Unleashing the Next Engine of Growth: An Agenda for Services Trade beyond Doha and the TPP

Aaditya Mattoo
March 7, 2016

http://econ.worldbank.org/policyresearchtalks
Services are different from goods but also from each other

- Services transactions often require face-to-face contact.
- There is a risk of market failure, especially because consumers are not well-informed about suppliers.
Either producers must to move to consumers or vice versa...

...and regulation is often needed to protect consumers
Of course, services markets are changing

DIGITAL COMMUNICATION

RIDE SHARING

MOBILE BANKING

TELEMEDICINE

• Technology is reducing, but not eliminating, the need for face-to-face service delivery
• “Over-regulation” is leading to the emergence of new services
The story ahead

• Defining characteristics of services transactions:
  • Face-to-face with more digital delivery
  • Risk of market failure

• Influence:
  • How services are traded *(Part I)*
  • How they are protected and regulated *(Part II)*

• Implications for:
  • National trade reform *(Part III)*
  • International trade cooperation *(Part IV)*
Preview of findings

I. Digitization and aging are driving services trade but “divergent globalization”

II. Much unilateral liberalization, but still big barriers and big unrealized gains

III. Better regulation the basis for both success in domestic reform and exports

IV. Greater regulatory cooperation the key to successful trade negotiations

V. World Bank can help in each dimension
New global trade under old national rules

Regulation has not kept pace with the growth of cross-border services

If world trade were behaving the way it used to, the global economy would be
have seen considerable outsourcing, others such as legal and professional
The importance of services for all countries...

Share of services in GDP and GDP per capita, current USD, 1995

Line indicates the mean value

Source: Work in progress with Aldo Pazzini Bortoluzzi drawing upon World Development Indicators
The importance of services for all countries is growing

Share of services in GDP and GDP per capita, current USD, 1995 and 2014

Source: Work in progress with Aldo Pazzini Bortoluzzi drawing upon World Development Indicators
Services matter even in the poorest countries

Estimated breakdown of value added by main economic activity in LDCs, 2011

Source: WTO estimates on the basis of LDCs' National Accounts statistics.
Defining “trade” in services: the four modes of delivery

Mode 1. Cross-border Trade

Outsourced IT and back-office services

International transport

International communication
Mode 1: Services exports of some countries are growing rapidly

Commercial services exports of services, other than travel and transport, 2005-2014, annual % change

Selected Developing Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Goods</th>
<th>Other commercial services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costa Rica</td>
<td>9.3</td>
<td>18.0</td>
</tr>
<tr>
<td>China</td>
<td>10.2</td>
<td>17.8</td>
</tr>
<tr>
<td>Mauritius</td>
<td>11.3</td>
<td>15.3</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>11.9</td>
<td>15.3</td>
</tr>
<tr>
<td>Brazil</td>
<td>13.4</td>
<td>14.6</td>
</tr>
<tr>
<td>Phillipines</td>
<td>11.9</td>
<td>14.4</td>
</tr>
<tr>
<td>India</td>
<td>11.2</td>
<td>13.4</td>
</tr>
<tr>
<td>Argentina</td>
<td>11.2</td>
<td>11.9</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>11.2</td>
<td>11.9</td>
</tr>
<tr>
<td>Israel</td>
<td>10.2</td>
<td>10.2</td>
</tr>
<tr>
<td>Chile</td>
<td>9.3</td>
<td>9.3</td>
</tr>
</tbody>
</table>

Selected Least Developed Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Goods</th>
<th>Other commercial services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Burkina Faso</td>
<td>12.6</td>
<td>22.6</td>
</tr>
<tr>
<td>Uganda</td>
<td>12.4</td>
<td>27.4</td>
</tr>
<tr>
<td>Malawi</td>
<td>12.4</td>
<td>25.6</td>
</tr>
<tr>
<td>Zambia</td>
<td>12.4</td>
<td>23.0</td>
</tr>
<tr>
<td>Cambodia</td>
<td>12.4</td>
<td>22.7</td>
</tr>
<tr>
<td>Benin</td>
<td>12.4</td>
<td>17.2</td>
</tr>
<tr>
<td>Mozambique</td>
<td>12.4</td>
<td>16.0</td>
</tr>
<tr>
<td>Mali</td>
<td>12.4</td>
<td>12.6</td>
</tr>
<tr>
<td>Senegal</td>
<td>8.1</td>
<td>8.1</td>
</tr>
</tbody>
</table>

