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Trade Facilitation in Services

A Conceptual and Empirical Analysis

Ian Gillson
Martin Molinuevo
Sebastian Sáez

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Abstract

Beyond their key contribution to value chains in all sectors, services represent a centrally important source of economic and export diversification. This paper discusses how to promote trade in services as a channel for growth, employment, and diversification by assessing services trade costs and identifying policies that contribute to their reduction: a concept termed *trade facilitation in services.* It summarizes the latest research on the costs facing trade in services beyond discriminatory market access and national treatment and finds that these are high. It proposes measures that could fall under the scope of a potential trade facilitation in services agenda, namely: (i) streamlining processes and procedures used in administering regulatory policies aside from the policy itself, (ii) improving access to information on regulatory policies (that is, transparency), and (iii) boosting the efficiency of governance structures for regulators that set policies affecting trade in services.

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Trade Facilitation in Services:
A Conceptual and Empirical Analysis

Ian Gillson, Martin Molinuevo and Sebastian Sáez[1]

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I. Introduction

The ability of firms to compete and diversify in the world economy is conditional upon their access to affordable and high-quality services. Services are a key determinant of countries' participation in the global economy, including in global value chains. The growing interdependence of goods and services markets matters for trade and investment policy design. It calls for integrated approaches that progressively erase what are often artificial policy distinctions between goods and services and between trade and investment as vectors of market access in a world increasingly governed by international production networks. Greater policy coherence at the trade and investment policy interface is also necessary to address and mitigate the potentially adverse consequences of regulatory interventions in goods and services markets characterized by this increasing interdependence (Baldwin 2016) (World Bank 2017) (Hallward-Driemeier and Gaurav 2018) (Sáez, et al. 2014) (Taglioni and Winkler 2016).

Beyond their key contribution to value chain dynamics, services represent a centrally important source of economic and export diversification. Many developing countries produce and export a range of services, destined both to their own regional markets as well as to higher-income countries. Although services are inherently less tradable than most goods - not least because of their frequent characteristic as "experience goods" requiring real time, face-to-face, interaction between services producers and consumers - the continued precipitous drop in the cost of travel and communications and the spread of information and associated digital technologies are making it easier and cheaper to produce a service in one location and consume it in another, thus creating new opportunities for trade in services.

This paper discusses how to promote trade in services as a channel for growth, employment, and diversification by identifying policies that contribute to the reduction of trade and investment costs in services. Specifically, the policy note seeks to shed deeper analytical light on the concept of *trade facilitation* in the services (TFiS) sector and assess the costs associated thereto in international trade and investment transactions. The note is organized as follows: Section II discusses the main features of trade costs facing services trade. Section III describes measures aimed at reducing trade costs in services, and section IV digs deeper on potential areas covered by the TFiS concept. Section V summarizes the main findings of three studies commissioned as part of the work which analyze TFiS for individual modes of supply. The final section concludes.

II. Services trade costs

In a world where market access and discriminatory barriers to services and services providers are being progressively reduced or eliminated through autonomous and negotiated policy decisions, how significant are trade costs in services? In the case of goods, cross-border trade involves shipping goods from one country to another, making international borders and the costs and procedures associated with their crossing inevitable. In contrast, for services, trade is often possible via a multiplicity of modes of supply. Beyond transactions supplied on a cross-border basis (so-called Mode 1 trade) in a manner analogous to goods trade where borders are salient, cross-border trade in services increasingly takes the form of remote digital transactions that are largely indifferent to notions of time, space and the physicality of borders. Services trade also proceeds (predominantly) via sales through the establishment of a commercial presence in a foreign territory (Mode 3 trade), as well as via transactions deriving from the movement of people as either consumers (so-called Mode 2 trade) or suppliers of services (Mode 4 trade).

The differentiated nature of services transactions naturally holds implications for the trade costs affecting them. The (limited) literature devoted to the topic generally deems such costs to be high – up to three times the level observed for goods trade by some estimates for Mode 1 transactions (Miroudot, Sauvage, and Shepherd, 2013). Trade costs in services can be inflated by a raft of policies maintained by most countries, both developed and developing, that restrict or impede trade and investment in services. Such measures include explicit forms of discrimination that are protectionist in intent, for instance by reserving a market (or market share) for domestic incumbents and limiting their exposure to foreign competition. However, many measures that restrict services trade and investment do so inadvertently, notably in the pursuit of diverse (and legitimate) policy aims deriving from the pervasive nature of market failure in services markets.

A recent WTO report confirms that trade costs in the services sector are much higher than in manufacturing and agriculture.[2] The study also finds that trade costs in services have declined since 2000 and that the pace of cost decline is faster than in the agricultural and the manufacturing sectors. The report also concludes that trade costs differ according to the level of development of an economy. For high-income countries, cross-border trade costs in services are found to be lower than for middle-income countries, for instance. Finally, trade costs also differ among services sectors. This is because certain measures have a greater impact on specific sectors. For example, procedures and requirements for the recognition of professional titles affect mainly, but not exclusively, professional services providers. Infrastructure requirements affect services which depend on the quality and availability of physical infrastructure such as tourism and transport services. Electronic infrastructure and regulation affect relatively more the trade costs faced by digital services.

