



# Service Sectors : their importance and potential impacts of their liberalization

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## *Lessons learned from Multilateral and RTAs CGE simulations*

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- ❑ ***A QUANTITATIVE ASSESSMENT OF THE OUTCOME OF THE DOHA DEVELOPMENT AGENDA , by Yvan Decreux and Lionel Fontagné (hereafter Doha simulations)***
- ❑ ***“ECONOMIC IMPACT OF A POTENTIAL FREE TRADE AGREEMENT (FTA) BETWEEN THE EUROPEAN UNION AND INDIA” by Yvan Decreux and Cristina Mitaritonna***
- ❑ ***“ECONOMIC IMPACT OF A POTENTIAL FREE TRADE AGREEMENT (FTA) BETWEEN THE EUROPEAN UNION AND ASEAN” by Yvan Decreux and Houssain Boumellassa, Lionel Fontagné***

# Services and their importance for Development



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- They are ***facilitators of domestic growth*** –the share of services is important also for the poorest countries (45% for LDCs, 57% for Developing, 71% for Developed in 2003 )
  - Broadly speaking, they are essential as ***improvements of human welfare and key to realizing the MDGs*** the availability and affordability of water, transportation, education, health, energy, ITC services- is vital and associated with higher productivity and earnings.

But services are often inaccessible, prohibitively expensive, or when accessible of low quality and unsuited to the needs of the consumers (World Bank, 2003)

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- ❑ Moreover they ***contribute to job creation*** –services activities have become primary creators of new jobs, accounting for over 90% of new jobs globally since mid-1990s
  
  - ❑ They ***anchor and support the entire goods production process*** by providing value-added inputs for competitive industrial development  
(However in many LDCs countries policy appears focused on final demand services, with a major degree of “internalization”).
  
  - ❑ They are ***increasing as a percentage of world trade and FDI*** –constitute approximately 36% of world trade and FDI in services is reaching over 60% of all investment flows worldwide

# Liberalizations of Services





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□ Liberalization of services sectors means

- Not only the reduction/liberalization of barriers that affect services per se
- But also barriers that affect services firms such as
  - Restriction on entry
  - Legally established monopolies or oligopolistic market structures
  - Discriminatory taxation
  - Limits on foreign investments

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- Protection in services (e.g. prohibitions of new entry into the market or more restrictive operating conditions imposed solely to the new entrant)
    - IT is first of all a tax on the domestic consumer
      - Although experience have varied considerably across countries and sectors, increasing competition in services has generally led to
        - improvement in service performance
        - increases in infrastructure investment and service coverage
        - improvements in service quality
        - and prices more closely aligned to underlying costs

The size of such changes depends on the extent to which the market is liberalized and the effectiveness of regulation


(liberalization does not mean de-regulation)



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## □ Protection in services

- It result in a tax on production in general
  - Many services (“producer services: e.g. banking, finance, insurance, business services) are intermediate demand that represents inputs across all sectors
  - Prices and quality of these services are crucial in determining the cost of all other products in the economy

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- Government are often aware of the dangers of protection of tangible inputs into production process, and that is the so called “capital-goods” usually benefit of preferential import regime...however they seem not to realize at which extent protection of services inputs rises similar problems
  - More in particular for developing countries there are some misconceptions on services:

**When a developing country or transitional economy has scarce resources, the development priority should be industry, not services –this is based on idea that services are primarily to satisfy final demand**

# Doha Development Round





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Central role of Services ..but little progress  
made on Services negotiations

Market Access and Domestic Support in  
Agriculture have been the stumbling  
blocks in the DDA

# Lessons from Doha simulations

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- Big gains in liberalizing services trade  
(gains obtained in a small opening in services are even larger than an ambitious Round in goods)

- Many countries usually approach multilateral negotiations with a mercantilist approach (“seeking conceptions or market access in other markets”)

(However trade protection – in goods and services- results first and foremost in a cost to the country that imposes it.  
The case for “G90” which participate to the Round for free)

# Regional Trade Agreements



# RTAs

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RTAs are the preferred method of negotiating liberalization of services  
(proliferation of Services PTAs from 1995 on)

Lessons from our RTAs simulations:

1. Again a small opening in services are larger than large opening in goods  
(in the case of a possible of EU-India PTA, opening services at a certain extent is the only simulation where India gains from signing the FTA)
2. EU-Asean FTA is an interesting case to clarify important misconceptions in services:

**If domestic demand for services is low, the focus on developing the services sector will fail  
(The solution is in export ..but we continue to think that services are less tradable)**

**Developing countries do not have a comparative advantage in services exports**

# RTAs

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## 2. ...cont

### **The case of Malaysia**

- **Huge gains in opening in services**
- **Strong comparative advantage in Business services....**
- **More than 50% BS are exported (high share of export even compared to goods)**

# Improvements



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## 1. Barriers of trade in services

- Are extremely difficult to estimate
- Some improvements have been made ...but a big question still remains: "what does it mean for a policy maker reducing 10% or 25% barriers in services?" (in the multilateral context this is even harder than in the bilateral one)

## 2. Improvements in modeling

Since now we have modeled barriers in services as price wedge in export prices...

Other aspects need to be taken into account.



RTAs

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Thank You!