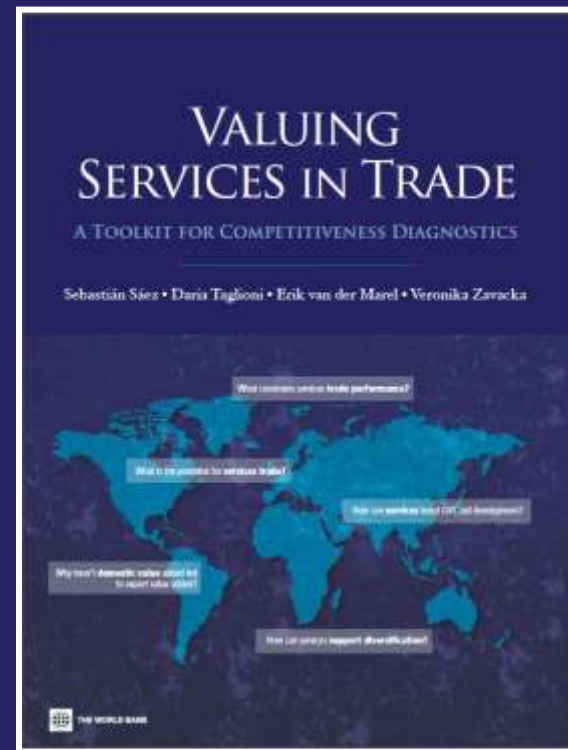


Valuing Services in Trade

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June 25, 2014

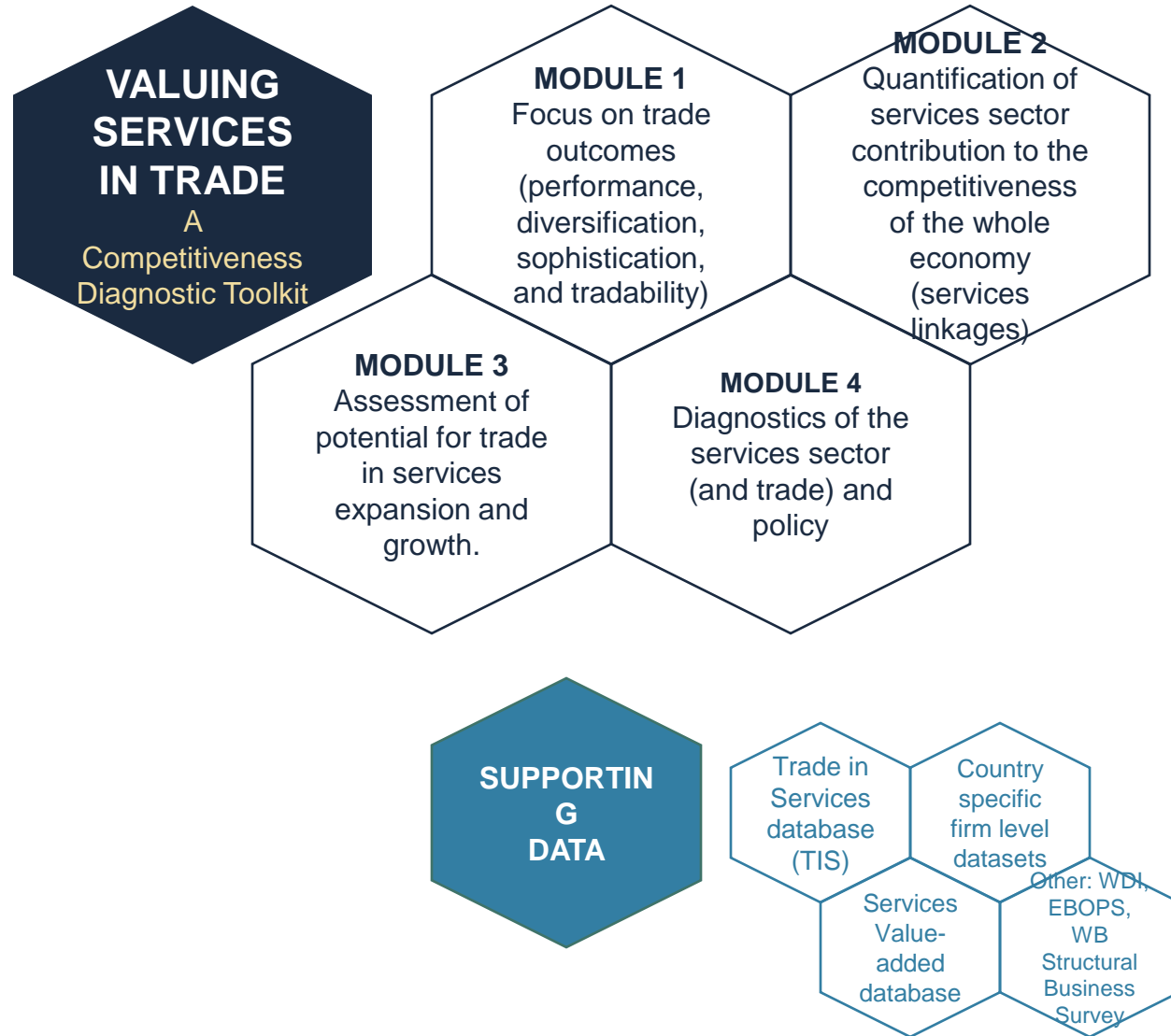


How?

