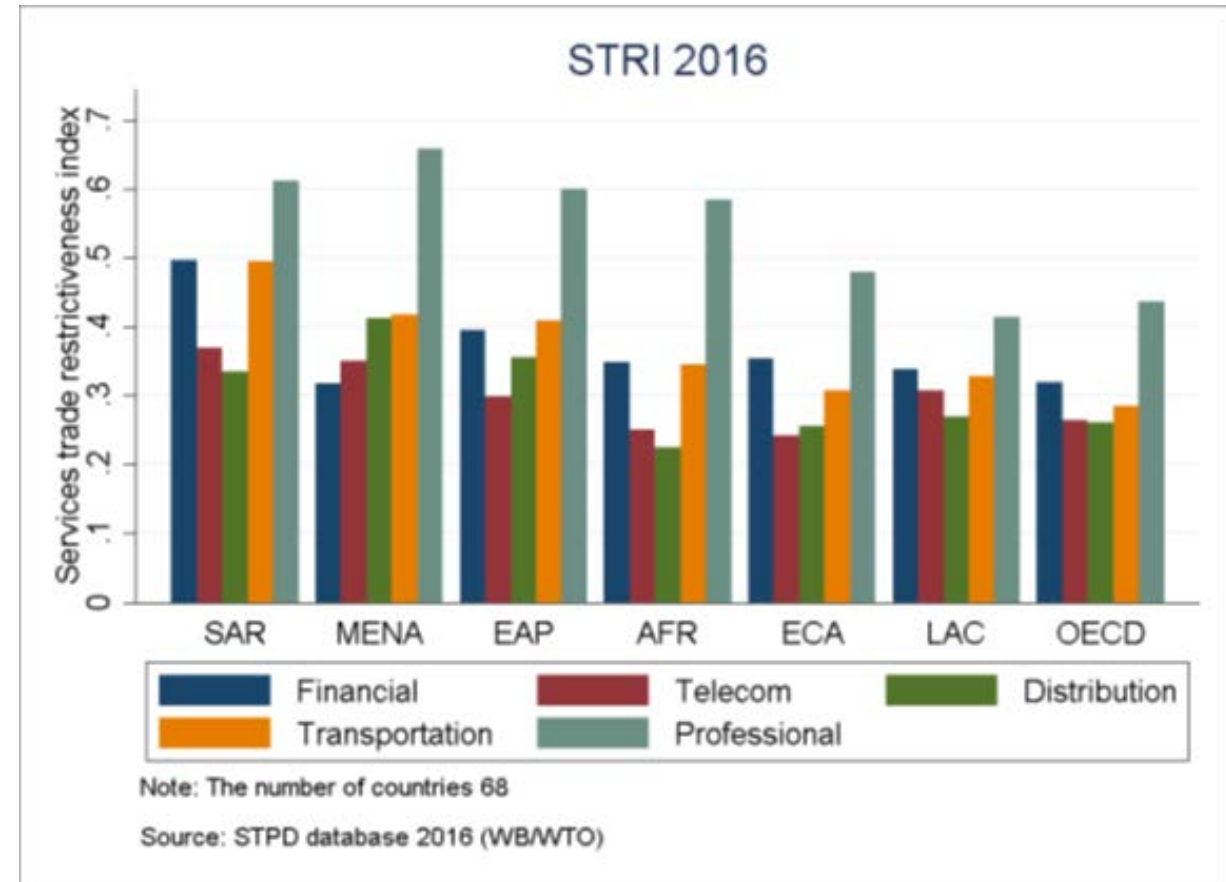
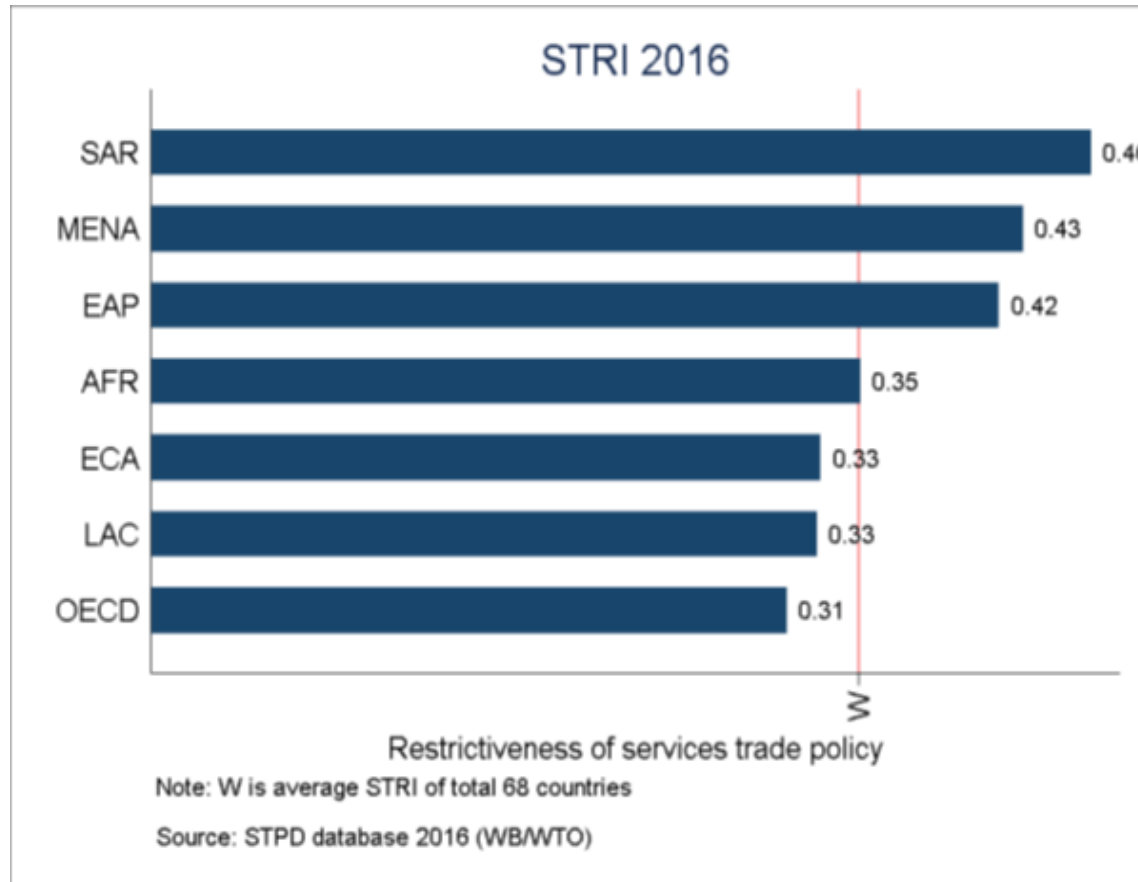
Depends on:

