

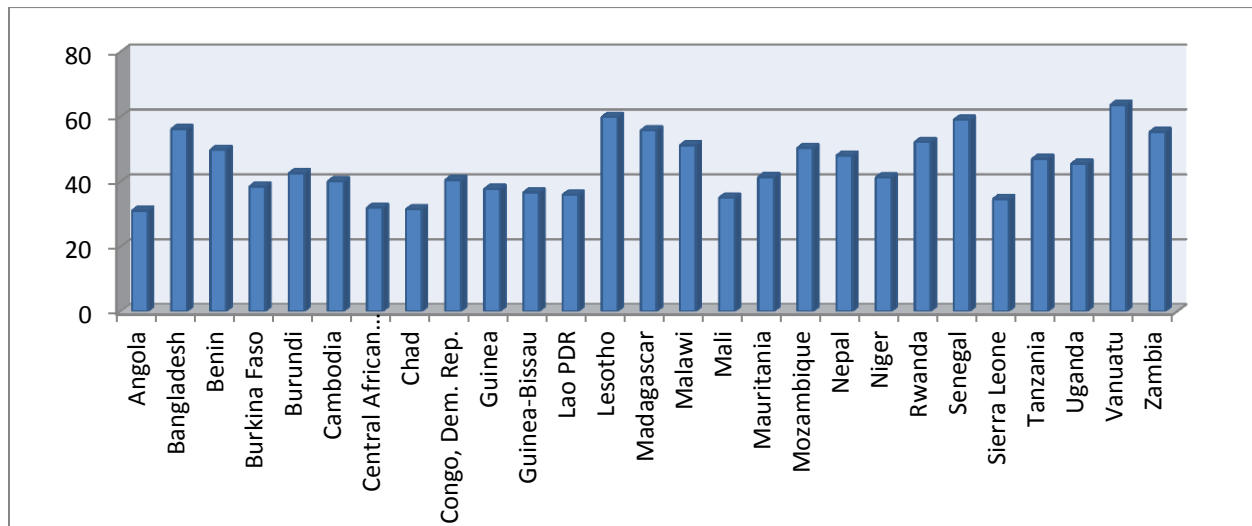


## Three Priorities for Services Trade Facilitation

Linda Schmid,<sup>i</sup> May 27, 2015

The WTO's Trade Facilitation Agreement is an important step forward in helping developing countries gain from the economic benefits of increased trade in goods including exports and imports. What about trade in services? Trade in financial, legal, and accounting services are critical inputs to manufacturing, agricultural, and service industry production. Services trade also includes information technology, communications, and logistics services. These are the sectors that power 21<sup>st</sup> century economies and foster innovation and prosperity. Services contribute over 30% of GDP in developing economies. To boost sustainable growth, a trade facilitation package focused on services would strengthen institutional integrity, facilitate movement of service suppliers, and address intellectual property rights (IPR).

Figure 1: Services, etc., value added (% of GDP) 2012



Source: [The World Bank Databank](#), 1/30/2015

### Q1: What does a country gain from the import and export of services?

**A1:** In practical terms, citizens, businesses, and governments gain access to a wider array of services. This may include advanced telecommunications that enable study, trade, and communication around the world. As another example, state-of-the-art finance and insurance services provide cross-border financial intermediation and deepen capital markets. Trade in environmental services helps protect clean air, clean water, and provides for proper waste treatment. Export of services generates foreign income. For example, trade in tourism has helped to fuel a 14% annual growth rate of commercial service exports from least developed

countries (LDCs) since 2000.<sup>1</sup> Coupled with good governance and institutional transparency, trade in services improves the prosperity of a society.

