TRADE & COMPETITIVENESS

**ANALYTICAL TOOLS FOR TRADE IN SERVICES:
RECENT WORK AT THE WORLD BANK**

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Why the toolkits?

Services today are an important component of the global economy and one of the most important and complex subjects in trade negotiations.

Lack of data and limited analytical tools for conducting rigorous research are a major constraint, particularly in developing and least developed countries.
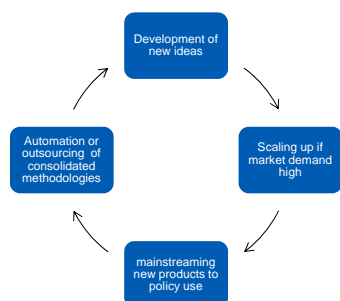
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DIAGNOSTICS
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- **Data and indicators**
- **Systematic analysis**
- **Analytical work**
- **Follow-up**

- **A full product-development cycle:**

SERVICES TRADE MATTERS FOR DEVELOPMENT

Why it matters?

- Services can have a big impact on Growth, Employment, and Poverty Reduction
- Developing countries wants to know how to take advantage of new opportunities
- As inputs to other economic activities services are important for competitiveness
- Contribute to economic and trade diversification

What we are doing?

How we are doing it?

-Gathering new data (trade in value added; bilateral trade flows)-
-Focus on determinants: policies as well as supply-side factors (HK, Infrastructure, others)

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VALUING SERVICES IN TRADE

VALUING
SERVICES IN TRADE
A TOOLKIT FOR COMPETITIVENESS DIAGNOSTICS

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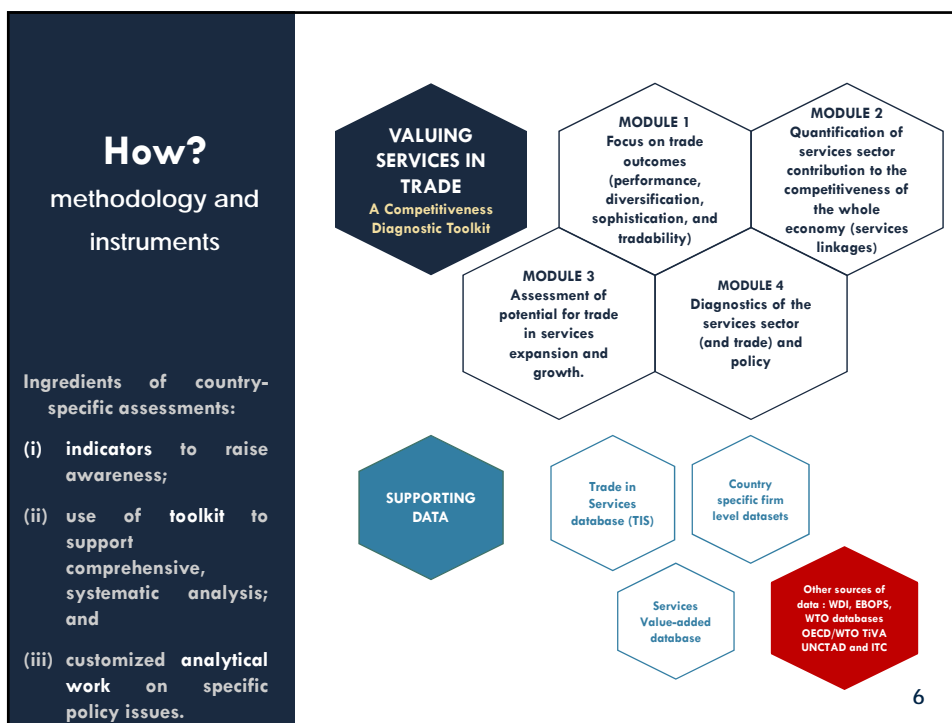Trade & Competitiveness

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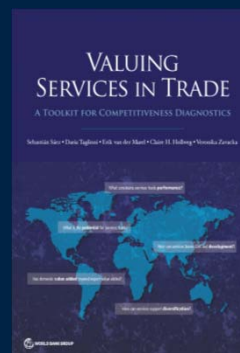
What will you find in it?

Services as a **source of export diversification.**

Services as a **source of competitiveness** for the whole economy.

A **clear, coherent framework** that policy makers, academics, experts and anyone interested in services and services trade matters can use to analyze the services performance of developing countries.

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Slide 1

How?
methodology and instruments

Ingredients of country-specific assessments:

(i) **indicators** to raise awareness;

(ii) use of **toolkit** to support comprehensive, systematic analysis; and

(iii) customized **analytical work** on specific policy issues.

VALUING SERVICES IN TRADE
A Competitiveness Diagnostic Toolkit

MODULE 1
Focus on trade outcomes (performance, diversification, sophistication, and tradability)

MODULE 2
Quantification of services sector contribution to the competitiveness of the whole economy (services linkages)

MODULE 3
Assessment of potential for trade in services expansion and growth.