Barriers to trade in services typically consist of 'behind-the-border' regulatory measures that are 'non-price-based' in nature (see Table 1). Such measures can be discriminatory or non-discriminatory in character. Discriminatory measures rarely if ever represent an optimal response to a market failure. For the most part, regulatory measures that limit foreign entry (participation) or violate the national treatment principle are pursued for protectionist purposes with a view to sheltering, fully or in part, domestic service providers or established foreign firms from new sources of competition. For their part, non-discriminatory regulations normally pursue a range of legitimate policy aims. However, just like discriminatory measures, such regulations, if poorly designed or implemented, may not correct market failures in the most cost-effective manner and result in *de facto* impediments to trade and investment in services. A prominent example of the latter type of measure relates to unduly onerous licensing requirements taken in response to legitimate consumer protection concerns (itself a manifestation of information asymmetries prevalent in markets for financial or professional services, see box 1).

[2] Trade costs include 5 categories which can broadly be grouped into hard trade costs, such as trade barriers, and soft trade costs which can be associated with trade facilitation issues - see section III for additional details and WTO (2019) for a full analysis.

Box 1

Colombia: The Regulation of Professional Services

In a recent study, the World Bank conducted a survey among Colombian professional service providers to assess the main barriers to trade they face. The study identified recognition of accreditations and licensing requirements as the main factors affecting their establishment abroad.

Colombian firms indicated in 30 percent of cases that the lack of title recognition or accreditation of professional service suppliers was a serious obstacle. Micro, small, and medium-sized enterprises considered these barriers to be moderate. Architecture service providers were found to face the most restrictions in terms of lack of recognition and residency requirements.

The regulation of licensing requirement and the speed of the process for granting licenses were considered to be serious barriers for 24 percent of the respondents. Regulations on technical standards were considered moderate or small obstacles in 56 percent of cases. For accounting and legal services providers these barriers were perceived to be important or serious, while for engineering and architecture services they were found to be mostly moderate or small barriers.

The survey also identified other performance and growth challenges that companies face, both those with a branch overseas and those considering setting up one. The greatest performance and growth obstacles faced in foreign markets for these companies were found to be the regulation for foreign suppliers, work permits, visas, residence and regulations related to license granting procedures.

Source: Trade in Professional Services: Demand and supply analysis of the Colombian market, World Bank, (2016).

Trade costs can also stem from the need for compliance with diverse regulatory requirements in multiple jurisdictions within the same political entity (for instance in countries with federal systems of governance where specific services are regulated at the sub-national level) or at the regional level. For example, in the EU context, Mustilli and Pelkmans (2013) find that despite significant services liberalization within the Single European Market, a high level of regulatory heterogeneity prevails among countries in several sectors, notably in professional services. Regulatory heterogeneity can thus alter the fixed costs of entry within segmented markets, and empirical evidence has been adduced showing its dampening effects on services trade flows (Kox and Lejour (2005); OECD (2017). The costs associated with regulatory heterogeneity may also affect decisions on preferred modes of market entry, tilting incentives away from cross-border supply towards establishment-related trade (Mode 3), and therefore changing the nature of the costs of doing business faced by firms.

Table 1. Distinguishing different types of regulations and their impact on services trade

		Legitimate market regulatory goal	Barriers to services	Trade disciplines
Discriminatory		No	**Yes**	• Market Access and National treatment
Non-discriminatory	**Non-harmonized**	No	**Yes**	• Market access • Right of establishment • "Local Presence"
		Yes	**Yes** (regulatory heterogeneity)	• "Domestic regulation" disciplines • Sector-specific regulatory disciplines • Regulatory cooperation • MRAs
	Harmonized	Yes	**No**	--

Source: authors based on (Mustilli and Pelkmans 2013)

In trade and investment agreements, various provisions are designed to address the barriers mentioned above: disciplines on national treatment seek to eliminate preferences granted to domestic suppliers; disciplines on market access are directed at measures that restrict market competition; and disciplines on issues linked to establishment and local presence aim at ensuring that foreign service suppliers are not impeded in serving local markets through a commercial presence in the territory of another party or forced to establish a presence in such markets as a pre-condition for supplying their services.

Addressing barriers to services trade and investment arising from regulatory heterogeneity and non-discriminatory regulatory conduct remains a challenge, however. Such a challenge can be aptly summed up by the continued inability of WTO Members to agree to a set of disciplines on domestic regulation under the GATS Article VI:4 work program.

Traditionally, countries have devised two means of reducing the trade incidence of regulatory heterogeneity: harmonization and mutual recognition. Both imply a high degree of regulatory cooperation. The experience of the Single European Market has revealed the limits, complexity and political sensitivities inherent in aiming for regulatory harmonization in services markets (as it necessarily begs the question of harmonizing to whose standard?), a process made more complex still by the limited availability of widely accepted international standards in service industries. More progress has been achieved through mutual recognition agreements and their flexible tolerance for various (*de minimis*) forms of regulatory heterogeneity (De Brujn, Kox and Lejour, 2006). Beyond the EU, however, tangible progress on the mutual recognition front remains scant, even within regional confines characterized by above average levels of market integration, such as in the NAFTA or ASEAN contexts.