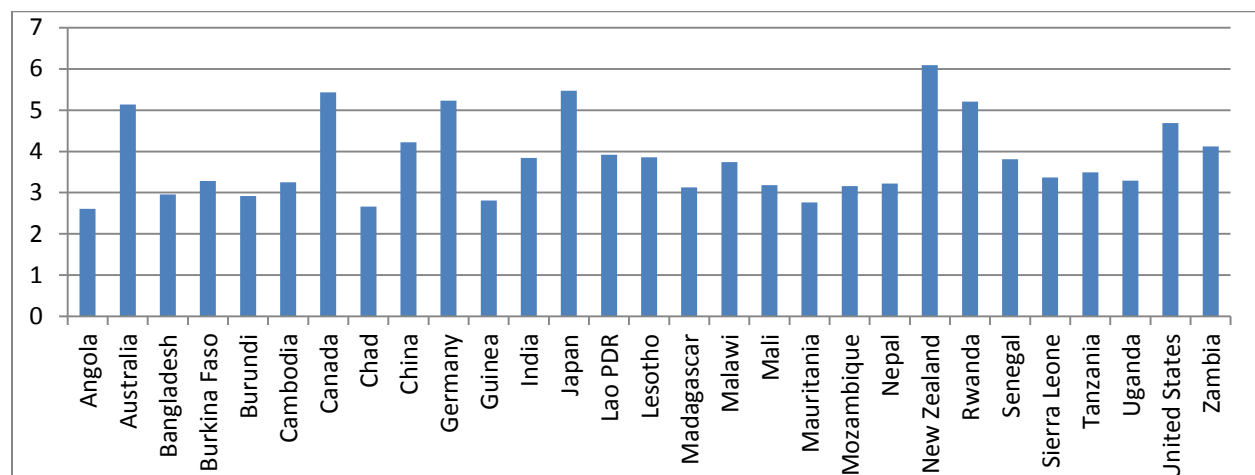
**Q2: What domestic policies strengthen services economies?**

**A2:** Policies that promote investment in education, good governance, as well as accountable, transparent, regulatory institutions strengthen services economies. This is due to the fact that education is the foundation of service industry knowledge. Good governance creates a contestable, judicious marketplace. Accountable regulatory institutions that maintain transparent institutional practices foster market confidence. Astute trade policy can also promote institutional transparency. Many trade agreements contain transparency obligations that propel governments toward domestic institutional reforms. For example, transparency obligations are found across WTO agreements such as the General Agreement on Trade in Services (GATS). [Article III](#) of the GATS, requires publication, notification, and establishment of government enquiry points on rules that influence trade in services. Fostering education and good governance including institutional transparency spurs service industry expansion.

**Q3: Why is institutional quality important to service firms?**

**A3:** The link between institutional quality and service industry productivity is widely recognized. Service firms are directly influenced by regulatory rules and administrative practices of oversight bodies. For example, regulations may influence: the organizational structure of the firm; the type of service they may provide; where a firm locates and whom they hire; the type of client the firm may serve; and how the firm finds, markets, and serves clients. These factors influence the cost and quality of a service and a firm’s competitive position in the marketplace. Benchmarking institutional quality helps policymakers recognize the link between institutional integrity and economic productivity.

Figure 2: Scoring of Institutions from 1 to 7 in the Global Competitiveness Index 2014-2015



Source: World Economic Forum, [The Global Competitiveness Report](#) 2014-2015

<sup>1</sup> World Trade Organization, International Trade Statistics 2014, <http://www.wto.org>

For example, the World Economic Forum's Executive Opinion Survey generates a Global Competitiveness Index, which includes the evaluation of institutions. The Survey has 21 questions on institutions that address, for example, public trust in institutions, judicial independence, transparency of government policymaking, and strength of auditing and reporting standards. Improving institutional integrity results in greater economic productivity.

**Q4: What would a trade facilitation package for services cover?**

**A4:** A trade facilitation package would strengthen institutional integrity; facilitate the movement of service suppliers; and boost the ability of service firms to effectively use IPR.

**Q5: How would technical assistance strengthen the quality of the regulatory environment?**

**A5:** Technical support to regulatory agencies that oversee service industries would help create a regulatory environment that is expert, transparent, and accountable. Financial regulatory institutions in the developing world receive substantial technical assistance from multilateral institutions. However, insurance regulators are often overlooked despite the industry's contribution to the depth of capital markets. Telecommunications regulators responsible for maintaining a procompetitive, rules-based marketplace often need technical assistance. Similarly, independent professional bodies that oversee legal, engineering, architecture, and accounting are often underfunded with few resources. A facilitation package would help such institutions build industry expertise and improve procedural transparency. Trade facilitation would support institutional efficiency in administering qualification, licensing, and technical standards and procedures for service firms. Technology makes this achievable with software applications and online services.

