



## Elements of a Policy Research Agenda in Services Trade

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### I. Background

The case for open services markets is today considerably easier to make than when services were first mooted for inclusion as a potential agenda item for multilateral trade diplomacy in the years that preceded the launch of the Uruguay Round. This is so for a number of reasons, not least of which the much greater level of understanding of the contribution of services to the process of economic development and, centrally, of the dual nature of services as both final and intermediate products. Equally important is the greater familiarity with the conduct of service sector reforms that two and a half decades of learning by doing made possible by the rising tide of services negotiations conducted at the WTO and in preferential settings have allowed. Just as important are significant, if far from optimal, improvements in the availability of empirical evidence on the effects of service sector reforms and of trade and investment liberalization in the sector.

Developing countries were long hostile to considering services as a desirable issue to take up in trade diplomacy, convinced as they were, in classic mercantilistic terms, that developed countries possessed a clear, almost absolute, comparative advantage in the production and exchange of virtually every category of commercially traded services. There is indeed today a much finer appreciation, rooted in the significantly greater doses of empirical methods and evidence noted above, that services represent a significant and growing source of comparative advantage for a host of developing countries, including least developed ones, and one that spans an increasingly diverse set of sectors and modes of supply. There is, similarly, a much finer understanding of the critical trade facilitating role that a wide range of services play in allowing countries to insert themselves more sustainably in the supply chain dynamics that characterize today's evolving global geography of trade and investment. Simply put, regardless of a country's factor endowments, size or even geography, the efficiency with which service inputs are supplied can make a world of difference to the ability of firms and countries to take advantage of and move up supply chain production, be it in agriculture, fisheries, extractive industries, manufacturing or indeed other service industries.

Across countries, the contribution of services to income generation, employment creation, gender mainstreaming and foreign exchange earnings has increased significantly over the last two decades. The importance of services in developed countries has grown continuously, with services now accounting for over 70 per cent of both Gross Domestic Product (GDP) and total employment. The growth of the service economy has been equally, if less spectacularly, pronounced in developing countries, where the share of services in GDP and employment averages 50 and 35 per cent respectively but with enormous variance across countries and regions.

Since 1990, services exports from developing countries have grown at an average annual rate of 8 per cent and their share of world services exports increased from 23 in 2000 to close to a third today. The above trends offer evidence of far-reaching structural changes in domestic output and outward orientation. Moreover, and as noted above, for a growing number of developing countries, services exports contribute significantly to economic growth, and increasingly in new sectors such as business, telecommunications, construction, environmental, distribution, health, education and cultural services.

The trends depicted above suggest a large untapped potential for developing countries, including Myanmar, to advance the development of their services sectors. Principal approaches towards this goal include the creation of an enabling environment through improved policy, regulatory and institutional frameworks for the service economy and more liberalized services trade to enhance market access and investment opportunities. Equally important is the contribution that a sound, evidence-based, policy research ecosystem, linking universities, policy research institutions, business associations and public sector decision-makers, can make to enhanced trade policy formulation in services.

Important opportunities now exist for developing countries to identify and pursue optimal service sector paths suited to their national objectives, evolving capacities and lingering constraints. Deliberate policies and reforms, enhanced supply of human capital as well as improved regulatory institutions and governance, can all help create an enabling environment at the domestic level which, coupled with the properly sequenced progressive (outward) liberalization of services markets, can promote development-enhancing increased investment and trade flows.

The last three decades of experimentation with service sector reforms conducted in all parts of the world offer ample evidence that an enabling environment and the pursuit of orderly market opening

strategies can help attract the financial resources, skill-transfers and technologies required to modernize domestic service sectors, thereby helping to enhance supply capacities for the provision of higher quality and higher value added services for both domestic and export markets.

## **II. Elements of the policy formulation supply chain in services**

An optimal service sector policy formulation supply chain can be seen as consisting of a number of essential components. These comprise:

- (i) sound policy analysis, rooted first and foremost in evidence-based decision-making whose chief input always and everywhere involves better and more detailed (disaggregated) data;
- (ii) the availability of an adequate (and strengthened) policy research ecosystem (universities, think tanks and other policy research institutions) able to provide decision-makers with a steady stream of timely, evidence-based, objective policy analysis;
- (iii) an inclusive architecture of trade policy consultations that reaches out to all key stakeholders with a view to identifying economy-wide and sector-specific reform trajectories;
- (iv) an effective, horizontal, architecture of inter-agency coordination whose aim is to design and implement chosen policy paths and secure whole of government commitment to policy implementation;
- (v) a sustained upgrading of regulatory regimes and of the institutions (and technical staff) that adopt and implement domestic regulations;
- (vi) enhanced trade and investment promotion efforts whose aim is to ensure that negotiated outcomes translate into sustained gains for private sector service suppliers, particularly SMEs; and
- (vii) sustained efforts at measuring the effects of policy reforms through proper impact assessment methodologies aimed at ensuring that a country's policy aims are met and that proper corrective steps are taken when policy reforms encounter unanticipated implementation bottlenecks or generate setbacks calling for corrective measures.