1. Demand for a specific service in foreign markets
 - Calls for information on potential market opportunities
 - And marketing: raise awareness of potential buyers/consumers
2. Supply capacity/market competitiveness of services firms
 - Price/quality/quantity... and reputation for delivery on these
 - This is both firm-specific and a function of country level variables
 - Business climate in exporting country
 - Transport costs (connectivity; logistics; ability to reliability)
 - Regulatory regime in importing country
 - Ability to access/cost of cross-border payment systems

Market access barriers: services trade costs are frequently high

- In part a function of characteristics of services—they are more difficult to trade
 - May require movement of provider or buyer/consumer: transport costs; visas; etc.
- Two dimensions of policy matter for services exports:
 - Restrictions on providers/products – for all modes of supply, incl. mode 4
 - Digital/payments-related regulatory policies (data, privacy, etc.)
- Need to differentiate between
 - Regulatory requirements that apply to all firms and
 - Explicit discrimination against foreign providers
- Both matter – and may vary across types of services / markets for the same service

Services restrictiveness is significant, so waivers can be meaningful [STRIs by region/sector (World Bank data)]



Source: Borchert et al. 2018, Applied Services Trade Policy: Evidence from a New World Bank/WTO Database

Slight trend towards liberalization offset by rising digital trade barriers?