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





Module 1

MODULE 1

Focus on trade outcomes

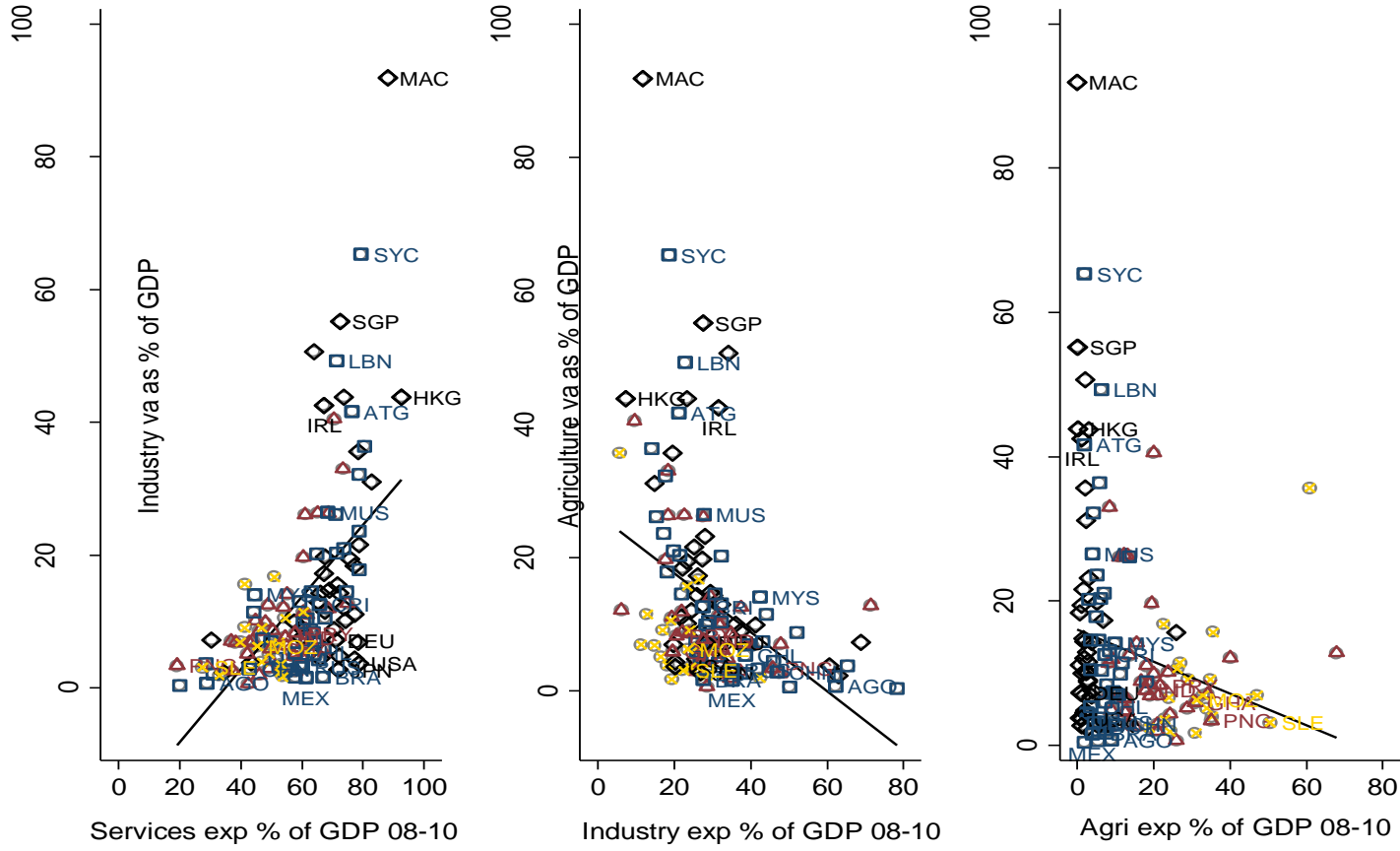
- Size and scope of services and historical analysis
- Using Trade in Services Database (TIS) and Services Value Added Database
- Using firm level data where possible!

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.

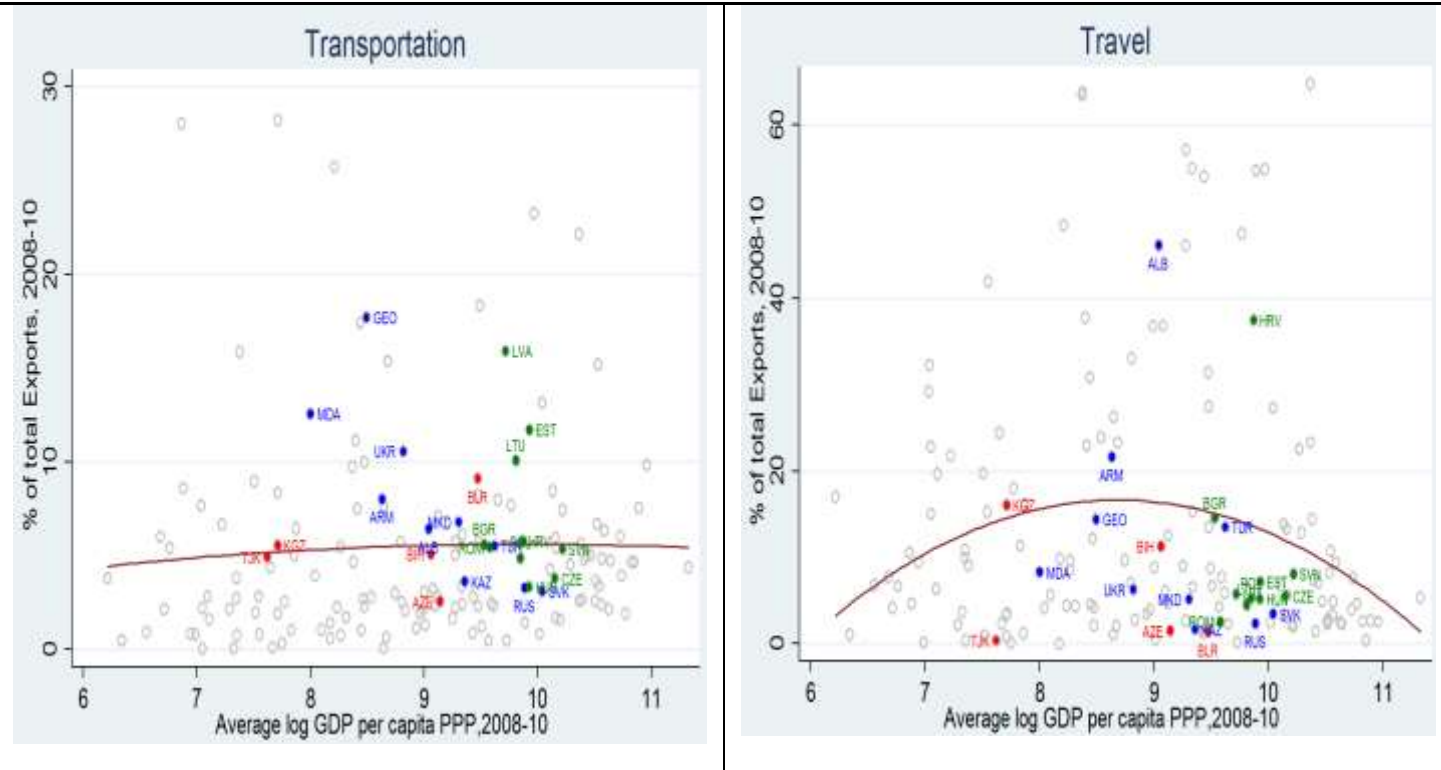
In what follows we present some examples

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.



