



# The Future of Trade in Services - Comments

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# 1. SERVICES TRADE IN NUMBERS



## Why can we not properly measure trade in services?

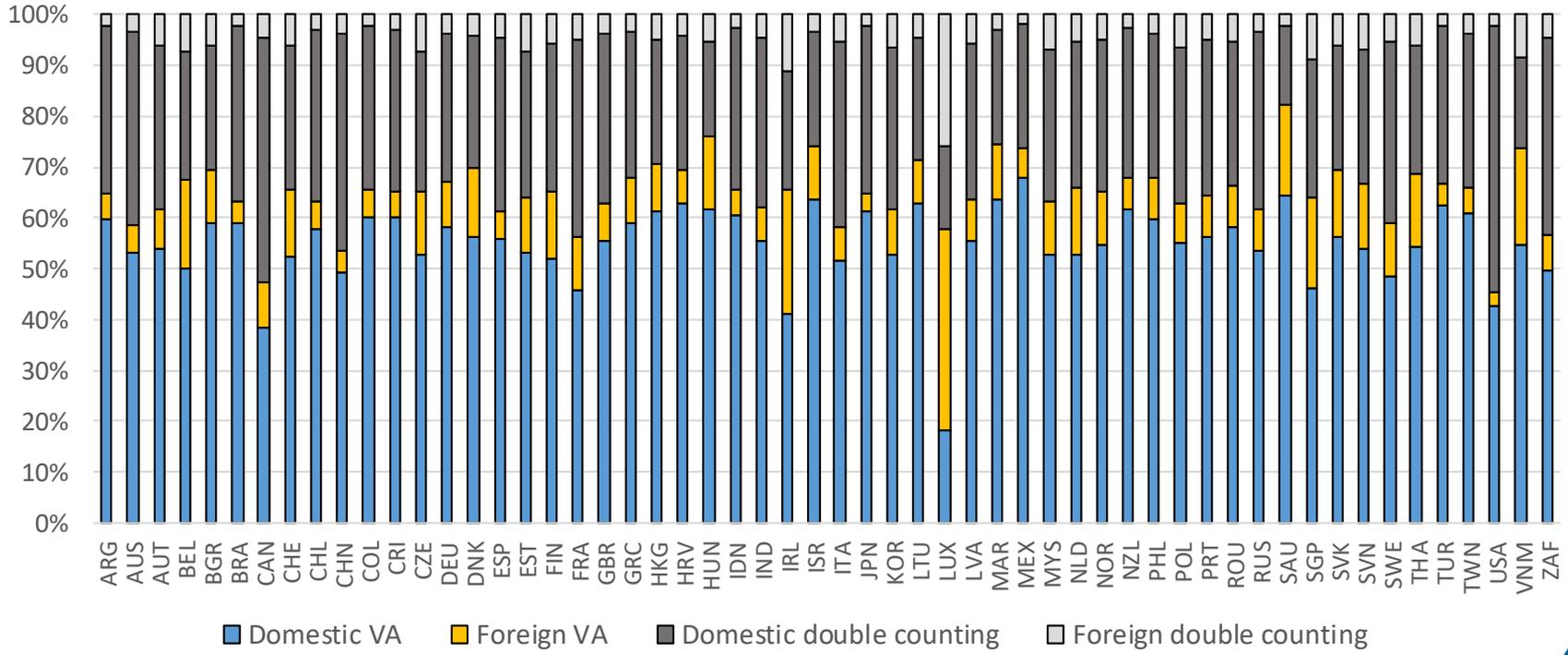
- For trade in goods, the Harmonized System (HS) is a classification that covers about 5,200 products at the 6-digit level.
  - Information on trade flows for each product can be easily found in COMTRADE, including at the bilateral level
  - For example, in 2017, world trade flows in ‘photographic film in rolls not exceeding 16mm’ were 4.4 million USD (out of 16 categories of photographic film in rolls)
- For trade in services, the Extended Balance of Payments Services (EBOPS) classification potentially covers more than 50 categories of services but no information can be found at this level of detail.
  - Even for the 12 main EBOPS categories, the full information is not available (especially at the bilateral level)
  - In COMTRADE, only one category for ‘financial services’ (trade equal to about 246 billion USD in 2017)



## Some progress: modes of supply and services trade statistics

- WTO launched the TISMOS database
- OECD now provides a value-added analysis of trade in services by mode of supply as part of TiVA and its extensions
  - TiVA covers Mode 1/Mode 4 as ‘cross-border’ trade (including through the movement of people)
  - But also Mode 2 (consumption abroad) through non-resident expenditures (new dataset to be launched ‘Trade in Tourism’)
  - Mode 3 (commercial presence) is covered as part of the OECD analytical AMNE database

# A value-added analysis of Mode 3 is important as there is more double counting in domestic sales than in gross exports



Source: OECD Analytical AMNE database.



## **2. WHY SERVICES TRADE MATTERS**



## New avenues for promoting trade in services

- Services matter for manufacturing
  - Policy makers focus on manufacturing
  - TiVA rationale: services are needed for manufacturing
- Inclusive growth
  - MSMEs
  - Participation of women
- Participation of developing countries
  - Convergence in terms of share of services in GDP
  - Rising exports (although concentrated in selected countries)
- Services are more resilient to economic shocks and protectionism
  - Empirical work on the impact of the Great Financial Crisis
  - No tariffs on services

## » But the main reason is:

- Productivity
  - Main current economic issue related to the lack of trade is the productivity slowdown
  - Productivity gap between manufacturing firms and services firms can also be explained by trade and investment barriers
- Services are the new frontier for productivity growth
- Important statement in the introduction of the report:

“(...) an economy’s prosperity does not depend on the relative size of its manufacturing or services sectors but on the productivity of the economy as a whole – which in turn depends on efficiencies and innovations across all sectors, and the extent to which they are mutually reinforcing.”