MODULE 4
Diagnostics of the services sector (and trade) and policy

SUPPORTING DATA

Trade in Services database (TIS)

Country specific firm level datasets

Services Value-added database

Other sources of data : WDI, EBOPS, WTO databases OECD/WTO TiVA UNCTAD and ITC

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Slide 2

Module 1

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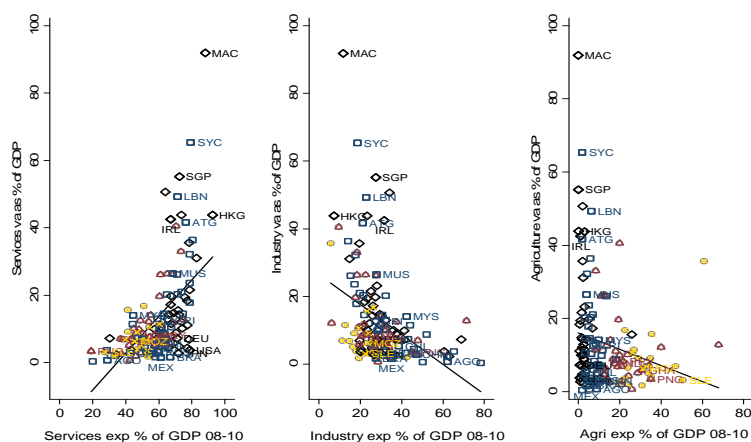**MODULE 1**

Focus on trade outcomes
- **Size and scope of services and historical analysis**
- **Using firm level data where possible!**

Starts with basic country assessments
- **Size: services trade relative to GDP; relative to value added; relative to peer countries; RCA, etc.**
- **Scope: export diversification; export growth; export sophistication, etc.**

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Although exports of goods increase, the share of industry in GDP declines. Similarly, although the share of exports of agriculture products to GDP increases, the share of agriculture value-added decreases. In contrast, larger shares of services exports in GDP appear to be associated with larger shares of value added in GDP.

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Services Trade and Development: Share of Exports of Services in Total Exports v/s GDP per Capita
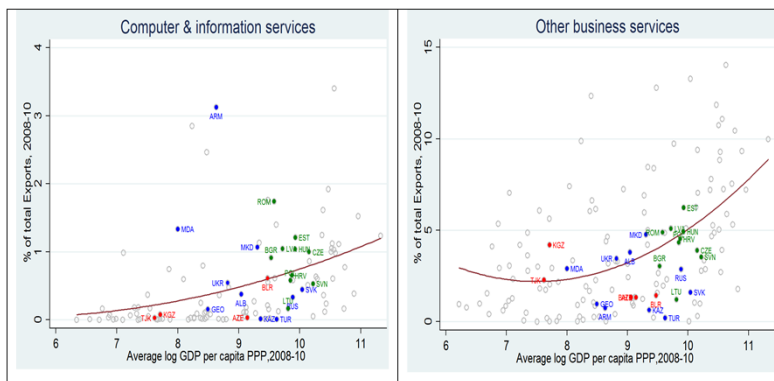
Source: IMF, Balance of Payments Statistics

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Module 2

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MODULE 2

Services Sector and Overall Economic Performance

Focus on role of services in the domestic economy:

- **A country's value added from services activity is a precondition to developing a services export sector.**
- **Cross-country comparisons of basic indicators, such as the share of a country's value added from services activity, provide a first assessment of the existence and importance of a domestic services sector.**
- **Concentrates on the value added services hold when they are domestically produced or exported.**

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New data on trade in value-added

Across income groups, the share of value added in exports is much larger for services than for goods. For both machinery and other private services, high-income countries export most value added, although lower-middle-income countries are not far behind. For both machinery and business services, lower-middle-income countries export more value added than upper-middle income countries.
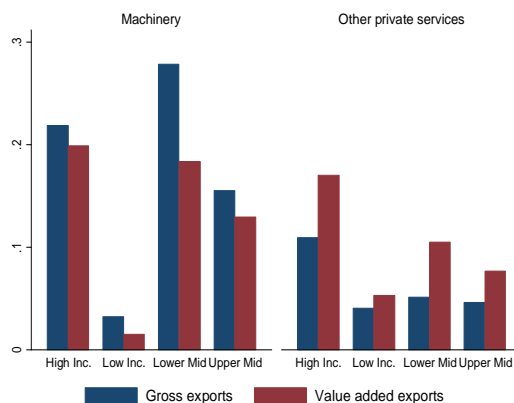
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Gross and Value added shares in Exports and Development

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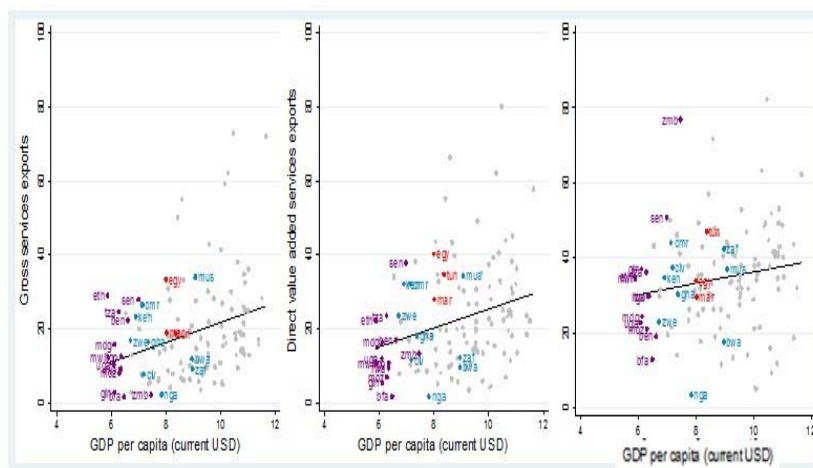
Module 3