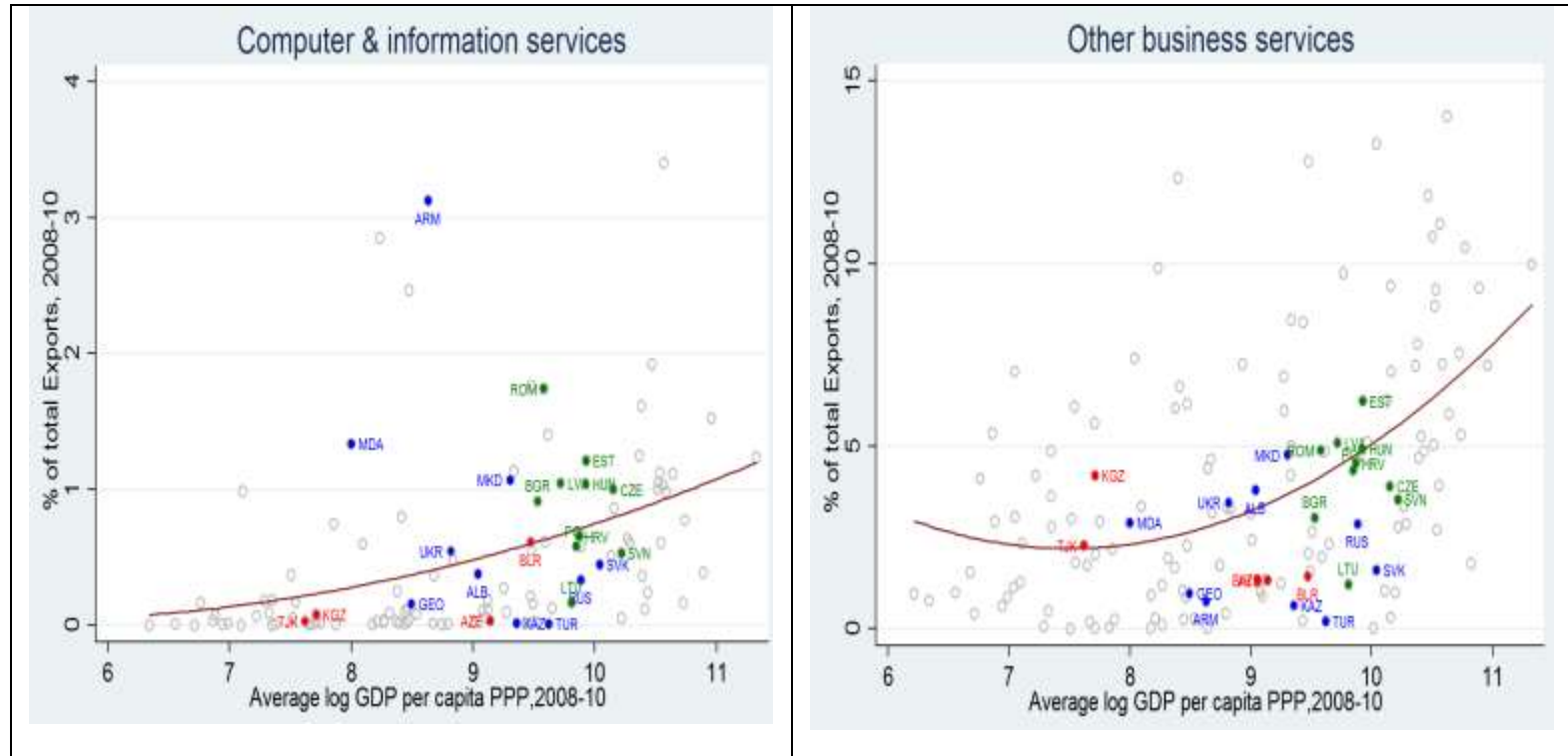
Services Trade and Development: Share of Exports of Services in Total Exports v/s GDP per Capita

Average Services share in total exports, selected categories (2008-2010)



Source: IMF, Balance of Payments Statistics

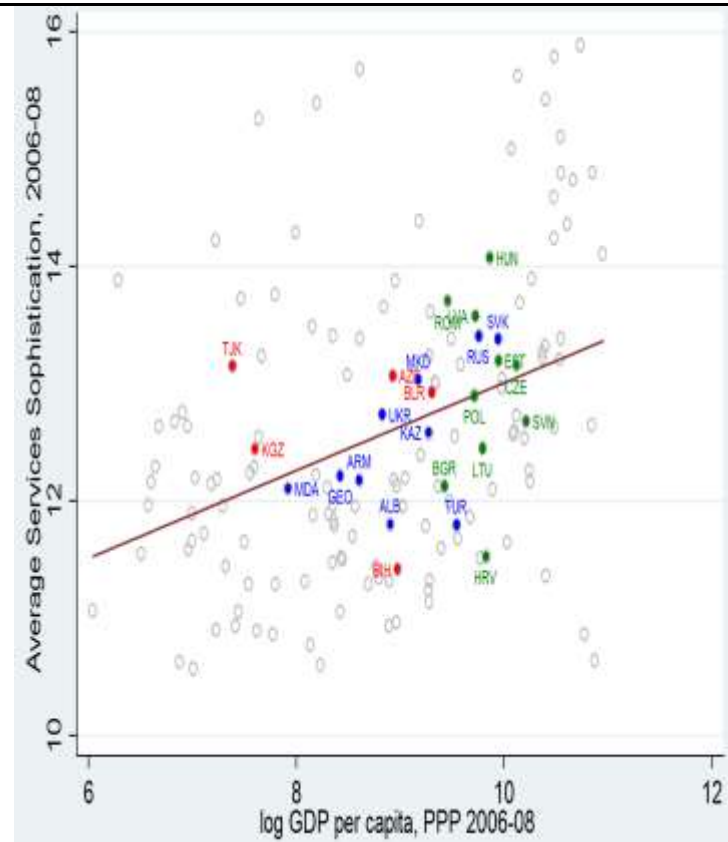
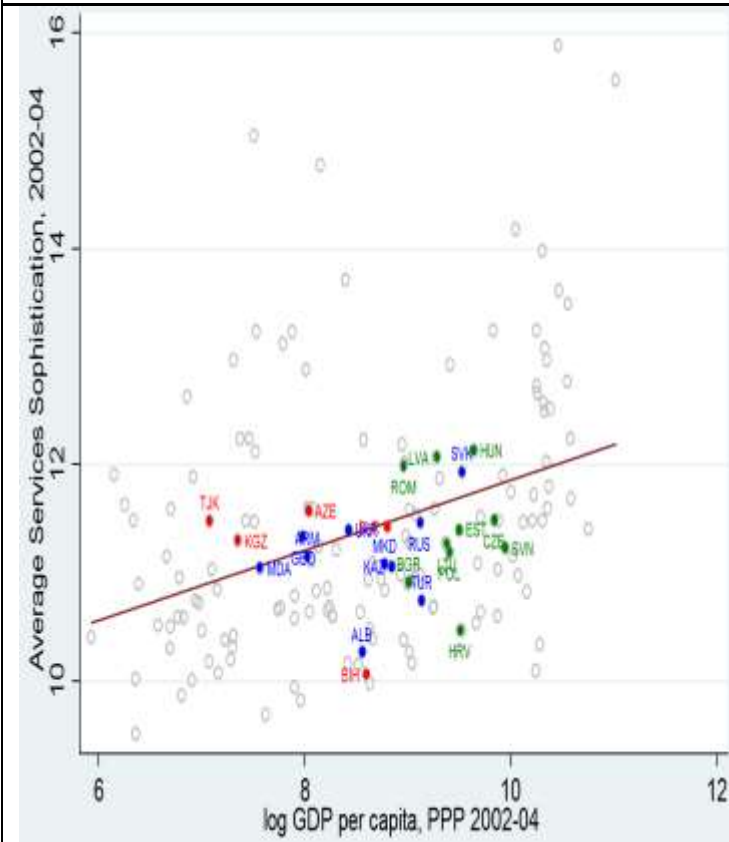
Services Trade and Development: Share of Exports of Services in Total Exports v/s GDP per Capita