But for many countries, exports are small relative to internal services transactions

Defining “trade” in services: the four modes of delivery

Mode 2. Consumption Abroad

Tourism

Education abroad

Health care abroad
Mode 2: Tourism matters most for the poorest countries

Share of travel in total exports of goods and services against GDP per capita, 2014

Defining “trade” in services: the four modes of delivery

Mode 3. Commercial Presence

Banking
Retail distribution
Telecommunication
Education
In Africa, as elsewhere, most FDI is going into services

Services FDI stock, by industry in Africa, 2012
(Percent of Africa’s inward FDI stock in services)

Inward FDI stock by sector for Africa, 2012
(Percentage of total inward FDI stock in region)

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics).
Defining “trade” in services: the four modes of delivery

Mode 4. Movement of Natural Persons

Construction workers

Doctors and nurses

Performers
Services “trade” has a wide scope and potential impact

1. Cross-border Trade
   - Outsourced IT and back-office services
   - International transport
   - International communication

2. Consumption Abroad
   - Tourism
   - Education abroad
   - Health care abroad

3. Commercial Presence
   - Banking
   - Retail distribution
   - Telecommunication
    - Education

4. Movement of Natural Persons
   - Construction workers
   - Doctors and nurses
   - Performers
Openness to trade in services is associated with more rapid growth.

Goods trade stumbles, but services trade does not fall


Services trade declined less during the crisis and has grown faster after the crisis
Drivers of services trade 1: Demographic Change
Young and old have different patterns of demand, e.g. USA

Average of consumption shares by HH types (in %)
(USA, 2012)

- **Broad expenditure categories**
  - food
  - housing
  - manuf. goods
  - services
  - other

- **Expenditure on services**
  - catering
  - domestic service
  - education
  - recreation
  - finance
  - health
  - hotel
  - personal service
  - social security
  - transport
  - utility

Housing includes interest on mortgage and property tax

Source: Work in progress with Erhan Artuc, Zovanga Louis Kone, Maggie Liu and Caglar Ozden
Young and old have different patterns of demand especially within services: India

Average of consumption shares, by HH types (in %) (India, 2011)

Hi, j, k denotes household of size i, with j children (i.e. of age 0-17) and k elderies (i.e. 65+)

Source: Work in progress with Erhan Artuc, Zovanga Louis Kone, Maggie Liu and Caglar Ozden
Therefore, demographic change is influencing services trade by affecting the demand and supply of services.

Shifting dependency ratios...

Working Age Population Ratio: Japan, South Korea and China vs. Malaysia and Indonesia
China’s rebalancing and demographics are already shifting demand towards services

Drivers of services trade 2: Digitization
The international fragmentation of goods production includes both goods parts and services tasks

Driven by, and boosting demand for, information, communication and transport services
In parallel, the international fragmentation of services production is creating new opportunities for trade.

- Call Centre for customer service, etc.
- Medical transcription services
- Web hosting and webmaster services
- Outsourced consultations and diagnostics
Who is participating in services trade?

