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Session 2

World Bank's Services Trade Restrictions Database

Submitted by: University of Sussex



APEC PERU
2016

**Capacity Building Workshop on Measuring the
Regulatory Environment in Services Trade of APEC
Arequipa, Peru
12 May 2016**



World Bank's Services Trade Restrictions Database

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University of Sussex and World Bank

**APEC Workshop on Measuring the Regulatory Environment
in Services Trade**

Arequipa, Peru 12 May 2016

Disclaimer



- The Services Trade Restrictions Database and any other research shown in this presentation originate from a World Bank research project on the international integration of services markets under the overall guidance of Aaditya Mattoo.
- I deliver this presentation in my personal capacity. All interpretations and conclusions expressed are those of the researchers and do not necessarily represent the views of the International Bank for Reconstruction and Development/World Bank and its affiliated organizations, or those of the Executive Directors of the World Bank or the Governments they represent.




Agenda




1. The World Bank's "Services Trade Restrictions Database"
 - ▶ Aim and Purpose
 - ▶ Coverage (economies, sectors, modes, policies)
2. WB STRI: Methodology and Interpretation
3. Global Patterns of Policy Restrictiveness
4. Economic Impact of Services Trade Policies
5. Summary

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Policy Transparency



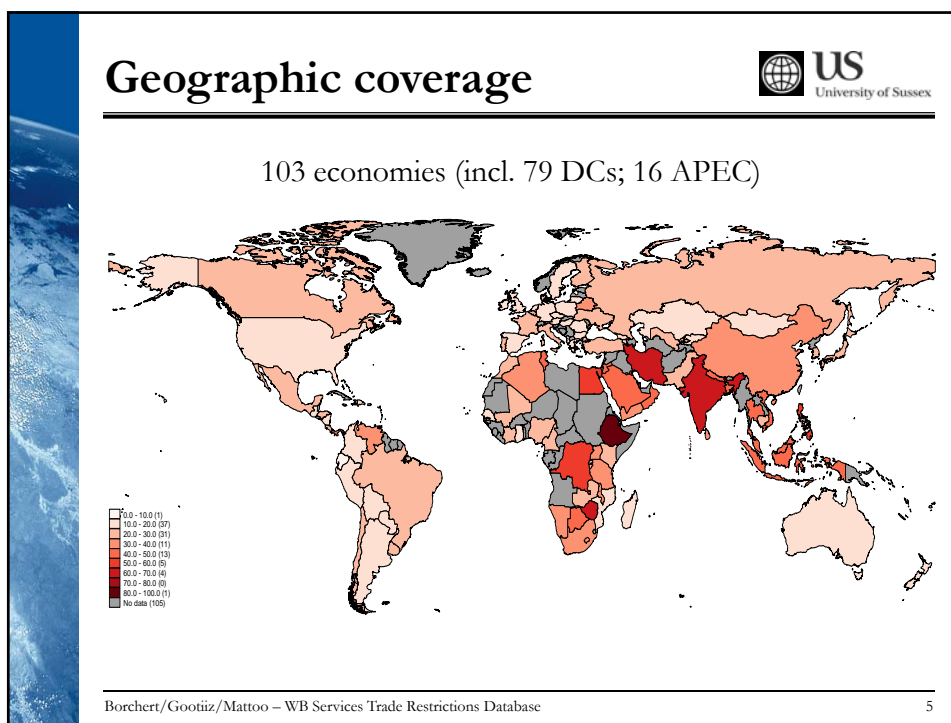
Limited knowledge on service trade policies despite economic importance

Services Trade Restrictions Database:


- ▶ enabling analyses of services trade policies
- ▶ advancing economy-level policy reform
- ▶ informing international negotiations
 - ↳ co-operation with WTO
- ▶ facilitating trade in services by creating a resource for business