Source: IMF, Balance of Payments Statistics

Export sophistication and development

Export Sophistication and Income: 2002-04, 2006-08



Source: IMF BOPS (BPM5)

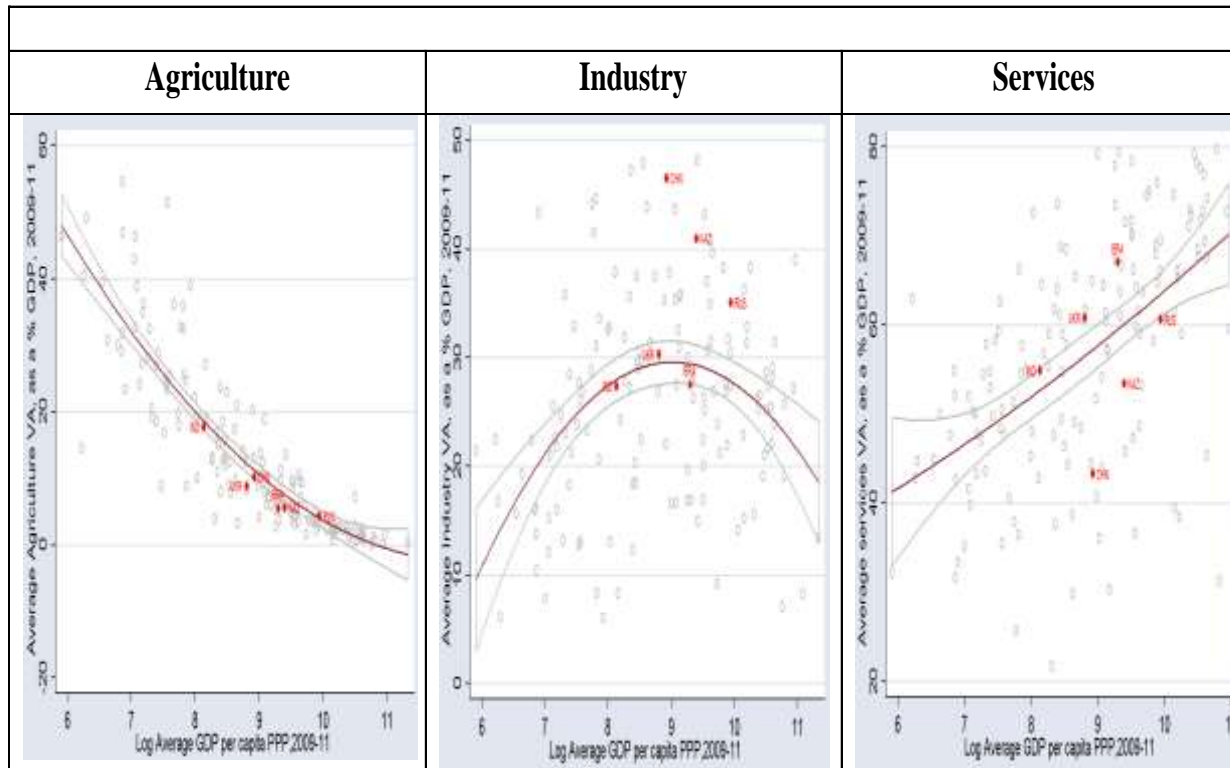
Module 2

Services Sector and Overall Economic Performance

Focus on role of services in the domestic economy:

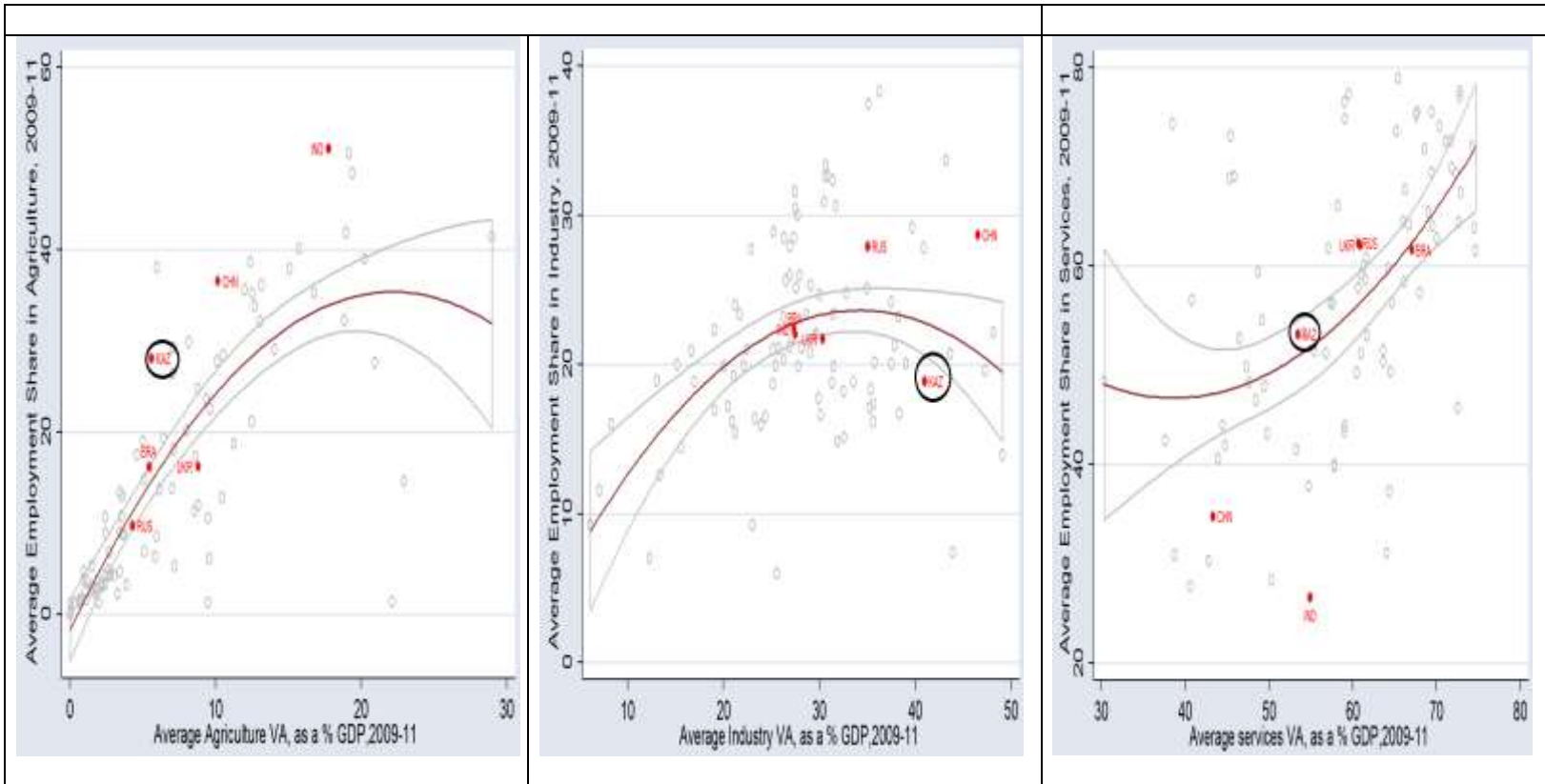
- A country's value added from services activity is a precondition to developing a services export sector.
- Cross-country comparisons of basic indicators, such as the share of a country's value added from services activity, provide a first assessment of the existence and importance of a domestic services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