III. Policies for reducing services trade costs

Trade costs in services can, on the one hand, be explained by *prima facie* trade and investment barriers, which can usually be addressed by unilateral policy reforms or reciprocally through trade negotiations. On the other hand, other trade costs associated with regulatory requirements, compliance, and administrative procedures, can best be addressed through regulatory cooperation among countries and/or by national regulatory agencies themselves. For example, regulatory bodies in the financial sector typically adopt similar regulatory approaches and engage in continuous exchanges of information, both of which aim at reducing regulatory compliance costs and boosting transparency. But this approach, while, effective for financial services, has proven to be difficult to replicate in other sectors.

Despite the challenges in regulatory cooperation, limited efforts have so far been addressed at finding alternative approaches to reducing trade (and investment) costs in services markets. Trade costs associated with administrative procedures, the lack of procedures with which to certify the qualification and experience of foreign service providers, and the means to secure regulatory compliance have received little attention in the policy literature (Mattoo and Mishra, 2009). Not surprisingly, there is no clear consensus on how important trade costs are for services providers, the extent to which they are exclusively associated to *prima facie* trade barriers, and how best to reduce trade costs that stem from legitimate market regulation.

New developments seem particularly relevant and potentially promising in addressing this knowledge gap. The concept of TFiS as a means of reducing the cost of services imports and to foster increased exports geared towards helping services traders and investors overcome costs encountered in accessing foreign markets, has been floated by WTO members (see UNCTAD, 2017 and OECD, 2018). For example, recently the Government of India submitted a proposal to the WTO Working Party on Domestic Regulation (S/WPDR/55) outlining an initiative and a draft legal text on TFiS. The initiative was complemented by a subsequent submission on November 14, 2016 (S/WPDR/57), which described the broad elements of a possible Agreement on Trade Facilitation in Services paralleling the recently concluded Trade Facilitation Agreement (TFA) applicable to goods trade under the GATT.

On investment facilitation, a group of WTO members issued a Joint Ministerial Statement "On Investment Facilitation for Development" at the December 2017 WTO Ministerial Conference (MC-11) held in Buenos Aires calling for "structured discussions with the aim of developing a multilateral framework on investment facilitation. These discussions shall seek to identify and develop the elements of a framework for facilitating foreign direct investments that would: improve the transparency and predictability of investment measures; streamline and speed up administrative procedures and requirements; and enhance international cooperation, information sharing, the exchange of best practices, and relations with relevant stakeholders, including dispute prevention. These discussions shall also seek to clarify the framework's relationship and interaction with existing WTO provisions, with current investment commitments among Members, and with the investment facilitation work of other international organizations. These discussions shall not address market access, investment protection, and Investor-State Dispute Settlement."

IV. Disentangling Trade Facilitation in Services

Even in instances where trade and investment barriers are eliminated, service providers, including foreign ones, will still be subject to administrative and procedural requirements that they must comply with in order to operate in accordance with host country regulations. Foreign firms may also face home country regulatory compliance costs, for instance in respect of corporate social responsibility or responsible business conduct rules. Costs may include those linked to both entry and post-establishment operations in addition to information costs on how to operate in a market (see Table 2).

Costs relating to TFiS, other than *prima facie* trade barriers, can be classified as follows arising from (see Table 2): i) accessing information on applicable rules and requirements; ii) associated certification/conformity assessment procedures, where applicable, including absence of time frames for rendering regulatory decisions, or excessive timeframes for decisions; and iii) uncertainty or variability in the administration (governance) of (i) and (ii) (Hoekman, 2017). Box 2 illustrates the importance of regulatory decisions (governance) for investors.

Table 2. Defining the Scope of Trade Facilitation in Services: An Illustration

Mode of supply affected	Core of TFiS measures	Overlapping Areas	Outside Scope of TFiS: Direct Trade Barriers
Horizontal	• Streamlined administration of regulations: efficient, expeditious, time bound, transparent, unambiguous, non-discriminatory, based on established criteria • Transparency-related provisions: publication; opportunity to comment before entry into force; enquiry/contact points; notifications, etc.	• Disciplines on charges and fees: reasonable, cost-based, transparent application; adequate time period between publication and implementation • Opaque, expensive and time-consuming procedures for securing licenses, visas, and work permits, fees • Subjectivity in relation to the determination of eligible categories of natural persons • Recognition-related concerns	• Quantitative restrictions
Mode 3 **Mode 4**	• Administration of measures: procedures and timelines from service suppliers, as well as for appeal and review; single window facilities	• ENTs: absence of clarity on the criteria on which ENTs are based for Modes 3 and 4 • Requirements and procedures for the establishment of a commercial presence	• Legal entity (including JV requirements) • Participation of foreign capital • ENTs

Source: authors based on (Working Party on Domestic Regulation 27 September 2016) (Facilitating Trade in Services, Workshop on Trade Facilitation in Services March 23, 2017)
Note: ENTs: Economic Needs Test, are not precisely defined in the context of WTO. Broadly speaking, ENTs refer to market access measures as defined by Art. XVI of the General Agreement on Trade in Services. For a detailed discussion on Economic Needs Test in the GATS context see **S/CSS/W/118,** 30 November 2001.