⇒ Comprehensive picture of policy patterns around the world

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Sector/Mode coverage




Sectors/Sub-sectors	Mode 1	Mode 3	Mode 4
Banking			
Bank lending	x	x	
Deposit acceptance	x	x	
Insurance			
Automobile insurance	x	x	
Life insurance	x	x	
Reinsurance	x	x	
Telecom			
Fixed-line		x	
Mobile		x	
Retailing			
Retail distribution		x	
Transport			
Air passenger domestic		x	
Air passenger international	x	x	
Maritime shipping international	x	x	
Maritime auxiliary services		x	
Road trucking		x	
Railway freight		x	
Professional Services			
Accounting	x	x	x
Auditing	x	x	x
Legal advice foreign law	x	x	x
Legal advice dom law		x	x
Court representation		x	x

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Policy coverage




Examples of individual policy measures considered (Mode 3):

Regulatory Category	Examples of measures considered
1) Market Entry	<ul style="list-style-type: none"> License limit / quota on market entry Significantly discriminatory licensing
2) Ownership, Legal Form	<ul style="list-style-type: none"> Foreign equity participation limits Greenfield, acquisitions, subsidiary, branch, JV
3) License procedures	<ul style="list-style-type: none"> Discrimination in licensing criteria Allocation License length, renewal and due process for rejection
4) Aspects of Operations	<ul style="list-style-type: none"> Nationality requirement for board of directors Nationality requirement for employees Restrictions on repatriation of earnings
5) Regulatory environment	<ul style="list-style-type: none"> Regulatory authority Appeal of decisions, prior notice.

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Policy coverage




Policy dimensions covered:

- ▶ Focus is on **discriminatory** measures against foreign providers/services
- ▶ Domestic regulation partially covered if significant potential trade impact
- ▶ **Core set** of measures plus **sector-specific** aspects
- ▶ Data collection through detailed questionnaires;
governments invited to vet the accuracy of information (about half did)

↳ More than 3,000 economy-subsector-mode combinations

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Public Database



WB's website (<http://data.worldbank.org/data-catalog/services-trade-restrictions>)
 WB-WTO I-TIP Services (<http://i-tip.wto.org/services/default.aspx>)

Services Trade Restrictions Database

Development Economics Research Group, the World Bank

STR
Key restrictions
Main policy measures
All policy measures

All policy measures

Sectors Clear all Select all

- Financial
 - Banking
 - Lending by banks
 - Acceptance of deposits by banks
 - Insurance
 - Automobile Insurance
 - Life Insurance
 - Reinsurance
- Telecommunications
- Retail
- Transportation
- Professional

Modes Clear all Select all

- Mode 1
- Mode 3
- Mode 4

Countries & Regions Clear all Select all

- East Asia and Pacific
- Europe and Central Asia
- Latin America and the Caribbean
- Middle East and North Africa
- South Asia
 - Bangladesh
 - India
 - Nepal
 - Pakistan
 - Sri Lanka
- Sub-Saharan Africa
- High Income OECD
- Other High Income
- EU-20

Submit

Policy measures Clear all Select all

- Sector Openness
- Form of Entry
 - Licensing
 - Operations
 - Regulatory Environment
 - Condition of Provision of Service
 - Restriction on Service Provider
 - Type of Entry
 - Entry Condition

Please choose at least one sector, one mode or one country from the options available on the left. If you do not make a choice in the particular dimension, the result will include all options available.

[For detailed instructions on using this database, click here.](#)


When a sector/subsector or policy measure is selected, all its child nodes will be selected.