GDP Structure and Development



Source: World Development Indicators (WDI)

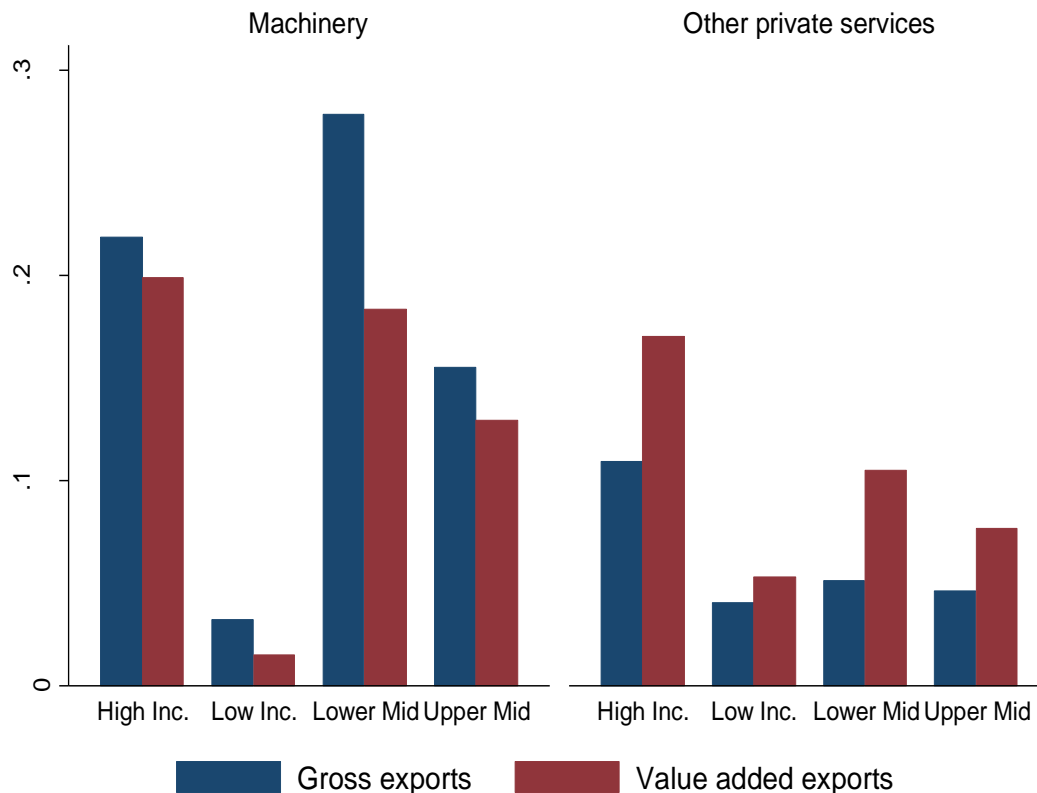
Employment and Value Added in Agriculture, Industry and Services



Source: WDI

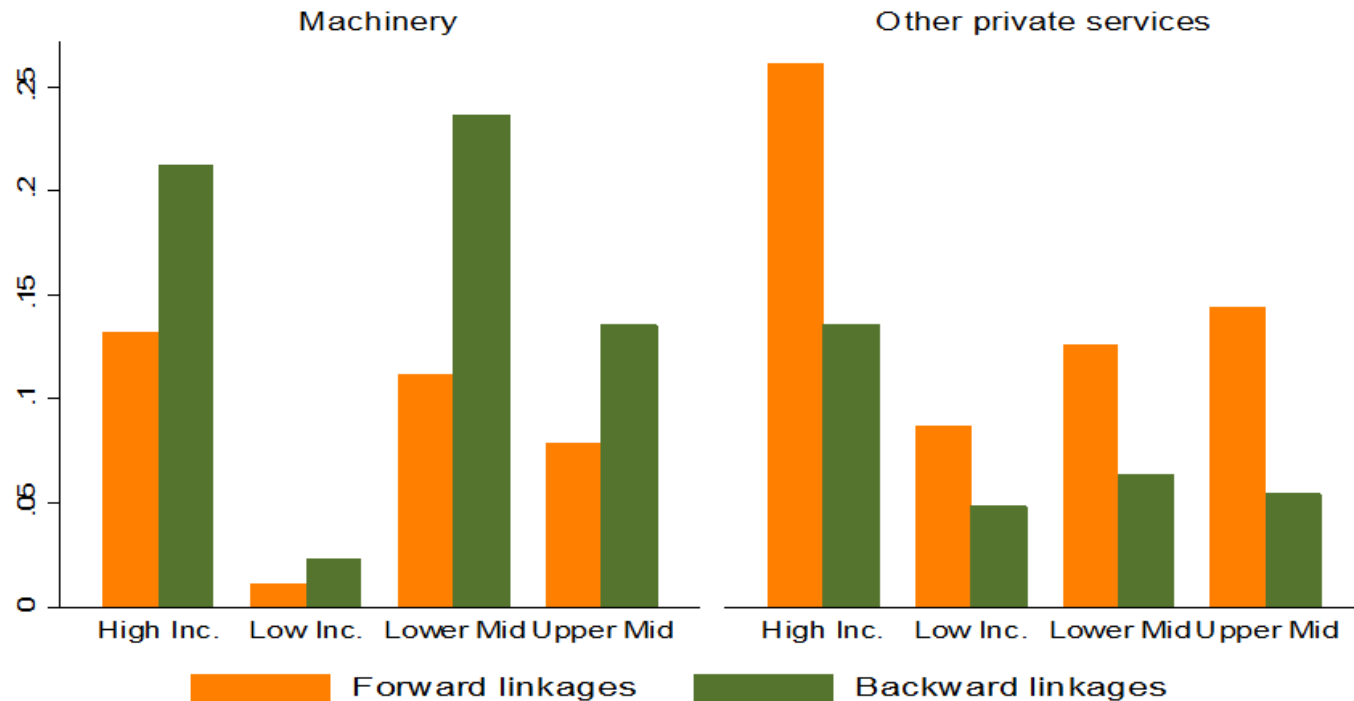
New data on trade in value-added

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.

