



Services trade policy and sustainable development

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ABSTRACT

The realization of many of the sustainable development goals (SDGs) depends on bolstering the performance of services sectors and improving access to specific services in developing countries. We show that when the level of economic development or the quality of institutions is sufficiently high, openness to services trade and investment is positively related to access to financial, ICT and transport services – three activities that are inputs into several SDGs. An implication is that facilitating trade and investment in services may help realize SDGs that depend on the performance of services sectors. In the absence of comparable cross-country panel data on services trade policies, country-specific analyses are needed to better understand the specific channels through which services trade policies impact on SDGs.

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1. Introduction

The sustainable development goals (SDGs) are a major focal point for international efforts to promote global welfare for the next decade (United Nations, 2015). The SDGs span 17 broad objectives ranging from poverty reduction to improving public health and protecting the environment.¹ International trade and trade policy is one means of implementing the SDGs. A number of goals explicitly reference trade-related measures as instruments that can help to attain the objective concerned. Thus, for instance, Goal 2 (ending hunger) includes a call to correct and prevent distortions in world agricultural markets, including through the elimination of all forms of agricultural export subsidies and measures with equivalent effect.

The main link between the SDGs and trade policy is made in Goal 17 (strengthening the global partnership for sustainable development). This stresses the importance of a universal, rules-based, open, non-discriminatory and equitable multilateral trading system; timely implementation of duty- and quota-free market access on a lasting basis for all LDCs; and respecting national policy

space and leadership to establish and implement policies to realize the goals.

Implicitly if not explicitly, the conceptualization of the role of trade in the wording of the SDGs emphasizes measures to facilitate merchandise exports by firms in developing countries. In practice, low-income economies may have a revealed comparative advantage in services such as transport, travel and tourism-related activities or business process outsourcing. Services of all types are becoming easier to trade as a result of technological change, creating opportunities for firms in developing countries to expand trade in non-traditional products, services as well as goods. About one quarter of all LDCs are net exporters of services. For the LDCs as a group, services exports grew more rapidly than for the world as a whole during the 2000s. LDCs increased their share of global trade in services from 0.4 percent in 2005 to 0.8 percent in 2015, with commercial services exports growing by 14 percent over this period, more than twice the rate of other countries, and services exports as a whole represented some 20 percent of total LDC exports of goods and services in 2015 (WTO, 2016).

Services matter for the realization of the SDGs not just because they are a potential source of exports and associated employment and household income, but because realization of many of the SDGs is conditional on enhancing the performance of a range of specific services sectors in developing countries. Attaining the SDGs is to a significant extent a services agenda. Eliminating poverty and hunger, improving health and educational outcomes, or

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¹ Appendix A lists all of the SDGs.

reducing regional inequalities will require boosting services capacity and the productivity of a range of services activities, including transport, distribution, logistics, ICT, vocational training, medical services and so forth.

In this paper we consider the role of trade in services and services trade policy in the effort to attain the SDGs. While there is a growing literature that investigates whether greater openness to services trade may support economic development by fostering performance improvement of firms and industries that use services as intermediate inputs (see for instance [Arnold, Mattoo, & Narciso, 2008](#); [Arnold, Javorcik, & Mattoo, 2011](#); [Arnold, Javorcik, & Mattoo, 2016](#); [Barone & Cingano, 2011](#); [Bas, 2014](#); [Bourlès, Cetté, Lopez, Mairesse, & Nicoletti, 2013](#); [Hoekman & Shepherd, 2017](#); [Saez et al., 2015](#)), the relationships between services trade policy and SDGs are relatively unexplored.

Services trade policies may impact directly on the performance of specific services that matter for one or more SDGs. They may also affect the SDGs indirectly, insofar as service sector performance influences economic growth and real incomes. The focus of our empirical analysis is on trade policies targeting specific services sectors or activities that are relevant for specific SDGs. The hypothesis is that services trade policies can be relevant to efforts to realize the SDGs by enhancing access to services. Certain services are important “inputs” for some of the SDGs – for example, higher quality financial services or services that improve connectivity (logistics or ICT services).