Comparative advantage in services is determined by the interplay between:

• Endowments, especially of skills
• Infrastructure, especially telecommunications
• Institutions, especially regulatory
Skills matter: Evidence from Indian states

Skilled to total labor ratios across sectors

Services output per capita against tertiary educated per capita

Source: Amin and Mattoo (2006).
And the quality of institutions matter: Evidence from Indian States

Diversity of input sources and output destinations across sectors as measure of institutional dependence

Services output per capita against a proxy for institutional weakness (T&D losses of electricity utilities)

Source: Amin and Mattoo (2006).
New value added trade data reveals evolution of comparative advantage and structural change

Direct and indirect value added exports of financial services, share of GDP, 1995-2009

Direct and indirect value added exports of business services, share of GDP, 1995-2009


Note: Does not include Ireland and Luxembourg
Skill endowments rather than skill intensity may constrain unskilled employment

The surprisingly high unskilled labor value added in services exports

**Labor value added (LVA) in $1000 of exports**

Source: Joint work with Alen Mulabdic based on Cali et al (2016), "The Labor Content of Exports Database."
II. What are the barriers to trade and how big are the gains from reform?
Policy barriers to services trade are heterogeneous and often opaque

1. Quotas, explicit and implicit, are pervasive

Limits foreign firms and ownership
Zimbabwe to press ahead with controversial indigenisation scheme

Prohibition of foreign providers
US Jones Act shuts out foreign tankers

Limits on foreign personnel
India raises foreign insurance stake limit to 49%
Italy restricts non-EU players after dismal World Cup

FINANCIAL TIMES
2. Explicitly discriminatory measures

Taxes and subsidies
Gulf Airline Counters Subsidies Claims

Preferential access to essential facilities
Small Airlines Push for More Access at New York Airports

Preferential procurement
How 'Buy American' Can Hurt U.S. Firms
3. Regulatory requirements can implicitly discriminate

Prudential regulations
“Deutsche Bank avoids US capital rules” - FT

Qualification and licensing requirements
“Overqualified immigrants really are driving taxis in Canada” - PRI

Technical regulations
“Accounting standards are holding banks back” - FT
The Services Trade Restrictions Database

World Bank Services Trade Restrictions Database covers 103 countries (of which 79 are developing)

The persistence of protection

STRI by sector and region

Engagement with the Bank’s India Team and India’s Trade Ministry

Services are central to India’s domestic reform and export agenda.

And India is a key player in setting the multilateral agenda.
Engagement with the Indian Government gave us an opportunity to build on:

Services reform as industrial policy

India’s services reform boosted performance of downstream manufacturing industries

More open bilateral air service agreements could lead to more traffic on existing routes and more cities being served.

Source: Cristea, Hillberry and Mattoo (2015), 2015 Open Skies over the Middle East, forthcoming in the World Economy.
Access to markets (mode 4)

The elusive license to practice

• In the US, professional licensing is generally the responsibility of state boards.

The steps involved in getting a license are:

1. The verification of educational qualifications, training and experience to establish eligibility to take the professional examination.

2. The remedying of any gaps in education, training and experience before taking (all or part of) the examination, with the remedial steps to be taken in large part in the United States.

3. Passing the professional examination(s), held entirely or in significant part in the US.

4. The fulfillment of additional requirements, such as experience or local residency, in order to obtain a professional license.
## The regulatory tax on foreign professionals in the US

<table>
<thead>
<tr>
<th>Profession</th>
<th>Number of Indian professionals coming to the US annually (average for the 1995-2000 period)</th>
<th>Visa, examination and licensing fees paid per professional</th>
<th>Average income foregone per professional due to differential requirements</th>
<th>Total Income/ fees paid or lost by Indian professionals due to regulations (US$ in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physicians and Surgeons</td>
<td>1092</td>
<td>$4,640</td>
<td>$100,000</td>
<td>114</td>
</tr>
<tr>
<td>Civil and Mechanical Engineers</td>
<td>683</td>
<td>$2,270</td>
<td>$60,000</td>
<td>43</td>
</tr>
<tr>
<td>Accountants</td>
<td>518</td>
<td>$5,600</td>
<td>$30,000</td>
<td>18</td>
</tr>
<tr>
<td>Architects</td>
<td>350</td>
<td>$3,030</td>
<td>$25,000</td>
<td>10</td>
</tr>
<tr>
<td>Total for all professionals</td>
<td>10,234</td>
<td>$60,000-$75,000</td>
<td>$60,000-$75,000</td>
<td>614-768</td>
</tr>
</tbody>
</table>