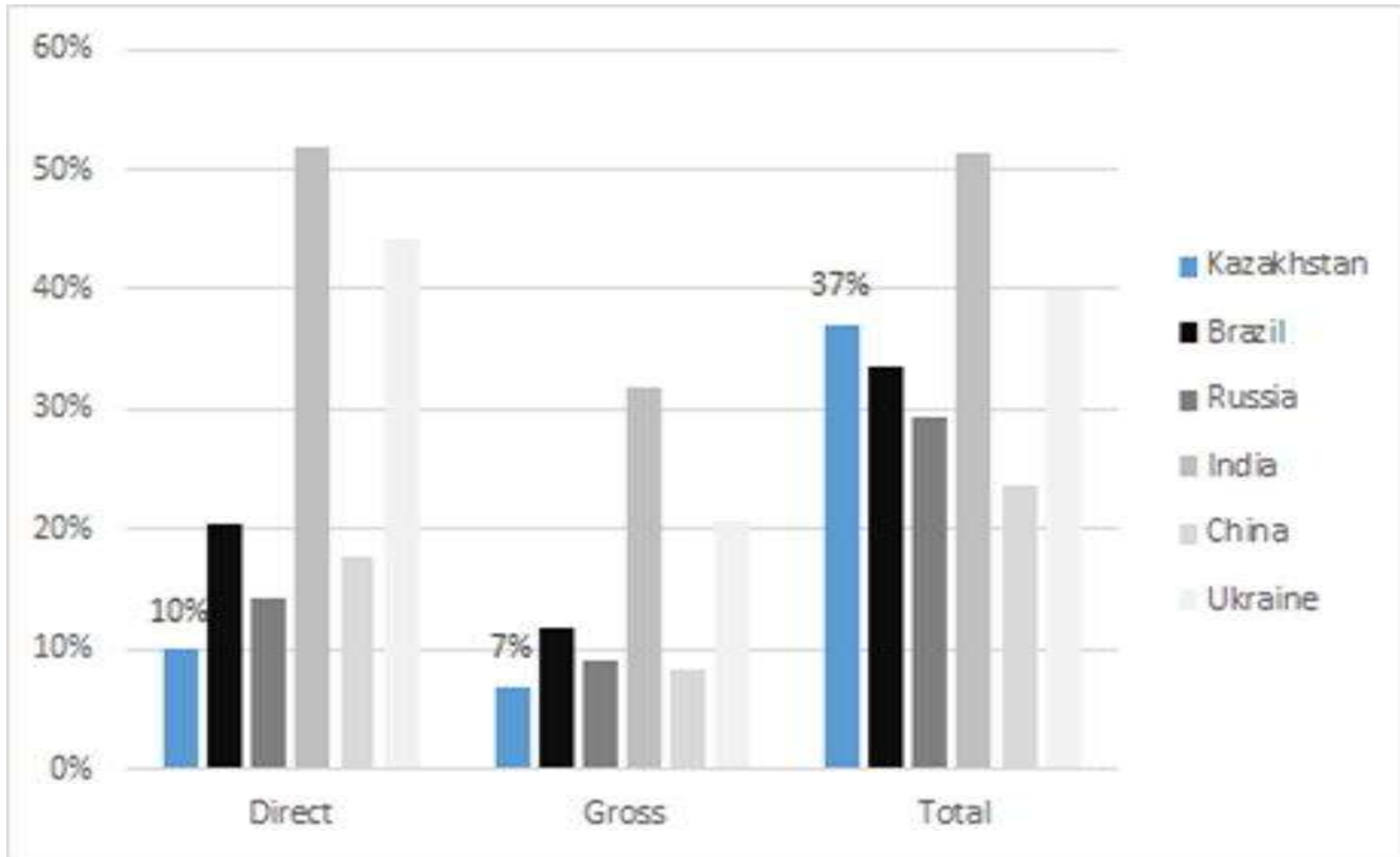


New data on trade in value-added

Gross values and backward linkages are more important for goods, whereas net values and forward linkages are more relevant for services. Forward linkages indicate how much value added is carried by other sectors—that is, how important each (services or goods) sector is as an intermediate input for other sectors. Backward linkages show how much value added a sector carries from other sectors—that is, how much the sector embodies inputs that it will further process.



How important are services exports ?





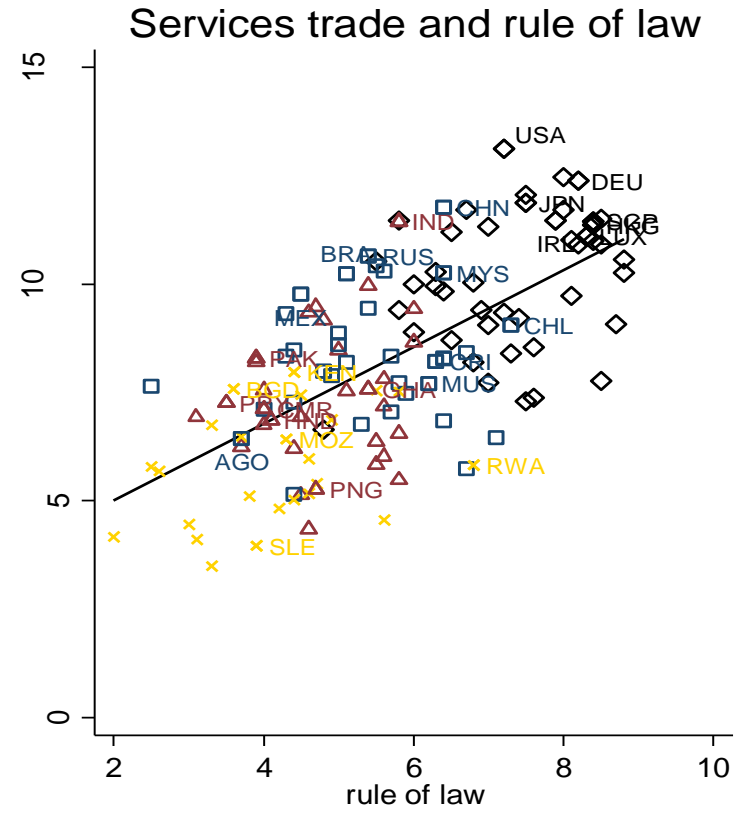
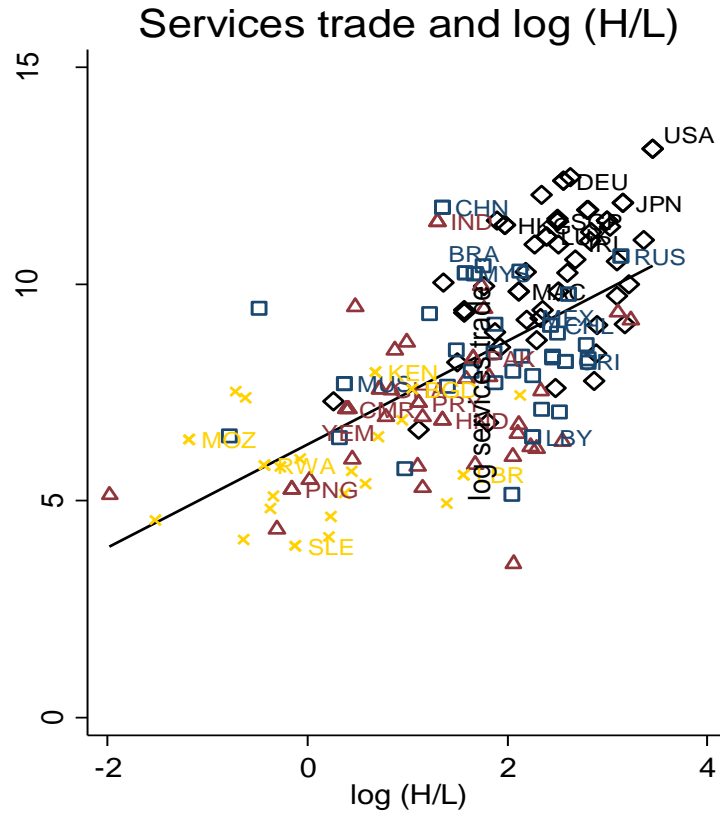
Module 3