The feasibility of cross-country quantitative study of the channels through which services trade and services trade policies may impact on SDGs is affected by data constraints. Comparable time series data on services trade policies do not exist, severely impeding empirical analysis that can appropriately consider potential endogeneity and identification issues. The analysis that follows is based on cross-section data for services trade policies. It is therefore exploratory in nature: it is not possible to infer to what extent more restrictive services trade policies have a negative impact on SDG outcomes. Our goal is simply to assess whether services trade policies are associated with indicators of the availability of (access to) financial, ICT and transport services, activities that figure prominently in the description of several SDGs. We find there is a positive relationship between services trade policy regimes and access to (performance of) services sectors, and that it is influenced by the level of economic development and quality of prevailing regulatory institutions. A policy implication of the analysis is that more attention should be given to trade policies for services and related regulatory and economic governance institutions in the international effort to attain the SDGs.

Which types of services and services trade policies matter (more) for different SDGs requires country-specific analysis. Such analysis is likely to be less affected by the data limitations that constrain cross-country empirical exercises, as it should be feasible to construct country-specific panel datasets for services trade and investment policies. We hope that our findings will motivate more detailed country level research and stimulate greater consideration of services trade policies in efforts to attain the SDGs.

In what follows, Section 2 presents a conceptual framework to guide thinking about the role of services and services trade policy in achieving the SDGs. Section 3 presents the empirical approach we use to undertake an initial empirical analysis of the relationship between services trade policy and SDGs. Results are discussed in Section 4. Section 5 concludes.

2. Services and the SDGs

The performance of services sectors in an economy may impact on the prospects of attaining the SDGs through two types of channels. The first is direct: improving access to, and the quality of,

specific types of services that are central to a number of the SDGs. The second is indirect: better services performance may affect per capita incomes, as more efficient and productive services sectors can increase aggregate productivity performance (economic growth) which in turn can be expected to be important for the overall achievement of the SDGs.

2.1. Direct channel

Service sector performance is very salient for many dimensions of the SDGs and their associated specific targets.² Some SDGs directly depend on the performance of specific services sectors (e.g., health services in SDG 3 or education services in SDG 4). Eleven of the 17 SDGs explicitly refer to (or implicate) at least one distinct service sector as a means of attaining the goal in question. This generally spans one or more of the following elements:

Access to services:

expanding access or improving the affordability of a given service activity, output or product;

Quality of services:

enhancing the quality, efficiency, capacity or resilience of a service sector; and

Environmental services:

reducing the environmental footprint (negative spillover effects) of an economic activity.

Table 1 illustrates some of the linkages between services and SDGs. It reports the services sectors that various SDGs refer to, based on a text search of the keywords embodied in the description of the SDGs and the focal point for action implied by (needed to attain) the respective goals.

This text-based mapping exercise illustrates that the intersection between the SDGs and the performance of services sectors is substantial. Beyond access to basic services³ in the areas of health, education, sanitation, water and energy, access to financial services is identified in five SDGs (the most frequent reference across services sub-sectors). Other services that are mentioned include ICT services, improved quality, efficiency, capacity and resilience of R&D services, tourism, transport, construction and waste management services. SDGs that aim at reducing the negative environmental footprint of economic activity also identify specific services sectors, including sanitation, water and energy related distribution services, transport, construction, and waste management services.

The fact that services are not explicitly referenced in the description of some SDGs and for that reason are not listed in **Table 1** does not mean, of course, that services do not matter for such goals. In the case of SDG 5 (gender equality), for example, or the SDGs addressing environmental sustainability (13, 14 and 15), services can be very relevant. [Ngai and Petrongolo \(2017\)](#) document the evolution of what they call the comparative advantage of women in the services sector. Services involve safer, cleaner working conditions as well as potentially shorter and more flexible

² See Annex 1 for a list of the 17 SDGs and <https://sustainabledevelopment.un.org/topics/sustainabledevelopmentgoals> for the more detailed targets associated with each SDG. In what follows we consider both the SDGs and the more detailed targets that have been defined for the respective SDGs insofar as they involve specific services activities.

³ The term ‘basic services’ is used in the description of some SDGs and related targets, but is not defined in the main SDG document ([United Nations, 2015](#)). Based on other UN publications, basic services are understood here as including health, education, sanitation services as well as water delivery and energy ([UN Habitat, 2003](#)).

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