Your current selection:

Sectors: Unrestricted
 Modes: Unrestricted
 Main policy measures: Unrestricted
 Countries: Unrestricted

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Qualifications




Qualifications on coverage of STRD:

1. No explicit coverage of cross-border trade in business process services
 - few explicit restrictions
 - but new areas become relevant: e.g. **cross-border data flows**
2. MFN versus preferential policy regimes (eg. TPP!):
 - STRD focuses on MFN policies
 - Highlight preferential policies when such regimes likely dominate trade:
 - a) EU-20; GCC; individual instances
 - b) Economy-level vs sub-federal policies
3. Absence of information on market structure:
 - restrictions on entry vs prevailing extent of competition
4. Limited information (difficult assessment!) of actual implementation (e.g. ENT, licensing requirements)

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STRI



Construction of the WB's **Services Trade Restrictiveness Index (STRI)**:

- Step 1: select policy measures for consideration
- Step 2: determine overall level of restrictiveness at subsector-mode level
 - One of five bins (ordinal approach)
 - Joint consideration of all applicable measures (rules-based)
 - Assign basic scores $s_{jmc} \in \{0, 25, 50, 75, 100\}$ to each bin
 - ⇒ Avoids double counting and fallacious additivity
- Step 3: aggregate to sector and country level
 - Use sector-specific modal weights to aggregate within subsectors
 - Sectoral scores $STRI_{cj} = \sum_m w_m^{(j)} s_{jmc}$
 - Use sectoral weights to aggregate across sectors
 - Country scores $STRI_c = \sum_j w_j STRI_{cj}$

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Interpreting the WB's STRI:

- Certain areas not included, eg. non-discriminatory domestic regulation
 - ▶ “open without restrictions” means conditional on scope of Database
 - ▶ No normative claim that an STRI value of zero is necessarily desirable
 - ▶ STRI scores reflect a **relative** position across economies/sectors
- Evaluating policy restrictiveness
 1. STRI = approximate quantitative assessment based upon simple, transparent and robust methodology
 2. Measuring impact using econometric methods

⇒ Both approaches can (and should) be complementary

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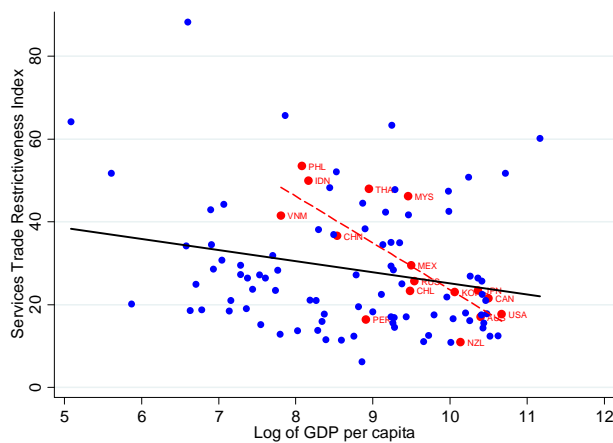

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Global patterns



Substantial but uneven unilateral liberalization in services trade policies;
APEC more heterogeneous than world as a whole:



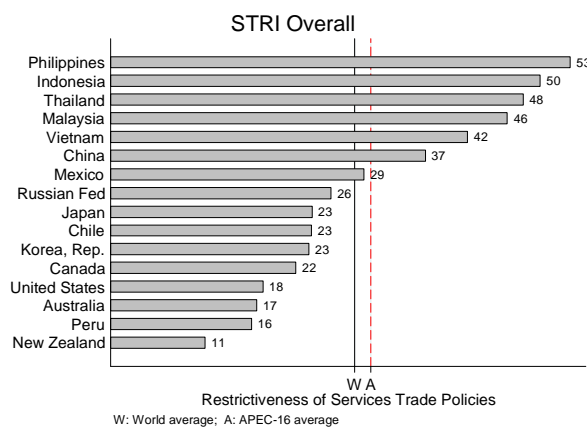
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Global patterns



Average services trade restrictiveness across APEC economies:



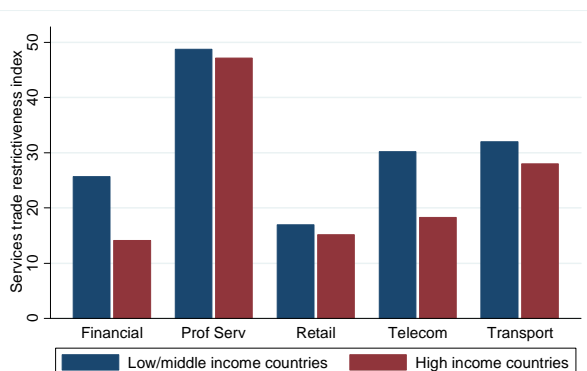
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Global patterns



Restrictiveness across income groups (global sample):



(based on 75 low/middle income economies and 28 high income economies)

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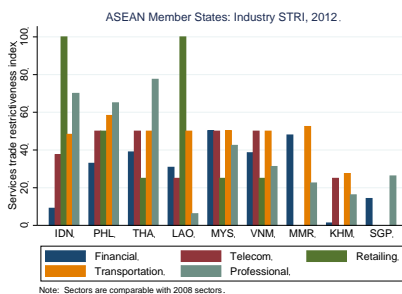
Example: ASEAN



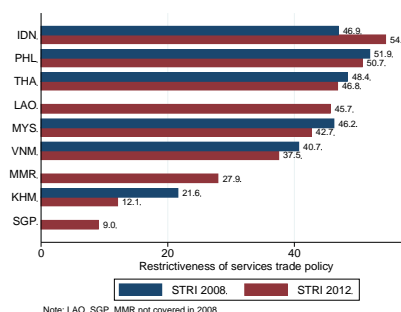
Consider 3 potentially interesting questions:

1) How do policies vary across economies and sectors?

2) How have policies changed over time?



Sources: Gootiiz and Mattoo (2015)



Note: LAO, SGP, MMR not covered in 2008.

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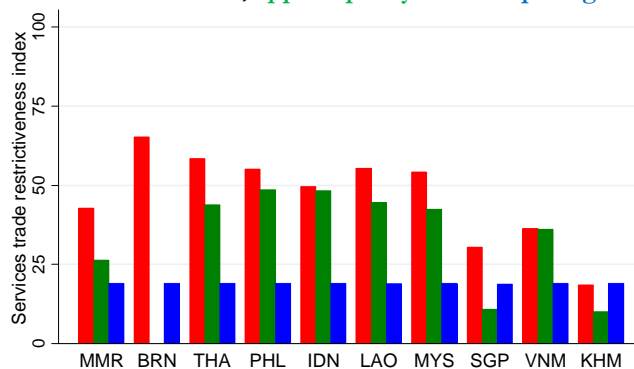
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Example: ASEAN



3) How does regional integration compare to past/future commitments?

AFAS commitments, applied policy and Blueprint goals

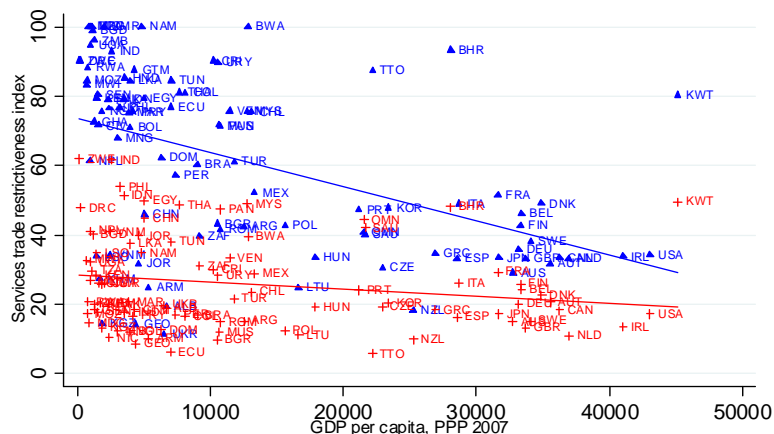


Source: Gootiz and Mattoo (2015). Note: Applied policy information for Brunei is missing.