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

Analytical Approach



— Fitted values ◇ High Income △ Lower Middle
 □ Upper Middle × Low income

Module 4

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

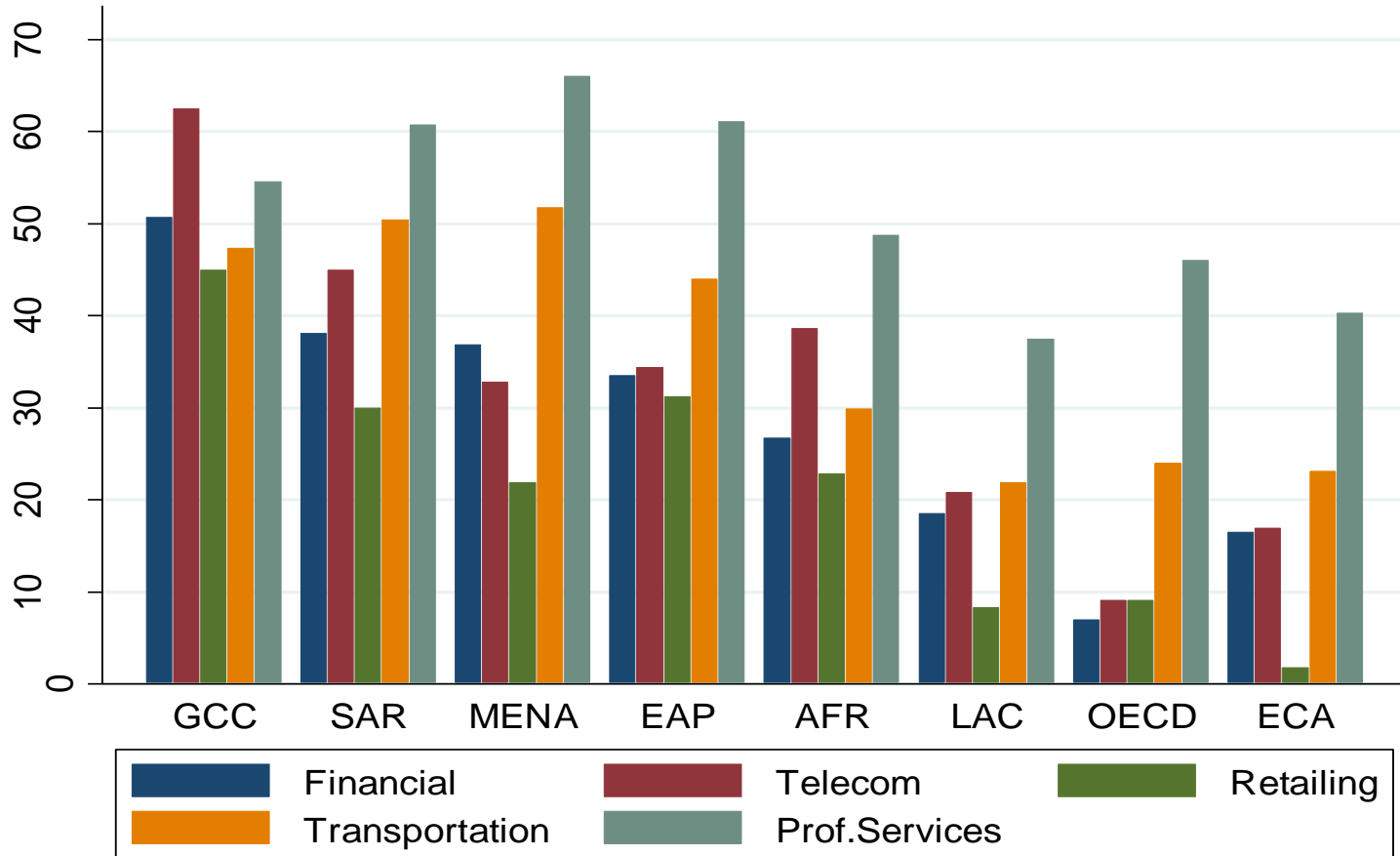
Categories of policies

- Regulatory policy barriers.
- Trade barriers.
- Horizontal, or “domestic enabling factors”.

Typology of trade barriers

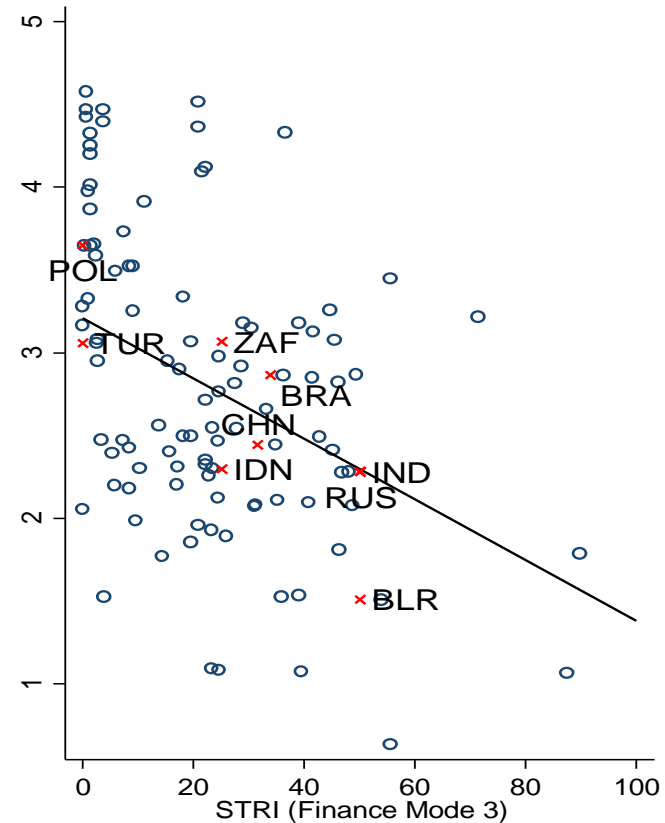
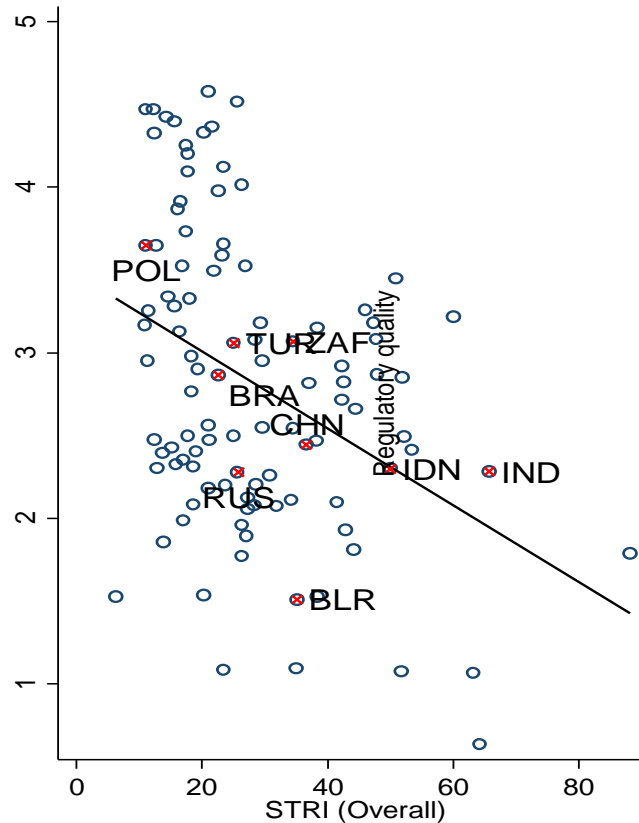
Type of barrier?	Direct / indirect effect?
Market access	Direct: discrimination of entering domestic market to foreign firm. Usually these restrictions are quantitative in nature
National treatment	Direct: legal (<i>de jure</i>) restrictions against foreign firm, or indirect discrimination through workings of applied non-discriminatory barrier (<i>de facto</i>)
Domestic regulation	Indirect: usually based on non-discriminatory regulations which do not explicitly target the foreign firm, but constitutes a <i>de facto</i> trade barrier
“Other” regulations	Indirect: not specifically categorized in any trade agreements, but may constitute nevertheless a barrier to trade by including a wider range of restrictions. These measures can be categorized as “conduct”, i.e. on the ongoing workings of the firm.