**Economics of mobility thrives on rising demand**

• Saikat Neogi, Updated: May 07, 2007 23:04 IST
Access to markets (mode 1)
Privacy regulation - a European Damocles sword

NASSCOM-DSCI Survey of the Impact of EU Privacy Regulation on India’s Services Exporters

Non-fructification of deals because of data protection related concerns

<table>
<thead>
<tr>
<th>Estimation of Opportunity Loss (in USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 1 million</td>
<td>11%</td>
</tr>
<tr>
<td>1 million - 10 million</td>
<td>33%</td>
</tr>
<tr>
<td>10 million - 100 million</td>
<td>22%</td>
</tr>
<tr>
<td>100 million - 500 million</td>
<td>11%</td>
</tr>
<tr>
<td>500 million - 1 billion</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: NASSCOM-DSCI Survey (2013)

The US could save over $1.4 billion annually even if only one in ten US patients chooses to undergo treatment abroad.

<table>
<thead>
<tr>
<th>Procedure</th>
<th>US inpatient price ($)</th>
<th>US inpatient volume</th>
<th>US outpatient price ($)</th>
<th>Estimated US outpatient volume</th>
<th>Foreign price including travel cost ($)</th>
<th>Savings if 10% of US patients undergo surgery abroad instead of in the US ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knee surgery</td>
<td>10,335</td>
<td>399,139</td>
<td>4,142</td>
<td>60,000</td>
<td>1,236</td>
<td>380,604,366</td>
</tr>
<tr>
<td>Shoulder Arthroplasty</td>
<td>5,940</td>
<td>23,300</td>
<td>7,931</td>
<td>N/a</td>
<td>2,204</td>
<td>8,704,809</td>
</tr>
<tr>
<td>TURP</td>
<td>4,127</td>
<td>111,936</td>
<td>3,303</td>
<td>88,064</td>
<td>2,385</td>
<td>27,581,317</td>
</tr>
<tr>
<td>Tubal Ligation</td>
<td>5,663</td>
<td>78,771</td>
<td>3,442</td>
<td>621,229</td>
<td>1,248</td>
<td>171,065,574</td>
</tr>
<tr>
<td>Hernia Repair</td>
<td>4,753</td>
<td>40,553</td>
<td>3,450</td>
<td>759,447</td>
<td>1,608</td>
<td>152,655,706</td>
</tr>
<tr>
<td>Skin lesion excision</td>
<td>6,240</td>
<td>21,257</td>
<td>1,696</td>
<td>1,588,884</td>
<td>812</td>
<td>151,952,860</td>
</tr>
<tr>
<td>Adult Tonsillectomy</td>
<td>3,398</td>
<td>17,251</td>
<td>1,931</td>
<td>102,749</td>
<td>1,010</td>
<td>13,588,218</td>
</tr>
<tr>
<td>Hysterectomy</td>
<td>5,783</td>
<td>640,565</td>
<td>5,420</td>
<td>N/a</td>
<td>1,869</td>
<td>250,704,845</td>
</tr>
<tr>
<td>Haemorrhoidectomy</td>
<td>4,945</td>
<td>12,787</td>
<td>2,081</td>
<td>137,213</td>
<td>781</td>
<td>23,160,663</td>
</tr>
<tr>
<td>Rhinoplasty</td>
<td>5,050</td>
<td>7,265</td>
<td>3,417</td>
<td>N/a</td>
<td>1,906</td>
<td>2,284,315</td>
</tr>
<tr>
<td>Bunionectomy</td>
<td>6,046</td>
<td>3,139</td>
<td>2,392</td>
<td>41,507</td>
<td>1,487</td>
<td>5,186,290</td>
</tr>
<tr>
<td>Cataract extraction</td>
<td>3,595</td>
<td>2,215</td>
<td>2,325</td>
<td>1,430,785</td>
<td>1,133</td>
<td>171,078,116</td>
</tr>
<tr>
<td>Varicose vein surgery</td>
<td>7,065</td>
<td>1,957</td>
<td>2,373</td>
<td>148,043</td>
<td>1,393</td>
<td>15,618,521</td>
</tr>
<tr>
<td>Glaucoma procedures</td>
<td>3,882</td>
<td>-</td>
<td>2,292</td>
<td>75,838</td>
<td>1,017</td>
<td>9,670,440</td>
</tr>
<tr>
<td>Tymanoplasty</td>
<td>4,993</td>
<td>754</td>
<td>3,347</td>
<td>149,246</td>
<td>1,261</td>
<td>31,408,685</td>
</tr>
</tbody>
</table>