While all of the above components are interrelated and influence each other, the adequacy of a sound policy research capacity – arguably ranks among the most important elements of a successful

reform agenda in services. We devote the remainder of this note on ways to enhance a country's research capacity for effective services trade policy formulation and reform design.

### **III. The *process* of policy research**

The starting point of any effort aimed at generating a sustained capacity for policy research concerns the availability of an adequate critical mass of properly trained local experts in the law, economics, regulatory dynamics and political economy of service sector reforms. In most countries, and particularly in least developed country settings, such human capital is in chronically short supply, implying the risk of marked aid dependence on the priorities, analytical or policy advice (and potential biases) of foreign-supplied expertise.

Determined efforts at redressing the above analytical deficit through proper knowledge import substitution means should command the priority attention of national decision makers early on in the reform process. There are no magic formulas for achieving this goal. Promising young researchers have to be identified through merit-based means and properly trained in leading centers of excellence in trade and economic governance. Donor dependency in this regard need not be unduly problematic if the scholarship or training funding on offer results in a sustained increase in the supply of indigenous trade policy skills. Care needs to be given, however, through proper program design, to ensure that the developing country sending promising young researchers abroad not suffer from more permanent brain drain effects by monitoring (and mandating) the return of the human capital trained abroad for agreed periods of time.

Capacity strengthening in trade and investment policy analysis needs to be envisaged across the multiplicity of disciplines – economics, law and political economy – that are characteristically involved in sound policy formulation. In countries, like Myanmar, that have long experienced a dearth of academic and political freedom, the ready supply of critical policy research cannot materialize overnight. Nor is it likely that much capacity will exist in political science/international political economy, such that capacity building efforts in trade governance may need to concentrate chiefly on strengthening law and economics expertise.

A further approach to buttressing the supply of domestic analytical capacity is to attract leading foreign educational or training institutions and indigenizing their training activities in the host country through greater tailoring and the training of local trainers. Such an approach, rooted in the increasingly common trend of transnational academic cooperation, need not of course preclude

recourse to foreign training but can help mitigate the loss of talent often associated with study abroad. While attracting foreign universities may prove challenging in a least developed country such as Myanmar, more targeted forms of academic cooperation twinning local and foreign experts and research centers and institutions through memoranda of understanding can help build targeted expertise in priority policy domains.

A significant share of foreign trained experts in trade policy will naturally turn to governmental agencies for employment upon completing their studies abroad. This will most likely be the case of economics graduates, whose scope for private practice (though rising and once more variable across disciplinary specializations) is generally lesser than that of lawyers. Yet in promoting a sustainable capacity at informed policy research, it is important that countries ensure, through dedicated scholarship programs and academic cooperation assistance from the donor community, that the human capital of universities and university-related research institutes be strengthened.

Indeed, a centrally important element of a vibrant policy ecosystem concerns the presence of credible, expert, policy research institutions that are sufficiently divorced from governmental influence as to provide objective and, where needed, critical policy advice to decision-makers. In many countries, such institutions will be affiliated to or anchored in leading universities, such as the Yangon Institute of Economics in Myanmar. In general, functional separation from public sector institutions may help preserve greater analytical and editorial independence, subject to adequate and secure funding sources. A major problem plaguing policy formulation in many countries, particularly those experiencing a democratic transition such as Myanmar, is to reduce what is often the considerable distance that separates the academic and policy-making worlds. As one participant at the Roundtable discussion recently organized by ESCAP on the role policy research in economic and trade reforms held in Yangon noted: *“We know mostly theory, we do not know what the ministries exactly need or want. That is why we need collaborative efforts to do good research.”* The famous saying that “It takes two to tango” applies centrally to the need for policy makers and researchers to interact more regularly, for academics to speak the language of governance with fluency, and to raise the level of trust required to reduce the distance noted above.