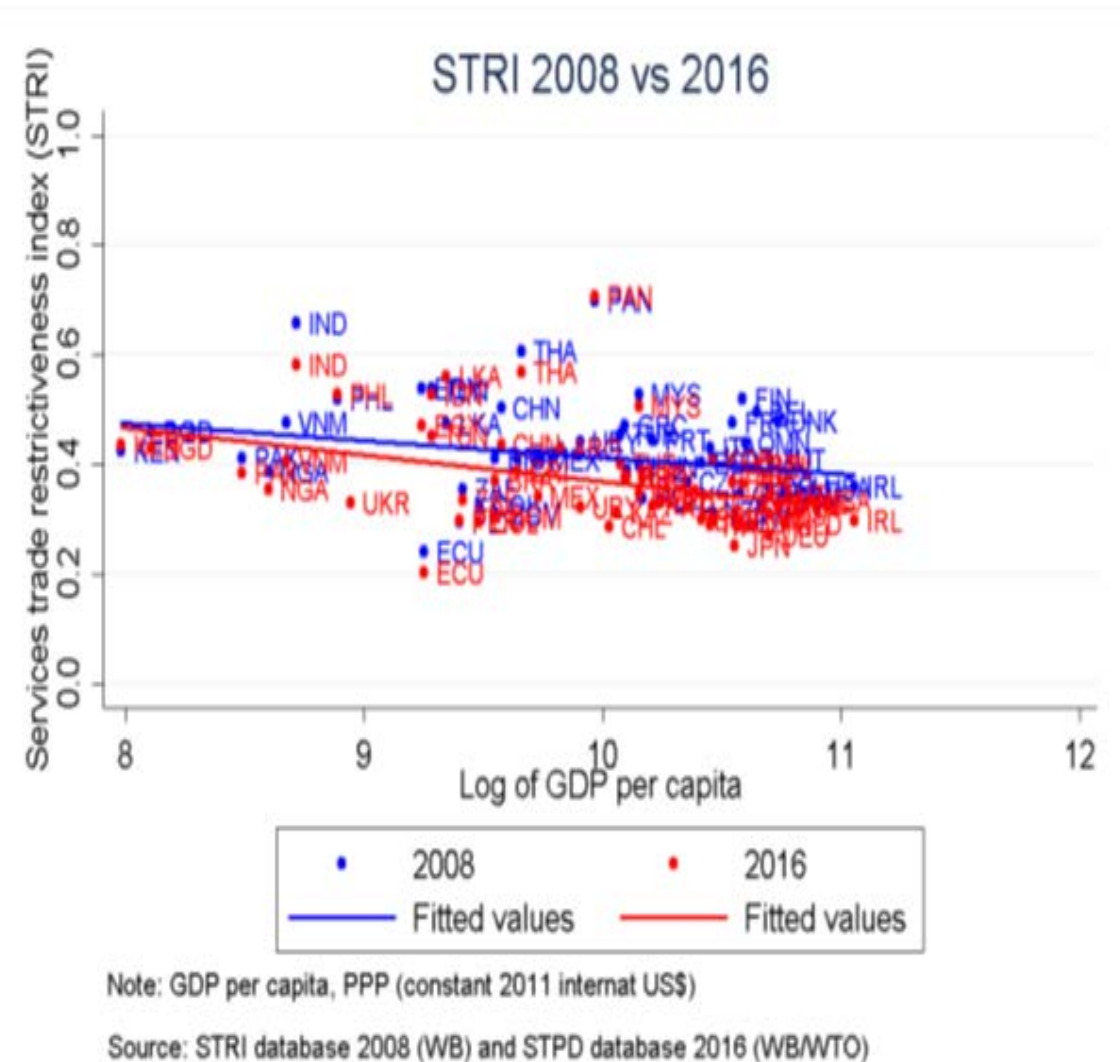
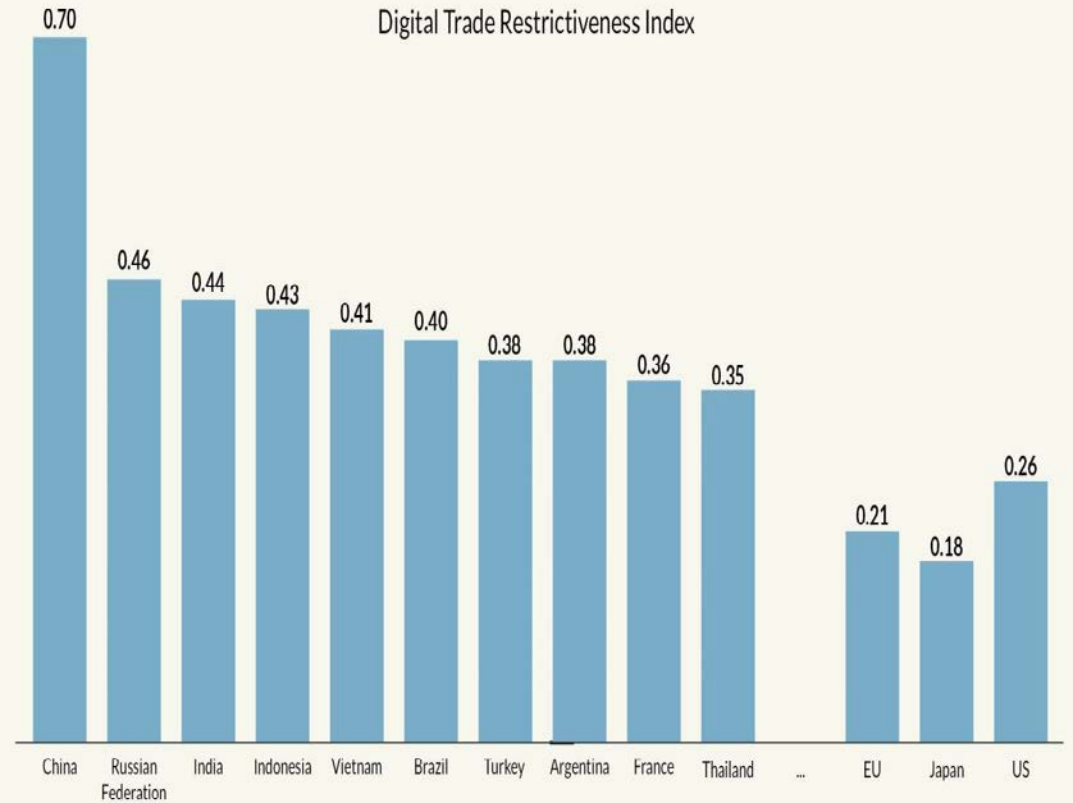