Global Commitment Gap




Legal commitments vs applied policies: “binding gap” ≈ 133% (UR 2.3 times more restrictive)



Source: Borchert, Gootiz and Mattoo (2011)




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Economic Impact



1. Impact on **connectivity**
 - ⇒ Air transport, telecommunications, logistics services
(Borchert, Gootiiz, Grover and Mattoo, 2015 WE)
 - ⇒ Maritime transport costs
(Bertho, Borchert and Mattoo, 2016 JCE)
2. Impact on **foreign investment** flows
 - ⇒ Services M&A
(Barattieri, Borchert and Mattoo, 2016 CJE)
3. Impact on **access** to services
 - ⇒ Financial and air passenger transportation services
(Borchert, Gootiiz and Mattoo, 2014 WBER)

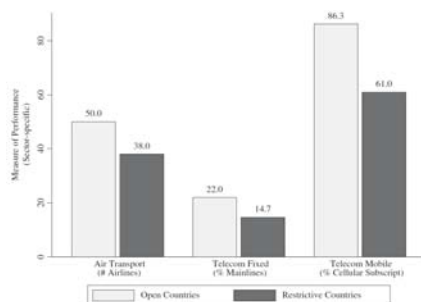
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Trade Facilitation

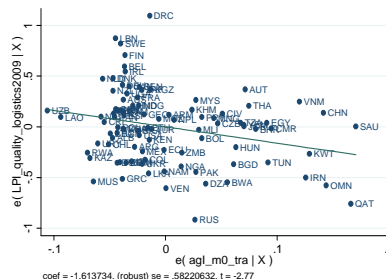


Services trade policies and aspects of connectivity:

Air Transport and Telecommunications



Quality of logistics services



Source: Borchert, Gootiiz, Grover and Mattoo (2015), Fig.1

Trade Facilitation



Liner shipping policies raise maritime shipping costs and reduce the value of containerized seaborne trade flows:

Maritime Transport Costs

	(1)	(6)
log distance	0.1153**	0.0986*
Transshipment	0.1043*	0.1327**
log total import vol	-0.0664***	-0.0573***
log import imbalance	-0.0573***	-0.0560***
Carriers	-0.0109**	-0.0160***
Cargo reservations		-0.0688
Liner conference		0.0628
Port terminal costs		-0.0004
STRI 2nd quartile		0.2319***
STRI 3rd quartile		0.3031***
STRI 4th quartile		0.5199***
Observations	18,664	16,298
Censored obs	11,148	9710
Log-likelihood	-14050	-12320
Rho(u ₁ , u ₂)	-0.0011	-0.0156

Seaborne Trade Flows

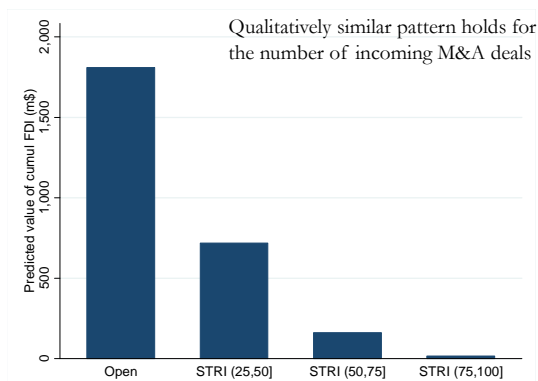
	(1)	(2)
Distance	-1.4031***	-0.7230***
Contiguity	-0.9388	-1.1961**
PTA	0.4697	0.5543**
Common language	0.3115	0.3543*
Avg applied tariff	-0.0074	-0.0079
MTC predicted		-2.8301***
MTC (>median)		
Distance (>median)		
MTC pred (USA)		
MTC pred (BRA)		
MTC pred (CHL)		
MTC pred (NZL)		
Observations	18,499	16,150
Log-likelihood	-350730	-321778
R-squared	0.6068	0.6113