**Total savings**: 1,415,264,725

Collaborative research led to proactive positions by India with multilateral benefits

WTO Hong Kong Ministerial Declaration
Adopted on December 18, 2005
Annex C: Services Objectives

1. …Members should be guided, to the maximum extent possible, by the following objectives:

   (a) Mode 1 and Mode 2 commitments at existing levels of market access

   (b) Mode 3 commitments on enhanced levels of foreign equity participation and removal or substantial reduction of economic needs tests

   (c) Mode 4 new or improved commitments

7. ..request-offer negotiations should also be pursued on a plurilateral basis…

...a small group of Members... would:

- Lock-in the currently open regimes for cross-border trade
- Eliminating barriers to foreign investment either immediately or in a phased manner
- Allow greater freedom of international movement for individual service providers
III. How is reform best implemented?
Elements of services trade policy reform

3 goals
• efficiency
• stability/reliability
• access

3 instruments
liberalization – ownership, competition
regulation
policies to improve access

3 issues
• Sequential epiphany on importance
• Tension between goals
• Sequence of implementation
Request from Zambian Trade Minister for support on trade in services
Services trade matters for the least developed countries: Zambia

And produced some clear benefits

• Mobile telephony: dramatic growth since competition and foreign entry in 1995

• Tourism: investments by Sun International have created jobs

• Insurance: improved access since liberalization in 1992
But despite openness, access to services in Zambia was limited and unequal.

Foreign banks dominated but credit to the private sector only 8 per cent of GDP - lower than in 1990.

National air carrier liquidated and sector opened; but domestic traffic declined 5 per cent per annum.

Only 5,000 people held 90 percent of loans.

Even by poor country standards, access to telecommunications is low.

80 percent of fixed lines in Lusaka and the Copperbelt, where only 30 percent of the population is

Where Zambia could have liberalized unconditionally, it did not

Zamtel’s de facto monopoly in the international telecommunications gateway deprived households of access to telephones.

Denial of Fifth Freedom rights by Zambia and South Africa undermined competition and hurt horticulture and tourism.

Burdensome licensing in tourism (74 licenses and a year’s wait) cost Zambia nearly 300,000 more tourists every year. And Zambia’s tax system discriminated against services, the small firm and the poor regions.

“When fee was reduced from $12m to $350,000, international and local call charges fell by more than 50%.” - Darlington Mwape, Zambia’s Ambassador to the WTO: February 12, 2016 “After a bilateral open-skies deal, fares between South Africa and Zambia fell by almost 40% and passenger numbers rose nearly as much.”

Why? Understanding the political economy of liberalization
Where other reform’s were first needed, liberalization was rushed

Banking liberalized before strengthening regulation.
1991-1994, ten new bank licenses issued;
1995-2001: nine bank failures, causing estimated losses equivalent to 7 percent of GDP.
Durable effect on financial development.

Agricultural output markets liberalized before the development of markets for services inputs.
Durable effect on agricultural development.
Regulatory inadequacy persists and undermines the benefits of openness

**Weakness:**
The Communication Authority of Zambia  
The Pensions and Insurance Authority  
The Civil Aviation Authority  
The Competition Authority of Zambia

**Inappropriateness:**
In banking, burdensome “Know Your Customer” rules,
In accounting, demanding International Financial Reporting Standards (IFRS)

**Absence:**
After independence, clumsy instruments to widen access;
after liberalization, none

Why? Understanding the political economy of regulation
If we cannot implement efficient instruments to widen access to services

FROM COLONIALISM

FROM CONDITIONALITY

TO KAUNDA’S SOCIALISM

TO STATE CAPITALISM?