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MODULE 3

Focus on trade potential

- Assesses different methods for trade potential
- Measures the "tradability" of a services (mode of delivery, employment, as inputs, through comparative advantage determinants)
- Gravity model using new database on bilateral services flows built for this toolkit

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Trade potential—through comparative advantage

- Through sources of comparative advantage

- Uses concept of comparative advantage through interaction terms: country-endowments * industry features using econometrical probability estimates

- Examples

  – Measuring the skill-intensity of different service sectors and relate them to labor skill supply of countries.

  – Similarly for ICT-intensity * ICT endowments; services complexity * domestic institutions, etc.

  – Based on van der Marel (2011) and van der Marel and Shepherd (2013)

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Other potential methodologies

Tradability through patterns of production based on the notion of geographical concentration of production

- **Exploit information on tradability by the difference between concentration vs. uniform production.**

- **Example : if software publishing comes out as highly concentrated (analytical approach) ; then what it's the degree of trade for the economy of interest?**

- **Using employment data specific to US**

- **Based on Jensen and Klezer (2006) and Gervais and Jensen (2011)**

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Module 4

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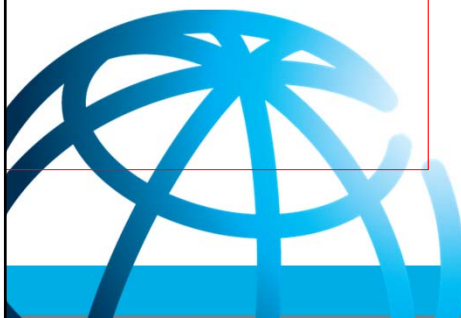**Trade & Competitiveness**

MODULE 4

- Focus on diagnostic analysis
  - Assessing different policies affecting services trade
  - Discusses issues at stake (i.e. market failures) of services
  - Gives policy options with its constraints and risks
  - Also discusses levers for change
- Categories of policies
  - Regulatory policy barriers.
  - Trade barriers.
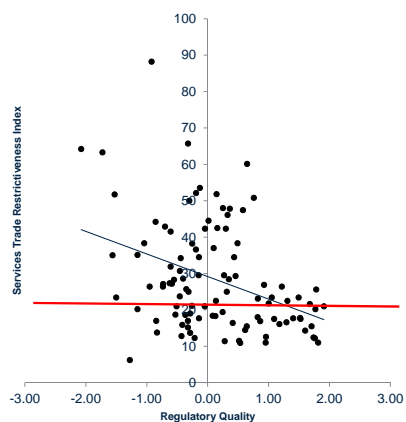 - Horizontal, or "domestic enabling factors".

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WHY IT MATTERS

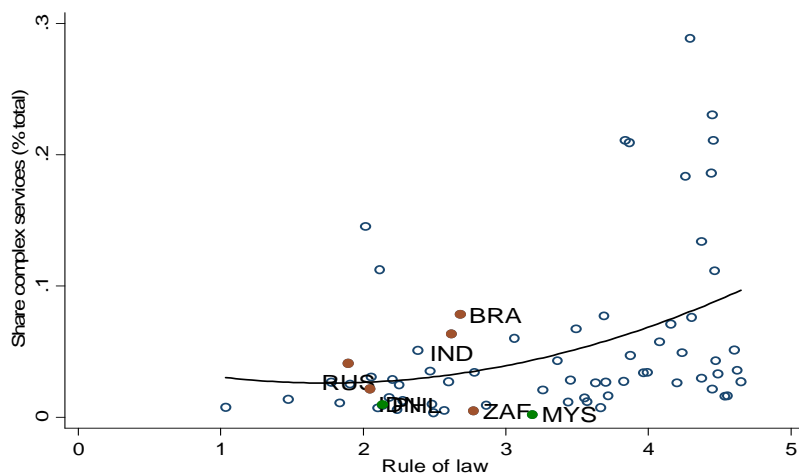There is a negative correlation between services restrictiveness and regulatory quality

But also for a given level of restrictiveness there are different levels of regulatory quality (**red line**)

STRI and Regulatory Quality

Institutional Sources

Source: based on Costinot 2007

REGULATORY ASSESSMENT

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REGULATORY ASSESSMENT TOOLKIT

A PRACTICAL METHODOLOGY FOR ASSESSING
REGULATION ON TRADE AND INVESTMENT IN SERVICES

Martín Molinuevo • Sebastián Sáez

VALUING SERVICES IN TRADE IS AVAILABLE IN
OPEN KNOWLEDGE REPOSITORY (OKR)
HTTPS://OPENKNOWLEDGE.WORLDBANK.ORG/

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