STRI index for country groups



Note: 103 countries included.

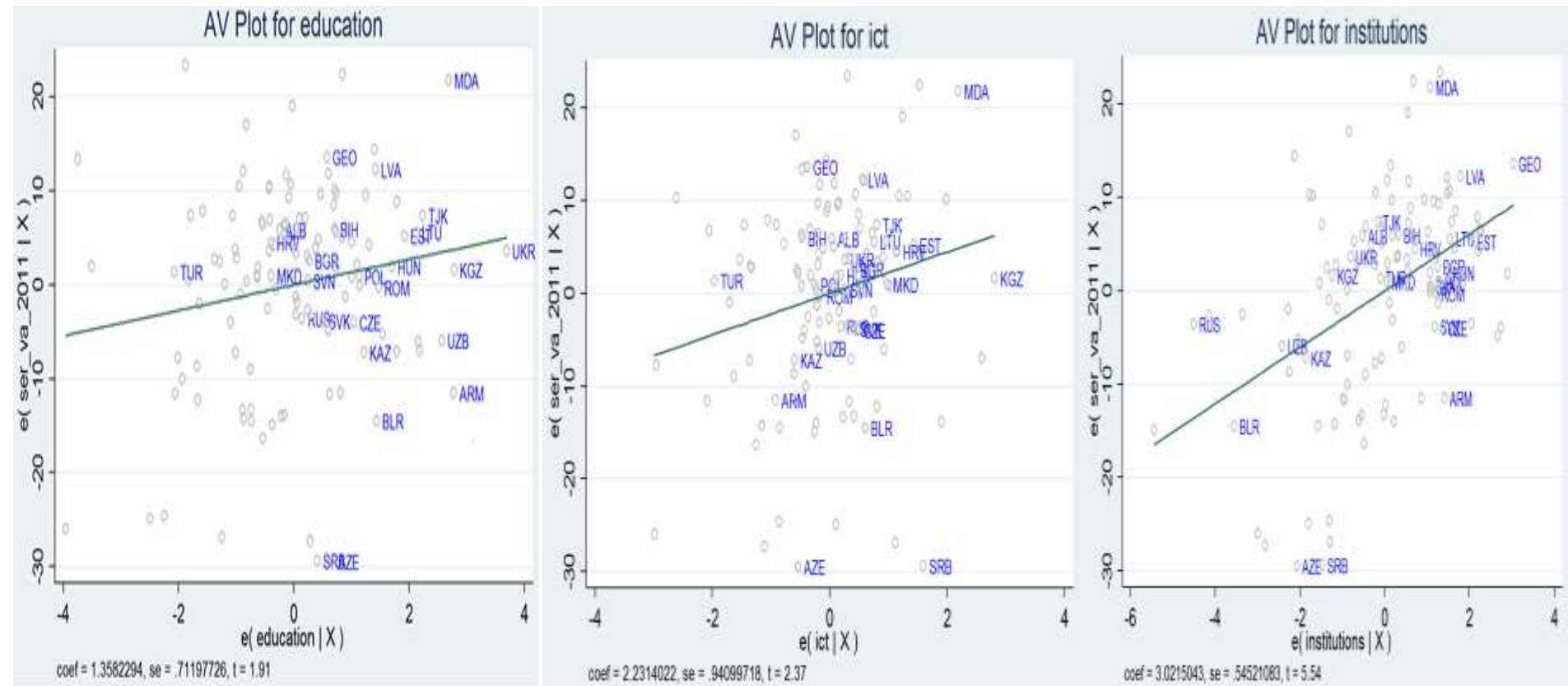
Relationship between Services Trade Barriers and Regulation (2010)



Typology of enabling factors

Policy area	Objective
Institutions	Arrangements of optimal governance of relationships between private economic parties, rather than those between private parties and the government (Acemoglu and Johnson, 2003)
Governance	Increasing the ability of governments to formulate and implement sound policies and regulations that allow and promote private sector development
Business environment	Compete and attract FDI in order to profit from export expansion and increased domestic competitiveness through MNC establishment.
Labour skills / human capital	Factor capacity increase to allow for sophisticated services exports; climbing up the ladder of comparative advantage in services or from goods to services;
Management & Entrepreneur skills	Enhance the adoption and use of modern technologies which are essential for producing a service or good.
Trade-related Infrastructure	Reducing cost related to the delivery of goods and services, i.e. transportation costs, export costs, transaction costs or searching costs

Non Regulatory Determinants



Source: KAM database and World Development Indicators.

New databases

Bilateral Services Trade Database

- Updates Francois et al. (2009), but with data gaps
- Merges data from OECD, UN, Eurostat and IMF
- “Best-available estimate” using mirror techniques
- 248 countries; 1981-2009; around 20 EBOPS sectors

Services Value-added Database

- Provides value-added structures and trade linkages
- Using input-output matrixes from GTAP
- Developed and developing countries; 1992-2007
- Now we are updating to include 2011

Questions & Answers

THANK YOU