A further need in strengthening indigenous analytical capacity in the service sector is to invest in continuous learning on the part of the country’s services negotiators and the multiplicity of sectoral policy officials typically involved in policy formulation in services. A plethora of training opportunities can be found in this regard, ranging from ESCAP, the ADB, APEC, ASEAN or ERIA in South East Asia as well as the World Bank and the WTO globally, to which Myanmar can direct some of its training

efforts of public officials. Tapping more resolutely into those segments of the donor community that have shown the greatest readiness to fund trade-related training activities (e.g. the European Union, DFID, GIZ, the Netherlands, Australia, USAid) can prove a further key source of bureaucratic upgrading, as can training conducted in partnership with leading university providers specialized in trade governance. These include institutions such as the World Trade Institute at the University of Bern ([www.wti.org](http://www.wti.org)), the Centre for Trade Policy and Law at Carleton University and the University of Ottawa, in Canada ([www.ctpl.ca](http://www.ctpl.ca)), or the Institute for International Trade at the University of Adelaide in Australia (<https://iit.adelaide.edu.au/>), to name a few. Some of the above institutions, notably the WTI, have established strong regional partnerships with leading universities in South East Asia, notably in Vietnam (the Hanoi-based Foreign Trade Institute) and Universitas Pelita Harapan (UPH) in Jakarta, both of whose Masters' programs in trade governance have been developed jointly with the WTI and whose individual week-long course modules are open to external participants from the region (see <http://www2.ftu.edu.vn/index.php/vi/> and <http://global.uph.edu/component/wmcontents/content/15/150.html>). Efforts directed at training both officials and a younger generation of academics and policy researchers together in the above programs could once more chip away at the distance between academia and policy making.

#### **IV. The *substance* of policy research**

Several avenues of policy research can be identified as forming the building blocks of a sustained improvement in the knowledge base required for sound policy formulation in services trade. Some of these fall more squarely in the province of economics, while others involve stronger doses of legal or political economy analysis, while still others call for specialized skills in regulatory and institutional design.

A country long cut off from the rest of the world, Myanmar suffers from a chronic dearth of reliable data on its own economy and its trade and investment linkages to the world and its immediate sub-region. A sound starting point to generate a credible initial critical body of knowledge on the country's service economy would be to align donor support in calling on UNCTAD to conduct one of its Service Policy Reviews (SPRs) in Myanmar (see Box 1 below) whilst investing at the same time in a sustained strengthening of Myanmar's capacity to generate better and more detailed data in trade and investment in services. The challenge of doing so in services should not be underestimated: the intangible nature of many services seriously hampers attempts at assigning and measuring the value of service transactions, both domestically and even more so at the international level.

#### Box 1. Aims of UNCTAD SPRs<sup>1</sup>

The objectives of UNCTAD SPRs are to assist developing countries and countries with economies in transition to:

(a) **Manage a successful services reform process:** The country projects on assessments of service economies and of trade in services carried out by UNCTAD aim to assist developing country Governments and regulatory authorities in designing, pacing and sequencing regulatory, institutional and trade policy reforms.

(b) **Ensure sustainable development gains through services reform:** Integrated by design, the SPRs extend beyond an assessment of the economic impacts of services reform packages to reveal many of the social and environmental implications of prospective policies to allow for the fine-tuning of reform packages, including through the development of flanking policies, so that balanced developmental gains can be achieved through reform. Special attention is given to ensuring national MDGs are advanced by services sector reform packages. In addition to MDGs 1, 3 and 8 which all SPRs aim to promote, other MDGs are specifically addressed to an extent that varies depending on the specific sector(s) under assessment in a project (i.e., health, educational, environmental services, etc.), including through a comprehensive consideration of relevant universal access criteria and schemes.

(c) **Strengthen negotiating capacities on services trade negotiations:** Results from UNCTAD SPRs also help trade negotiators to identify and promote conditions for increasing the beneficial participation of their countries in international trade in services through trade negotiations. (d) **Monitor results achieved through reforms and adjust related policies over time:** Experience demonstrates that policymaking in any realm is invariably iterative and incremental. For this reason UNCTAD provides continued advisory services to countries participating in its technical assistance projects.

In relation to SPRs, UNCTAD will maintain regular two-way contact with project experts and national ministries, and with Geneva-based missions, to assist beneficiaries in achieving benchmarks set for reforms that have been adopted based on project recommendations.

The sheer regulatory intensity of services and of services trade, where the bulk of the trade negotiating agenda consists of tackling the trade and investment impacts of domestic regulatory measures, implies that key attention in policy research also be devoted to assessing the design

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