The PF government will renationalise ZAMTEL—Opposition leader Michael Sata

Government will soon revive the national airline—Commerce Minister Mwanakatwe

Should we reinstate NAMBOARD?

Yes - according to National Farmers Union president Jarvis Zimba:
Elements of successful services trade policy reform

- Emphasis on competition
- Effective but appropriate regulation
- Efficient instruments to widen access to services

In appropriate combination and sequence
Developing countries with stronger institutions are pushing the frontiers of services trade: Chile

Services firms in Chile spend nearly as much on innovation as manufacturing firms

Expenditure on innovation by sector, (Average 2005-2006, using weights)

**Enaex** has become a global pioneer in providing rock blasting services to mining companies

- Milodon is the world's largest truck for mixing and loading of explosives.
- Inteliblast software processes input data and determines the type of rock fragmentation strategy.
- GPS device mounted on the arm allows location of the perforation and development of customized designs of the blasting processes based on field data.
The **port terminal in the region of Arica and Parinacota** has innovated along multiple dimensions to increase productivity:

- Improvement of the port’s layout,
- More efficient slot allocation for management of trucks at the port,
- Automation of electronic records of the port loads entered, and
- New system to efficiently trace loads.
Cencosud has innovated in retail, creating a new client interface to enhance customers’ shopping experience

For example, in the electronics section, no more in-store brand promoters but:

- An initial adviser who advises clients on the best product suited for their needs
- An expert who is available to answer technical questions and
- Comprehensive training in-store to customers on product use
Mutually reinforcing relationship between trade and innovation

Exporters in Chile spend much more on innovation than non-exporters

Propensity to spend on innovation of exporters and non-exporters

![Bar chart showing the difference in innovation spending between exporters and non-exporters in Manufacturing and Tradable Services.]

Trade and innovation in services are seen as a way out of the middle income trap

A key issue for policy research:
Are current IP and innovation assistance regimes biased against services?

IV. Why have services trade negotiations disappointed, and can we do better?
What does international cooperation on services trade offer?

• Deeper liberalization at home and abroad through reciprocity-based market access negotiations

• Enhanced credibility of
  o current trade regime
  o commitment to future reforms

• Regulatory cooperation

Key policy question - where can and should these gains be realized: in a regional or multilateral context?
Multilateral negotiations have struggled to eliminate protection.

Regional negotiations too have had limited liberalizing impact

**AFAS commitments, applied policy and Blueprint goals for each country**

Note 1: Applied policy information for Brunei is missing.
Note 2: MMR = Myanmar, BRN = Brunei, THA = Thailand, PHL = Philippines, IDN = Indonesia, LAO = LAO PDR, MYS = Malaysia, SGP = Singapore, VNM = Vietnam, KHM = Cambodia.

Source: Gootiiz and Mattoo (2013)
The TPP has delivered credibility but not much liberalization

Services Trade Restrictiveness Indices for TPP Countries Doha Offers, TPP Commitments and Applied Policy

Example: 1. “The US reserves the right to adopt or maintain any measure…”

• **Transport:** “…relating to the provision of maritime transportation services…”

• **Cross-Border Trade:** “…that is not inconsistent with the US’ obligations under the GATS....”

• **MFN:** “…that accords differential treatment to countries under any bilateral or multilateral international agreement in force or signed prior to the date of entry into force of this Agreement.”

**Mode 4:** “the United States is not undertaking any commitments in this area.”

2. Malaysia: licenses based on “prudential considerations and “the best interest of Malaysia.”
Why? Security is a growing concern in an insecure world

And this concern affects multiple services markets

- Digital trade and informational security
- Financial internationalization and financial security
- Labor mobility and security
- Demographic change and health and old-age security

Services trade held back by a combination of protectionist and legitimate regulatory concerns

Which conventional negotiations modeled on goods trade cannot disentangle
Conventional vs Proposed Approach

*Conventional approach*: negotiations about exchange of **market access commitments by importers**

Does not work for services

For services to be global, regulation cannot be national

Inability to protect consumers leads to:
- protection (esp on modes 1 and 2) or
- burdensome requirements (esp on modes 3 and 4).