## A note for economists and modellers

- Now that TISMOS and OECD TiVA/Analytical AMNE data are available, it is time to look at the welfare gains of trade in services or trade costs for all modes of supply.



# **3. SERVICES TRADE IN THE FUTURE**

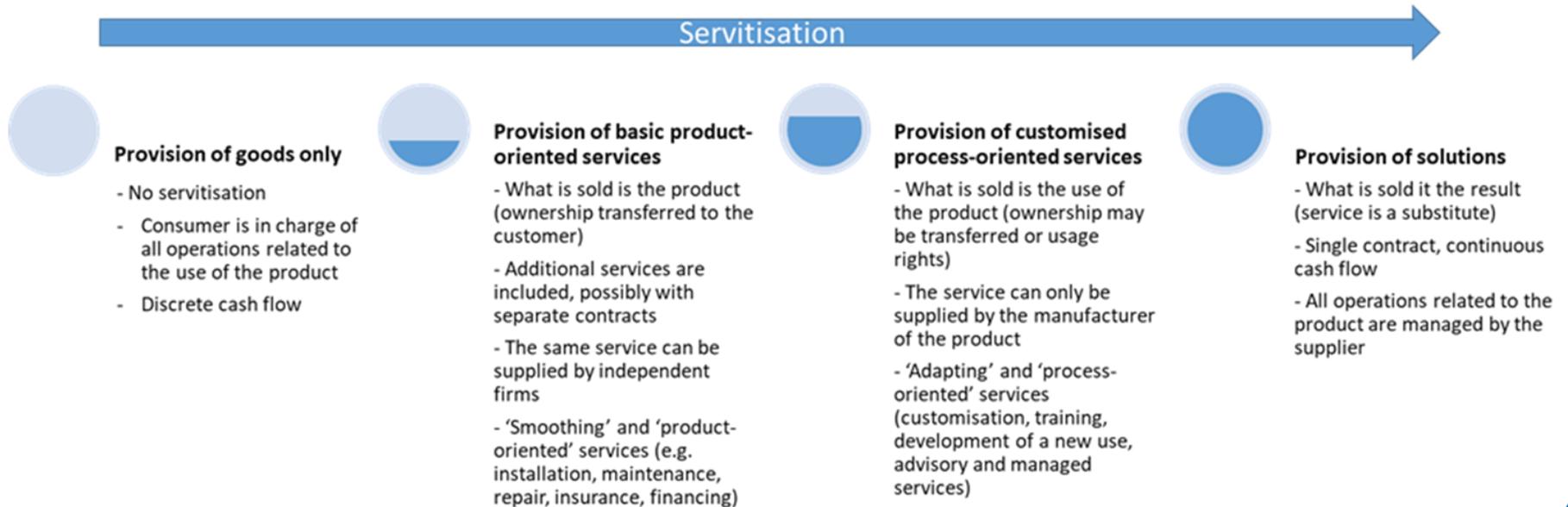
# ➤ The lines are blurring (none of these goods are produced by a manufacturing firm)



**MARVEL**



# » The product-service continuum



Source: Cadestin and Miroudot (forthcoming).

## Services and the digital transformation

- Technology may be a game changer, but we don't know yet how
- Not clear that the digital transformation leads to more (cross-border) trade in services
  - Measurement issue: income flows versus trade in services
  - Local presence often required
    - Because of regulations
    - But also because the face-to-face contact with customers does not fully disappear with the digital transformation



## **4. WHAT ROLE FOR INTERNATIONAL COOPERATION ON SERVICES TRADE POLICY?**

## » Only unilateral reforms?

- The OECD Services Trade Restrictiveness Index (STRI) records about 1200 policy changes each year affecting trade in services (2014-2018).
- Very few are related to the conclusion of trade agreements. They are the result of unilateral reforms.
- Not a single round of multilateral trade liberalisation for services concluded after the GATS
  - Request-offer approach in the Doha Round
  - TISA (plurilateral)



## The value of market access and national treatment commitments

- The literature suggests that there is no ‘genuine’ liberalisation in trade agreements covering services but additional market access and national treatment commitments that remove the ‘water’ in GATS commitments
- OECD work suggests that services commitments have a positive impact on trade:
  - For professional services, an increase in trade of 8% is found when going from the average level of commitments in GATS to the average level of commitments in RTAs
  - Moving to a RTA fully binding the existing regime with a ratchet provision implies a 11% increase
  - Full commitments with no restrictions bring the increase to 20%
  - The same exercise for telecoms services indicates an increase of 12% and for financial services 10% when going from the average in GATS to the average commitments observed in RTAs

## New approaches for opening trade in services?

- Co-operation among regulators?
  - But are regulators in favour of opening trade?
- More experimentation in RTAs departing from the GATS approach?
- Adding to the GATS framework?
  - Unfinished areas?
- Plurilateral or sectoral approach?
- Starting a convergence between rules for goods and rules for services?
- ... but yes the dynamics will be changing

## **Contact us**

We look forward to hearing from you!



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