OPINION PIECE

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Ensuring inclusive services trade: role of complementary domestic policies

It is well recognized that trade in services is critical for sustainable development, economic growth and social progress. Services trade has the potential to facilitate inclusive growth and development by creating employment opportunities, raising incomes, promoting access, improving the quality of services, enabling innovation, and contributing to economy-wide competitiveness through critical linkages with other sectors of the economy (see IMF et al., 2018; Fiorini and Hoekman, 2018b; UNESCAP, 2013).

Increased FDI in key infrastructural services such as transport, telecommunications and energy can promote inclusive growth by increasing capacity and enabling access to these essential services. Trade in health services through the movement of health professionals, medical tourism, or telemedicine can address inadequacies in healthcare infrastructure and quality, thereby enabling more equitable access to healthcare. The tourism services trade has the potential to generate huge positive social and economic externalities by creating jobs and raising incomes across the skill spectrum, improving infrastructure and standards, creating rural-urban linkages and improving connectivity. Trade in IT and BPO services can increase economy-wide efficiency and productivity and can help bridge geographical, gender and other divides within and across countries by improving access to both goods and services.

The realization of these sustainability and inclusiveness objectives, however, is neither automatic nor guaranteed. It depends on the domestic policy and regulatory environment which shapes the extent to which and how the benefits from services trade are distributed and adverse outcomes are mitigated.

In the absence of sound domestic policies and regulations, trade in services could widen inequality by aggravating the divide between regions, between the skilled and less skilled, between urban and rural areas, the rich and the poor, and between those with access to services and those without.

The conditional nature of the benefits from services trade is well exemplified by sectors such as health and education. Trade in health services can contribute towards achieving universal health coverage and access to quality essential healthcare services (SDG 3.8) and towards increased health financing, as well as to the development of the health workforce in developing countries (SDG 3.9c), through inflows of foreign exchange, cross-border affiliations and partnerships which enable the transfer of knowledge, technology and manpower, and the upgrading of skills and standards. FDI in hospitals and associated development of private healthcare establishments can help reduce the burden on government resources (Chanda, 2017).

However, these are potential and not automatically guaranteed benefits. Trade and investment in health services could have undesirable effects on equity and access if there is cream-skimming by rich and affluent foreign medical tourists at the expense of domestic patients, or if it results in the internal brain drain of health workers from public hospitals to better-paying and better-managed foreign investor hospitals, or if it leads to a diversion of resources towards highly specialized segments of healthcare at the expense of basic and preventive healthcare services.

Whether trade in health services promotes more equitable access to healthcare or aggravates inequities thus depends on domestic policies and regulations, i.e., how the resources generated from health services exports or increased FDI in health services are deployed in the economy, to whom they accrue and to what extent supporting policies concerning health insurance, pricing, cross-subsidization mechanisms, public-private linkages, training of human resources and management of public health establishments, among others, prevent distortionary and inequitable outcomes.

Without complementary measures that address issues of standards, infrastructure, human resources and technology in the healthcare sector, health services trade may not be inclusive.

Policies that are conducive to human resources development and management in the health sector can go a long way in addressing the issue of brain drain. More efficient allocation of expenditures in the health sector and improved regulatory governance can help prioritize spending in line with local needs and conditions of demand, and can mitigate adverse consequences such as cream-skimming, dualism and the crowding out of local patients that can arise with trade and FDI in this sector (Chanda, 2002; 2017; Hanefield et al., 2018).

The issues are similar in the context of education services. While opening the sector to foreign educational providers can augment capacity and create employment, and the entry of foreign students can enhance incomes, these may also lead to profiteering, higher costs, excessive focus on commercial specializations, and fewer available seats for domestic students.

It could also dilute quality and standards if due diligence on the eligibility of foreign students and foreign educational providers and on the recognition of degrees and employability is not done by the relevant regulatory authorities.

Hence, alongside trade and investment there needs to be adequate regulatory capacity to govern education service providers, along with complementary domestic policies regarding fees, standards, partnerships, and recognition, among others.

But for countries to reap the aforesaid benefits and mitigate adverse effects on equity and inclusiveness, they must first have the capacity to engage in services trade.

Domestic policies are once again critical to shaping the very ability of countries to participate in services trade, and the opportunities and challenges they face in this regard. Unless countries have the requisite skills, standards, human resources, infrastructure and enabling policies in these areas, they may not be able to avail of the opportunities for services trade (Waite and Nino, 2004).

Restrictive services trade policies and regulations may preclude countries from engaging in the global services market (Braga et al., 2019).

This issue is highly pertinent in the context of professional services trade, wherein many developing countries wish to promote services exports through the temporary cross-border mobility of services providers, but may lack supporting domestic policies with regard to education and training, standards, qualifications, accreditation and certification systems, and the regulatory set-up.

Exports of professional services would require countries to upgrade their domestic standards and systems to internationally accepted ones, enter into mutual recognition arrangements, open certain segments to foreign providers so that partnerships could be established, and change domestic regulations to provide a level playing field for domestic firms.

Likewise, if countries are to exploit the growing export opportunities for IT-enabled services and to reap the associated benefits in terms of employment, incomes, technology and connectivity, domestic policies concerning telecommunications, data protection and IT infrastructure and its accessibility are critical.

Thus, supporting policies that develop human resources and infrastructural and regulatory capabilities for services trade are essential.

In sum, services trade is like any other form of trade, and its associated benefits cannot happen in a vacuum. To engage in services trade and ensure that it is inclusive, the right policies and regulatory framework are needed.