FIGURE 6: Digital trade: Ten most restrictive countries, plus the EU, Japan and US



Note: The Digital Trade Restrictiveness Index comprises tariffs on digital products, restrictions on digital services and investments, restrictions on the movement of data, and restrictions on e-commerce. The index ranges from 0 (no restrictions) to 1 (completely restricted).
Source: Ferracane, Lee-Mikayama and van der Marel (2018).

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How much do services trade restrictions matter?

- Lower services trade and investment barriers has both direct and indirect positive effects on productivity
 - Directly: on services sectors themselves
 - Indirectly: on firms in all sectors that use services as inputs
- FDI a major channel for gains from services trade reforms
 - Foreign participation a mechanism to acquire new technologies/ideas and as a means to foster competition (entry & exit)
- Modes are often complementary – need more than one to provide a service
 - Implication: waivers need to cover all the relevant modes for a given service or sector
- “PTA treatment” may not make a big difference: PTAs are mostly mechanisms to reduce uncertainty through policy bindings

Digital trade restrictions

- More restrictive digital trade regimes impede exports of developing countries
- Non-OECD countries' export of software intensive services over the internet affected negatively by OECD countries' data policies
- Ferracane and van der Marel, "Do Data Policy Restrictions Inhibit Trade in Services?" EUI working paper 2019:
 - Discriminatory measures such as local storage; processing; conditional flow regimes have a statistically significant negative effect on services flows
 - Some types of domestic regulation – such as data retention requirements and administrative requirements re: consumer privacy (GDPR) may not impact exports
- Implication: waivers on discriminatory measures may matter more – but only in areas where barriers are significant

Regulatory quality at home is critical

Impact on labor productivity (%) of opening mode 3

Country	Sector	Change in labor productivity (%)		
		Prevailing level of governance	Regional best practice (Botswana)	Global best practice (Denmark)
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

Note: Little analysis in literature of effect of STRIs and regulatory regimes on productivity of services sectors and activities

Source: Fiorini and Hoekman (in process) (paper for AERC project on regional integration)

Market access is just part of the challenge

- “Regulation” is also important
 - Horizontal: barriers to entrepreneurship at home – “doing business”; access to finance; infrastructure, etc.
 - Sector-specific regulatory regimes affecting entry and operations – e.g., certification of providers, access to payment systems, etc.
- Need to identify if specific areas of regulation have a major impact on access
- Implications for aid for trade as a complementary instrument
- AfT mostly focuses on goods. Evidence suggests it can be effective in expanding merchandise exports
- Less research on services.
 - Recent evidence that AfT expands LDC exports via modes 1 & 2, but not mode 3.
 - This an area needing greater donor focus, including re: M&E

Some implications for enhancing export performance

- Services market access comprises a mix of liberalization (removing discrimination), capacity strengthening and regulatory reforms
- Need a broad focus:
 - For market access barriers – all modes
 - To address key supply side constraints – including domestic regulatory environment
 - And to satisfy regulatory requirements in importing market
- Implications:
 - Broaden market access focus with trade facilitation for services
 - Extend trade promotion to include services
 - Identify regulatory requirements in import markets
 - Target aid for trade to address supply capacity and regulatory constraints