Source: Bertho, Borchert and Mattoo (2016)

Investment



Policy restrictiveness and **global M&A activity** in services sectors:

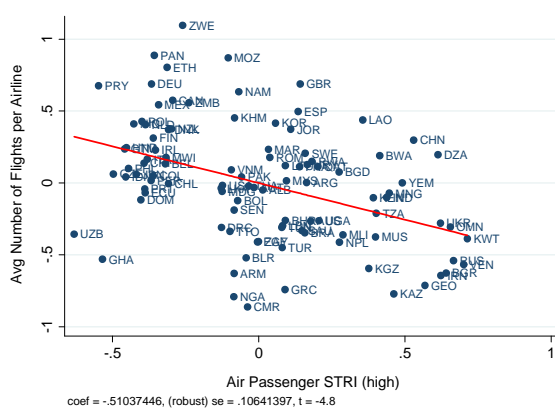


Foreign direct investment (M&A) received in 2003-09; predicted values by level of policy restrictiveness. Pooled Poisson estimation (93 economies, 8 sectors) with economy and sector fixed effects.

Access to services



Air transport policies and number of flights per airline:



Source: Borchert, Gootiiz, Grover and Mattoo (2015)

SCT and Services



Supply chain trade (SCT) appears to be a regional phenomenon

- ▶ Service content of exports is rising
(intermediate services trade accounts for 28% of SCT)
- ▶ Realizing full potential of supply chain trade will require aligning flows of **services, investment, know-how** and **people**
- ▶ Some APEC economies are purchasing **and** supplying intermediates on a global basis;
Chinese economy's special role as regional hub and bridgehead
- ↪ Implications for services input requirements
- ↪ Map economy-level services policies to support globalized services trade

Summary



World Bank's STRD project:

- Database is about transparency and building a factual base;
STRI is a tool for deriving policy implications;
All data, scores and methodology publicly available
- Collaboration with WTO on I-TIP Services and taxonomy
- Process of expanding and augmenting the Database with WTO:
 - ▶ Licensing procedures
 - ▶ Cross-border data flows

APEC with uniquely diverse membership and position within global trade

- Members' MFN policies vs preferential treatment (intra-/extra-APEC)
- Different developmental and economic circumstances
- Ensuring comparability to existing work

Thank you

References



List of further references documenting the World Bank's Services Trade Restrictions Database as well as the impact of services trade policies:

- ▶ Borchert, Gootiiz and Mattoo (2014), "Policy Barriers to International Trade in Services: Evidence from a New Database", *World Bank Economic Review* 28(1), pp. 162-188.
- ▶ Borchert, Gootiiz and Mattoo (2012), "Guide to the Services Trade Restrictions Database", WB Policy Research Working Paper No. 6108.
- ▶ Barattieri, Borchert and Mattoo (2016), "Cross-Border Mergers and Acquisitions in Services: The Role of Policy and Industrial Structure", *Canadian Journal of Economics*, forthcoming.
- ▶ Bertho, Borchert and Mattoo (2016), "The Trade Reducing Effects of Restrictions on Liner Shipping", *Journal of Comparative Economics*, doi: 10.1016/j.jce.2016.03.001.
- ▶ Borchert, Gootiiz, Grover and Mattoo (2015), "Services Trade Protection and Economic Isolation", *World Economy*, doi: 10.1111/twec.12327.
- ▶ Borchert, Gootiiz and Mattoo (2011), "Services in Doha: What's on the Table?", Chap. 5 in: Martin and Mattoo (eds.), "Unfinished Business? The WTO's Doha Agenda", London, pp. 115-143.
- ▶ Arnold, Javorcik, Lipscomb and Mattoo, "Services Reform and Manufacturing Performance: Evidence from India", *The Economic Journal* 126 (February), 1-39, doi: 10.1111/ecoj.12206.