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 ≥ 50% of GDP → 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.

[STRI by region/sector (World Bank data)]

Slight trend towards liberalization offset by rising digital trade barriers?
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

<table>
<thead>
<tr>
<th>Country</th>
<th>Sector</th>
<th>Change in labor productivity (%)</th>
<th>Prevailing level of governance</th>
<th>Regional best practice (Botswana)</th>
<th>Global best practice (Denmark)</th>
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</table>

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