Box 2. Lessons from Grievance Management Pilot Projects at the WBG

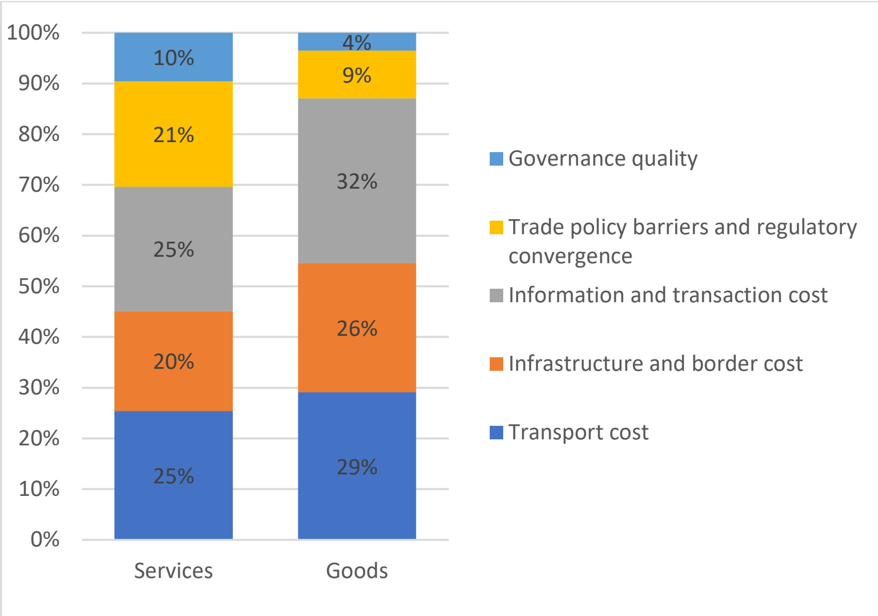
The WBG has piloted a conflict management mechanism in more than eight countries which has generated evidence. The WBG developed an institutional conflict management mechanism, called SIRM (Systematic Investor Response Mechanism), to respond to the needs of governments by setting up a minimum institutional infrastructure to coordinate state-wide responses to investor grievances.

The most common issues identified by the SIRM pilots are sudden/arbitrary regulatory changes (60%), followed by contract breaches (22%) and expropriation (18%), which confirms the findings of MIGA/EIU 2009-2013 surveys and the 2017 GIC Survey. Regarding which types of agencies generate grievances, the SIRM pilots confirm the critical role that specialized and subnational regulatory agencies play in generating most of the conflicts. Among the 39 contentious cases, specialized agencies were involved in 64% (25) of cases and subnational agencies for 15% (6) of them. The pilots also show that grievances arise in all sectors, with service sector cases counting for 46% of the total, followed by primary/extractive industries (36%) and manufacturing (18%).

Source: Echandi and Sauve (2019)

WTO (2019) disentangles the factors that explain trade costs. Although the focus of the analysis is trade costs associated with cross-border trade (mode 1), consumption abroad (mode 2) and temporary movement of people (mode 4) transactions, it confirms that the trade facilitation related matters identified in table 2 are a significant share of total trade costs. The categories identified by the report are: i- transport costs; ii- infrastructure and border costs; iii- information and transaction costs; iv- trade barriers and regulatory convergence; and v- governance quality (see figure 1).

Figure 1. Trade Costs: Goods and Services Trade



Source: based on WTO (2019)

The WTO analysis confirms that the composition of trade costs is different for goods and services trade. In the case of goods, trade costs are highly determined by transport costs, infrastructure and border costs, and information and transaction costs. For services, governance quality; trade barriers and regulatory convergence; and transport costs are the most important components of trade costs.

The WTO study also illustrates how important the trade facilitation agenda can be to reduce trade costs for services. While the study only addresses trade costs for three modes of supply, the data suggest that following a narrow definition, which would include governance quality and information and transaction costs, then trade facilitation matters account for at least 35 percent of total trade costs. A wider definition which includes regulatory heterogeneity and border costs, would increase the share of trade facilitation issues in total trade costs.

V. Trade Facilitation in Services by Modes of Supply

a) Trade facilitation and trade costs

Marel and Shepherd (2019) examine the concept of TFiS from the perspective of the recent literature on the determinants of services trade. Due to data constraints their empirical analysis focuses mainly on cross-border transactions (mode 1). According to these authors, the measures that fall within the area of TFiS relate, broadly, to notions such as “transparency”, “regulatory cooperation”, “regulatory coherence”, and “good regulatory practice”. Taken together, therefore, measures that would fall under the scope of a potential TFiS framework might include: (i) processes and procedures used in administering regulatory policies aside from the policy itself; (ii) access to information on the regulatory policy (i.e. transparency), and (iii) governance structures for the regulators that set policies affecting trade in services. Consequently, their analysis focuses on the role of governance structures, institutions, and transparency in shaping the environment for trade in services.