**Q6: How would trade facilitation address movement of service suppliers?**

**A6:** Technical assistance would support efficient processes for obtaining visas and transiting borders to facilitate trade in services and maintain security. Trade in services occurs, for example, when engineers, lawyers, and other service industry professionals cross borders temporarily to serve their foreign clients. To facilitate trade in services, policymakers can take a cue from the Agreement on Trade Facilitation. For example, the Agreement's disciplines on publication and availability of information could apply to the temporary movement of service suppliers. Governments can agree to publish and make available online policies and procedures associated with obtaining a visa and transiting borders. Governments can work to ensure that visa application processes and procedures are impartial, nondiscriminatory, and transparent.

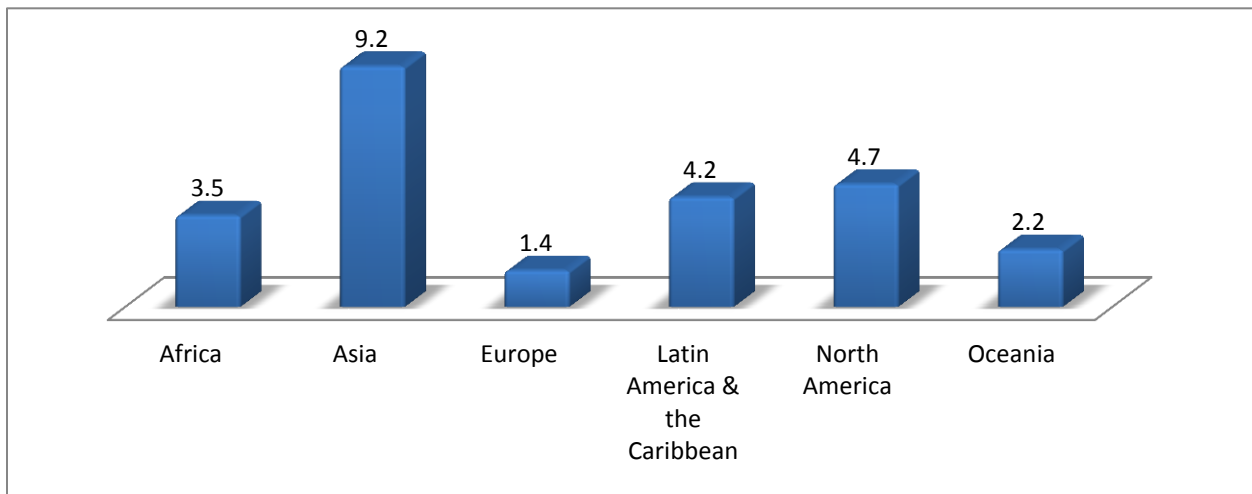
**Q7: How can service firms benefit from use of IPR?**

**A7:** Service firms can capture the commercial value of their reputation, creativity, and innovation using IPR. For example, registering a trademark enhances a firm's commercial profile and, with the attraction of clients, monetizes the value of the firm's service reputation. Trademark licensing also multiplies reputational value and prompts licensees to adhere to quality standards of operation. When a firm creates IPR assets, financing is often easier to obtain due to the formal recognition of an intangible asset.

**Q8: How does an effective IPR regime contribute to economic productivity?**

**A8:** Effective IPR regimes in the developing world can provide firms with an incentive to invest in quality, creativity, and innovation, which drive productivity and create prosperity in today’s knowledge-based economy. With training and adequate resources, ministries responsible for IPR can help the private sector understand and use the IPR regime to capture returns that they would otherwise forgo. For example, ministries can help firms understand how to register IPR, use contractual IPR licensing models, and integrate into international digital IPR payment systems to collect revenue. The use of IPR is gaining ground, suggesting wider recognition of the productive value of IPR. From 2004 to 2013, all regions experienced growth in trademark applications from 1.4 to 9.2%. Policymakers can enable ministries responsible for IPR to effectively carry out their responsibilities and thereby strengthen the services economy.

Figure 3: Average growth of trademark application class counts by region 2004-13 (%)



**Source:** World Intellectual Property Organization, [World Intellectual Property Indicators](#), 2014

<sup>1</sup> Linda Schmid is International Trade and Development Adviser at [Trade in Services International](#). She previously served as the World Trade Organization (WTO) Component Leader of the USAID Investment Climate Improvement Project in the West Bank. She acted as the Trade in Services Officer, International Trade Centre in Geneva. She is a contributing author to [International Trade in Services: New Trends and Opportunities for Developing Countries](#), World Bank 2010 as well as [Managing the Challenges of WTO Participation](#), Cambridge University Press 2005. (Email: [lschmidc@gmail.com](mailto:lschmidc@gmail.com)).