*Needed*: a mechanism to protect consumers from international market failure

*Proposed*: **regulatory commitments by exporters** to protect foreign consumer interests in return for market access commitments by importers

The Costs of Data Localisation: A Friendly Fire on Economic Recovery
How exporting country regulatory commitments work: data flows

The problem

The necessary bargain
Exporting country commitments to adhere to importer standards of privacy in return for free data flows

Examples

- EU-US Safe Harbor Agreement; renegotiated as EU-US privacy shield;
- TPP provisions on data flows matched by provisions on protecting privacy and preventing fraud
How exporting country regulatory commitments work: labor flows

The problem

The necessary bargain

Source country commitments to certify character and qualifications, facilitate repatriation, combat illegal migration in return for freer labor mobility

Examples

• Bilateral labor agreements between Spain-Ecuador; Korea-Philippines;
• APEC Business Travel Card
How exporting country regulatory commitments work: financial services

The problem

Dodd-Frank ends capital exemptions for European banks

Financial crisis: Banks reduce credit supply in emerging Europe

The necessary bargain

Exporting country commitments to protect interests of foreign consumers, financial stability, and avoid “financial nationalism”, etc. in return for market opening

Examples

- EU efforts to preserve the internal financial market EU-US markets
- EU-US discussions under the TTIP
- Vienna Initiative, for macroeconomic stability in emerging Europe
How exporting country regulatory commitments work: competition policy

**The problem**

Exporting countries to enforce competition rules to protect interests of foreign consumers in return for market opening

**The necessary bargain**

**Rigging of Foreign Exchange Market Makes Felons of Top Banks**

**Examples**

• EU-US cooperation on price rigging by financial institutions,

• EU-US action on collusive arrangements in air and maritime transport;

• APEC initiatives on competition policy;

**EU, US exemptions from competition policy for export cartels**

Cebu, Philippines, 8 Sep 2015

**2015 Structural Reform Ministerial Meeting**

**Joint Statement**

*Structural reform and services*

The final challenge is mitigating regulatory externalities, or accounting for the effects of regulation in one economy on the consumers of the service in another economy.

We support regulatory cooperation as one of the mechanisms for facilitating market opening...

We, therefore, instruct the Economic Committee to conduct dialogues with sectoral regulators, policy makers, and business
Watching out for the risk of excluding developing countries
Risk of trade based on mutual trust rather than comparative advantage

Recognition without restrictive rules of origin promises the greatest benefits to third countries

Source: Chen, Maggie Xiaoyang, and Aaditya Mattoo (2008), Regionalism in Standards: Good or Bad for Trade, *Canadian Journal of Economics*, vol. 41, 838-863
Notes: ROO = Rules of origin.
Resisting the tyranny of harmonization to avoid exclusion within countries

In Mexico, the introduction of simplified bank accounts with less burdensome information requirements is associated with an increase in the number of deposit accounts.

Source: Xavier Faz (2013), Mexico’s Tiered KYC: An Update on Market Response, CGAP
Three concluding suggestions

• **Strengthening national regulation**
  • Identify sectors where regulation matters for trade liberalization
  • Diagnose and remedy regulatory inadequacies
  • Country- and sector-specific advice and assistance on sequence of regulatory reform and liberalization

• **Advancing International regulatory cooperation**
  • Identify sectors where absence of regulatory cooperation matters for trade liberalization
  • Facilitate cooperation and ensure coherence with trade negotiations; developing country participation.
  • Country- and sector-specific advice on sequence of regulatory cooperation and liberalization.

• **Addressing the risk of exclusion**
  • Reaffirm relevant WTO MFN-related provisions (GATS Article VII).
  • Restrain use of exclusionary rules of origin
  • Support development of appropriate standards in developing countries.