Table 3: TFiS as Percentage Ad Valorem Equivalents

Country	STRI	DTRI	WGI	Total TFiS ([DTRI + WGI]/STRI)
AUS	7.773	10.872	20.735	4.066
AUT	8.203	7.103	27.419	4.209
BEL	8.464	10.872	29.717	4.796
BRA	13.683	0.000	85.021	6.213
CAN	9.444	22.859	18.999	4.432
CHE	13.327	7.103	15.518	1.697
CHL	8.295	0.000	34.169	4.119
CHN	17.88	31.586	74.827	5.951
COL	11.343	7.103	68.717	6.684
CRI	12.013	0.000	59.843	4.981
CZE	6.17	7.103	38.632	7.412
DEU	5.613	14.711	19.269	6.053
DNK	4.885	14.711	17.608	6.615
ESP	6.92	7.103	41.254	6.988
EST	6.457	7.103	29.557	5.678
FIN	7.248	10.872	16.711	3.805
FRA	6.803	7.103	32.109	5.764
GBR	5.821	10.872	17.515	4.877
GRC	7.808	10.872	64.214	9.616
HUN	7.281	7.103	53.355	8.304
IDN	19.829	18.748	86.753	5.321
IND	21.228	14.711	83.426	4.623
IRL	5.341	7.103	20.752	5.215
ISL	17.842	7.103	29.13	2.031
ISR	14.547	7.103	30.697	2.598
ITA	7.644	10.842	54.884	8.599
JPN	8.714	0.000	25.682	2.947
KOR	11.841	14.711	38.944	4.531
LTU	5.635	7.103	33.699	7.241
LUX	7.159	7.103	20.336	3.833
LVA	4.131	7.103	38.112	10.946
MEX	14.983	7.103	66.073	4.884
NLD	5.054	10.872	16.949	5.505
NOR	12.297	7.103	19.113	2.132
NZL	8.023	7.103	14.649	2.711
POL	7.895	14.711	44.24	7.467
PRT	6.419	7.103	38.128	7.047
RUS	17.634	31.586	92.548	7.040
SVK	7.175	7.103	47.116	7.556
SVN	6.797	7.103	47.581	8.046
SWE	6.803	10.872	16.957	4.091
TUR	13.895	22.859	67.475	6.501
USA	9.825	3.519	29.813	3.393
ZAF	10.676	7.103	66.575	6.901

Source: Marel and Shepherd (2019)

Note: Total TFIS column shows ad valorem equivalent trade costs linked to TFIS variables. The STRI column is presented for comparison only.

Starting with a simple gravity model without policy variables, then adding each explanatory variable individually, Marel and Shepherd (2019) assess the importance of policy restrictions and TFiS variables as defined previously. They first introduce as a policy variable, the OECD STRI, which controls for market access conditions and to some extent regulatory transparency. As expected, the estimated coefficient on this variable is found to have a negative sign and is found to be statistically significant, which means that more restrictive policies (i.e. a higher index score) are associated with a reduction in bilateral services trade. Next they add explanatory variables that are relevant from a TFiS perspective: a regulatory heterogeneity variable that is not found to be statistically significant due to a strong correlation with the STRI; and a Digital Trade Restrictiveness Indicator that is found to be negatively related and statistically significant, which is in line with expectations. Their model therefore suggests that *ceteris paribus* lower restrictions on cross border data flows, as one element of a broader transparency agenda (particularly for Mode 1), would tend to increase bilateral trade.

They finally include explanatory variables on regulatory governance and the business environment, but the coefficients are not found to be statistically significant. The authors assess that this is probably also due to their correlation with the STRI variable. A last variable introduced, which captures the general governance environment, is found to have a statistically significant positive coefficient. This implies that better governance (i.e. a higher score) can be associated with increased bilateral services trade.

In their exercise, the coefficient on the STRI remains negative and statistically significant at the 10% level or better in all cases. However, the magnitude of the coefficient decreases consistently as more TFiS indicators are added into the regression framework. This suggests that part of the effect of policy that is found in standard models of services trade is arguably not due to pure trade restrictiveness of those measures, but to a broader set of regulatory, governance, and transparency issues which are part of the TFiS variables described in the model. Table 3 show that the ad valorem equivalents of common measures of institutional quality, governance, and transparency are found to be larger than measures of policy restrictiveness. They also find that the ad valorem equivalents of data restrictions are of similar magnitude to policy restrictions in services.

Marel and Shepherd (2019) conclude that framing discussions of TFiS around the concept of reducing trade costs, specifically in terms of governance, institutions, and transparency, could potentially bring significant benefits in terms of increased integration of the global services economy. Their paper shows that besides market access policies, three types of other domestic regulatory policies hamper facilitating services trade, namely transparency measures (as covered by the OECD STRI category of Regulatory transparency), regulatory measures related to the cross-border movement of data, and the institutional regulatory capacity of governments and regulators.

In particular the latter category of regulatory measures is found to have a large impact on trade and therefore forms a major determinant for the total trade costs countries encounter when accessing markets abroad. Marel and Shepherd (2019) also conclude that a large component of total trade costs in services appears to be driven by the non-discriminatory aspect of trade policies which form part of the TFiS agenda and their findings suggest not only that behind-the-border measures are important, but that the bulk of that these non-discriminatory trade costs factors must be found in the governance structure of a country. Moreover, they find that the category of trade costs related to institutional governance becomes more important for countries with lower levels of economic development. In part this reflects poorer countries' lower levels of institutional capacity, which therefore may explain high market access barriers in the first place. However, their analysis also reveals that irrespective of any level of discriminatory barrier, streamlining the institutional setup of regulators is likely to have high pay-offs especially for lower income countries.

b- **Investment facilitation in services**

Work on investment facilitation (IF) is progressing in the WTO. Echandi and Sauve (2019) analyze the intersection of this work with the broader concept of TFiS. They find that investment facilitation for services is extremely important because Mode 3 is the dominant mode of supplying services internationally, accounting for two-thirds of the aggregate stock and annual inflows of FDI and rooted in the need for physical proximity between buyers and sellers characteristic of many services transactions. Despite the far-reaching liberalization of host country investment regimes in recent decades, investment in services remains, relative to investment in primary (agriculture, mining) or secondary (manufacturing) sectors, subject to a wider range of entry and post-establishment barriers. While such impediments are both explicitly discriminatory and non-discriminatory in character, those targeted specifically at foreign investors raise the cost of entry and limit the competitiveness of foreign invested firms once established. Such trade costs are arguably more significant, and more FDI-inhibiting, than the non-discriminatory doing business impediments stemming from undue red tape or unduly onerous regulatory requirements that weigh equally on established foreign and domestic firms.

For these authors there is a growing consensus that facilitating investment is about making it easy for investors to establish, conduct their day-to-day business, and expand their existing investments in host countries. Investment facilitation can thus be seen as encompassing the full life-cycle of the investment process – attraction, establishment, retention/expansion and linkages to the domestic economy.

Echandi and Sauve (2019) explore whether the current agendas on trade in services and investment facilitation effectively cover the most important factors that contribute to raising the cost of trade in services under Mode 3. Their paper recalls that the investment facilitation agenda currently pursued at the WTO relates chiefly to two overriding objectives: (i) promoting greater regulatory transparency and the predictability of investment regimes and (ii) streamlining administrative procedures linked to investment entry and operations. The paper contends that such an approach falls short of addressing three of the most important factors increasing the cost of services traded under Mode 3. These are: (i) the economic costs deriving from erratic host state conduct; (ii) discriminatory barriers affecting the establishment of a commercial presence by foreign service providers; and (iii) regulatory heterogeneity.

In the G20 context, facilitating investment is about making it easy for investors to establish, conduct their business, and expand their existing investments without however limiting the right (indeed sovereign duty) of host countries' to regulate in the public interest and without undertaking commitments to liberalize the establishment of FDI. Most of the discussion at the G20 and WTO, echoing the approach of the TFA for trade in goods, has focused on issues relating to transparency and transaction costs. This suggests that the current discussions (on IF) and negotiating proposals (the Indian TFS proposal, though currently dormant) fail to address some of the most important constraints affecting the cost of conducting services trade through an established presence abroad. In this regard, investment facilitation therefore aims at reducing trade costs associated to Mode 3 and encompasses the following aspects: (i) Transparency; (ii) streamlining and speeding up administrative procedures; (iii) enhancing consistency; (iv) Inter-governmental cooperation fostering elimination of distortion through negotiation; and (v) Inter-governmental cooperation fostering regulatory convergence through negotiation (table 4).

Table 4
Operationalizing an Investment and Mode 3 Trade in Services Facilitation Agenda

Trade in services cost component	Market Failure/ Problem to be addressed	Trade facilitation agenda dimension	Diagnostic indicator	Impact Indicators**
Information costs	Information asymmetry	Transparency	WBG governance indicators	Trade/investment generated
Transaction costs	Red tape	Process streamlining	WBG/IAB indicators	Private time/cost savings
Quality of regulatory governance	Uncertainty and un-predictability from regulatory risk	Consistency and predictability in the application of regulatory frameworks	Political risk indicators	Investment retained/expanded
Regulatory Heterogeneity	Economies of scale	Regulatory convergence	RH Index	Trade/investment generated
Discriminatory Policy Measures	Distortions to competition	Standstill	STRI	Trade/investment generated

** Methodologies to operationalize these impact indicators have already been developed by the WGB.

Source: Echandi and Sauve (2019)

This approach has important policy implications. First, it suggests that to if facilitate trade is to reduce the costs of undertaking cross border transactions, then the conceptualization of trade facilitation in services and investment is falling short of covering the most relevant cost factors. Second, the segmented nature of the facilitation discussions on services and investment contributes to likely rule-making overlaps. Third, the discussion on services trade and investment facilitation needs to be framed in such a way as to enable policy makers to address issues that are common to both sets of talks in an integrated manner and to translate evidence-based policy making into actionable deliverables the results of which can be objectively measured under a rigorous monitoring and evaluation framework. Measuring impacts is key not only to monitor progress in the effectiveness of any trade facilitation agenda, but also to show and educate private sector and civil society actors on the importance of trade and investment for development. Table 4 presents a preliminary sketch which could be used to organize a more comprehensive agenda on investment facilitation in services linking trade cost components with their respective market failure/problems, areas for trade facilitation policy intervention, and diagnostic and impact indicators.

c- Temporary Movement of Natural Persons

Singh (2019) discusses the concept of TFiS applied to the temporary movement of natural persons (MNP or Mode 4).[3] In this case, policies are a major determinant of the costs incurred by service suppliers to contest foreign markets (see table 5). But irrespective of a government's policy stance and the concomitant regulatory measures governing market access for foreign suppliers, certain procedural and administrative requirements must always be satisfied. As is true for procedures that apply to goods crossing borders, there are costs for service suppliers in complying with regulatory policies, that go beyond fees and charges for documents or certification/conformity assessment and the time allocated to doing so. Moreover, these costs tend to increase with inadequate information

[3] Delivery of services frequently requires cross-border movement of services suppliers, both temporary and longer-term in the form of contractual service suppliers (CSSs), independent service suppliers (ISSs) and intra-corporate transferees (ICTs).

or transparency regarding the applicable measures and the uncertainty associated with the actual authorization of the services provision. An additional problem for services suppliers accessing multiple markets is the heterogeneity in regulation, the most pressing example of which is the difference in the number and types of documents required to apply for a business visa or differences in social security regulations and labor market tests in importing countries (which may be among the most burdensome regulation that importing countries resort to). Finally, these costs are accentuated by limitations on duration of stay associated with visas, which again differ by importing country, as they necessitate multiple re-applications especially in the case of frequent services suppliers.

Table 5
Trade barriers versus trade facilitation measures

Trade barrier	Trade facilitating measure
Labor market tests for work permits and quotas on service providers	Reducing costs and processing time for business visa applications
Nationality/citizenship/permanent residency required for license to practice	Introducing visa on arrival
Foreign professionals required to retrain locally	Allowing e-visa or online visa applications
Membership in the professional association closed to foreigners	Granting multiple-entry visas

Source: Singhal (2019)

There are three potential channels for lowering trade costs pertaining to MNP and facilitating Mode 4 trade. First, to completely eliminate or sufficiently reduce unnecessarily restrictive formal (explicit) barriers to Mode 4 trade. Secondly, to attenuate the prevalence of regulatory heterogeneity across countries for given sectors or activities. Thirdly, to take actions to lower compliance and administrative costs for service suppliers. A case in point is India's waiver of visa fees for tour guides and language teachers from LDCs under the LDC Services Waiver, wherein the objective is to provide unilateral preferences to semi- and unskilled Mode 4 laborers in LDCs. While the first channel would classify as trade liberalization, channels two and three would constitute trade facilitation.

Using the data collected by the OECD for 45 countries as a part of their STRI database, Singh (2019) analyzes the nature and characteristics of services trade facilitation-related measures. Distinct from the measures *prima facie* restrictions such as licensing systems, onerous visa requirements, or labor market tests, the OECD STRI data also includes 16 measures that relate to providing regulatory transparency for MNP. This is illustrated by discussing various attributes related to business visa applications, all of which translate into costs for service suppliers (see table 6). Singh (2019) finds that the average cost of obtaining a business visa is slightly higher at US$87 for logistics services compared to the sample average of US$84 for the countries covered by the OECD STRI database; for all the other sectors these monetary costs are lower than the sample average.

Similarly, in 2017 the average number of documents needed to obtain a business visa was 9 (the OECD average is a little higher at 10 and the non-OECD lower at 7). Nineteen of the 45 countries were found to have the number of documents required greater than the average, with Austria and France both needing the most at 16 and the UK the least at 2. At the same time, there is considerable heterogeneity in the types of documents that are required to be submitted in support of a business visa or work permit applications. The visa processing time (in number of days) in 2017 varied from as high as 32 for Canada and as low as 1 for Japan. The average for the sample was found to be 13, with the OECD average higher at 15 and the non-OECD lower at 9. Interestingly, 21 of the 45 countries (all OECD) needed 15 days on average to process a business visa, which could be a reasonable target, especially for the five countries at the top of the distribution (Canada, Turkey, Israel, Costa Rica and

New Zealand). A reduction in visa processing time would be likely to facilitate Mode 4 trade, also by making the process more certain and predictable. In addition, longer visa durations for services suppliers would be a significant aspect of any TFiS agenda on MNP. Ideally, the duration of a visa should match the time needed by the service supplier to deliver the service.

Table 6
Attributes of business visa applications: summary statistics (2017)

Attribute	Sample avg.	Min	Max
Cost to obtain a business visa (USD)	84	7 (JPN)	297 (COL)
Duration of visa for crew (no. of months allowed)	5	0 (COL)	23 (IND)
No. of documents needed to obtain a business visa	9	2 (GBR)	16 (FRA)
Range of visa processing time (days)	13	1 (JPN)	32 (CAN)

Source: Singhal (2019) based on OECD STRI;

Finally, it is interesting to note that there is little, if any, statistical correlation between the various attributes of business visa applications. For instance, it would be expected that countries with more restrictive policies towards MNP to require more documents to apply for a business visa or to allow for smaller visa durations. Moreover, even the visa processing times and the duration of visa for CSSs, ISSs and ICTs are negatively correlated, which suggests that even if it may take longer for a country to issue a business visa, that may not result in longer stays in that country for service professionals.

Singh (2019) concludes that moving towards multiple-entry visas for service providers in all sectors, providing opportunities for e-visas/visas on arrival and/or exempting visas for temporary entry/transit of service providers should all be a part of a MNP TFiS agenda. One example is the increased use of enabling e-business visas.

VI. Conclusion

The case for reducing or eliminating impediments to trade and investment in services, whether discriminatory or not, and for expanding competition in services markets is compelling and confirmed by the empirical literature.[4] Simply put, there is strong evidence that promoting more open services markets by eliminating discriminatory and non-discriminatory barriers, including needlessly burdensome or unnecessary impediments to trade, can contribute meaningfully to technological absorption and GVC upgrading. Doing so can also help promote inclusive growth as the service economy is an important source of formal sector female and youth employment.[5]

And yet, even in instances where trade and investment barriers have been eliminated, service providers, including foreign ones, are often still subject to administrative and procedural requirements that they must comply with in order to operate in accordance with host country regulations. Foreign firms may also face home country regulatory compliance costs, for instance in respect of corporate social responsibility or responsible business conduct rules. Costs may include those linked to both

[4] Hoekman and Mattoo, (2008); François and Hoekman, (2010).
[5] OECD&WBG (2017).

entry and post-establishment operation in addition to information costs on how to operate in a market.

The studies summarized in this note show that besides market access policies, measures that could fall under the scope of a potential TFiS framework include: (i) processes and procedures used in administering regulatory policies aside from the policy itself; (ii) access to information on the regulatory policy (i.e. transparency), and (iii) governance structures for the regulators that set policies affecting trade in services.

Looking ahead, there are several important areas for additional policy action and research. First, it is important to recall that reforms of services trade policies remain a priority. Liberalization is still limited, and countries would benefit from addressing prima facie trade barriers. But evidence also shows that those developing countries which have liberalized their services policies, either unilaterally or as part of accession to the WTO or other trade agreements, have not often fully reaped the benefits of liberalization. This is largely because services trade liberalization does not in itself create a conducive business environment to attract investors or support the growth of domestic services providers. Secondly, another priority is the adoption of a strong, capable, and predictable regulatory environment. This is an area that has been identified as part of the trade facilitation in services agenda. Thirdly, some trade facilitation in services issues can be tackled unilaterally by countries while others will require cooperation among countries. Among the former, streamlined and transparent regulatory frameworks are important, while under the latter areas such as regulatory heterogeneity/convergence and capacity building will need to be addressed which would benefit from closer cooperation among countries.

The analytical work produced was also discussed among academics, experts, private sector representatives, and government officials, in a workshop that took place in New Delhi on December 5 and 6, 2019. The major findings of the workshop were as follows:

1. The discussion among experts confirmed the importance of services as a key determinant of countries' participation in the global economy, including in global value chains;
2. Experts also confirmed that the growing interdependence of goods and services markets matters for trade and investment policy design;
3. The differentiated nature of services transactions, defined at the international level by the so-called modes of supply, naturally holds implications for the trade costs affecting them;
4. In this regard, there was general consensus among experts, that the classification proposed by the analytical work for trade costs relating to trade facilitation in services, other than *prima facie* trade barriers, was appropriate.

The main policy orientated conclusions of the workshop included:

1. The importance of complementing trade facilitation in services with liberalization of services trade restrictions.
2. Recognition that a starting point is domestic regulatory reform in services, including at the sub-national level, that countries can showcase as a way forward to facilitate trade in services at the global level. In this regard, while the workshop examined the concept and nature of TFiS by modes of supply, it was also noted that trade facilitation in services was progressing in the context of unilateral efforts as well as in different parallel initiatives at the WTO such as on e-commerce, domestic regulation, and investment facilitation. Experts highlighted the importance for countries to participate, in these discussions, early in the process, to promote their trade interests.

3. Acknowledgement of the absence of other important dimensions in the discussion on TFiS, such as the temporary movement of people, trade costs associated with regulatory heterogeneity, and regulatory cooperation as a means to reducing trade costs.
4. The critical importance of involving the private sector as a source of relevant information.
5. The potential role of plurilateral arrangements, as part of the WTO multilateral architecture, as a way to deal with TFiS and other relevant trade-related topics in the future.[6]

Looking forward, future research would benefit from further refinement of the techniques used to estimate trade costs in services, particularly by categories of trade costs, which would allow for a prioritization of measures to be developed that could incentivize international collaboration and action on addressing these sources of cost. Also, due to significant differences in trade costs among service sectors, for each specific sector a research effort is required to identify the most important critical areas of trade facilitation. Finally, the services trade facilitation agenda would also benefit from a close collaboration with the private sector to help both identify additional trade facilitation measures as well as to identify their priorities for reform.

[6] A discussion of future international cooperation can be found in World Bank (2020).

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